# NOTICE AND PROXY OF ANNUAL GENERAL MEETING AND SUMMARISED AUDITED GROUP ANNUAL FINANCIAL STATEMENTS

FOR THE 53 WEEKS
ENDED 3 MARCH 2019

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# CONTENTS



# LETTER TO SHAREHOLDERS

## DEAR SHAREHOLDER

The Pick n Pay Stores Limited Group (the Group) presents to you the results for our 2019 financial period through our summarised audited Group annual financial statements. The audited Group annual financial statements were approved by the Board on 25 April 2019.

The 2019 audited Group annual financial statements were prepared under the supervision of Pick n Pay's Chief Finance Officer, Aboubakar Jakoet CA (SA), and were audited by our duly appointed external auditors, Ernst & Young Inc.

In addition, this publication contains the detailed notice of our 51st annual general meeting to be held at 08:30 on Tuesday, 30 July 2019 at Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, 7708, Cape Town.

To ensure that you have the documentation needed to inform voting at the 2019 annual general meeting, we have included the remuneration report in this publication.

If you are unable to attend the annual general meeting, you may vote by proxy in accordance with the instructions on the annual general meeting notice and the form of proxy. The enclosed form of proxy includes comprehensive instructions on how to complete it. Should you have any questions, please contact our offices.

As we have previously indicated, the changing financial reporting requirements and corporate governance demands over the past few years have resulted in voluminous annual reports. In order to promote sustainability, printed copies of the Group's 2019 integrated annual report will not be posted, but will be made available to shareholders on request.

Our 2019 integrated annual report will be made available on the Company's website, www.picknpayinvestor.co.za, on 28 June 2019. If you would prefer to receive a printed copy, please contact me on +27(0)21 658 1000 or demuller@pnp.co.za.

Yours sincerely

**Debra Muller**
Company Secretary

21 June 2019



# REVIEW OF OPERATIONS

## PICK N PAY DELIVERS IN A TOUGH MARKET

| KEY FINANCIAL INDICATORS | 53 weeks to 3 March 2019 | 52 weeks to 25 February 2018* | % change | Pro forma 52 weeks to 24 February 2019 | Pro forma % change |
|---|---|---|---|---|---|
| Turnover | R88.3 billion | R80.5 billion | 9.6 | R86.3 billion | 7.1 |
| Gross profit margin | 19.0 | 18.9 | | 19.0 | |
| Trading profit | R2 175.6 million | R1 819.9 million | 19.5 | R2 049.0 million | 12.6 |
| Trading profit margin | 2.5 | 2.3 | | 2.4 | |
| Profit before tax | R2 199.8 million | R1 768.1 million | 24.4 | R2 073.2 million | 17.3 |
| Profit before tax margin | 2.5 | 2.2 | | 2.4 | |
| Profit before tax – South Africa | R1 945.5 million | R1 480.2 million | 31.4 | R1 831.9 million | 23.8 |
| Profit for the period, after tax | R1 649.5 million | R1 296.3 million | 27.2 | R1 554.6 million | 19.9 |
| Basic earnings per share | 347.17 cents | 273.64 cents | 26.9 | 327.20 cents | 19.6 |
| Diluted earnings per share | 342.85 cents | 268.33 cents | 27.8 | 323.12 cents | 20.4 |
| Headline earnings per share | 346.69 cents | 276.98 cents | 25.2 | 326.71 cents | 18.0 |
| Diluted headline earnings per share | 342.37 cents | 271.61 cents | 26.1 | 322.65 cents | 18.8 |
| Total annual dividend per share | 231.10 cents | 188.80 cents | 22.4 | | |

* *The financial information presented for the prior year is on a restated basis, with the adoption of new accounting standards. Please refer to note 12 of the summarised financial statements for further information.*

The Group follows a 52-week retail financial calendar, which requires the inclusion of an additional week every six years. The 2019 financial year is a 53-week period, and its IFRS results disclosed in the table above are not directly comparable with 2018. Additional pro forma financial information is provided on an equivalent 52-week basis, to assist stakeholders with their assessment of the Group's comparable performance. Please refer to the appendix provided for the basis of preparation of this pro forma financial information. Unless specifically stated otherwise, the result commentary that follows, including like-for-like information, is on a comparable 52-week basis. For the equivalent 53-week IFRS information refer to the table above and the summarised audited Group annual financial statements.

### RESULT HIGHLIGHTS
**For the pro forma 52 weeks ended 24 February 2019**

- Market-leading turnover growth of 7.1% with market share gains throughout the year
- Like-for-like turnover growth of 4.8% despite selling price deflation of 0.3% – giving exceptional value to customers was rewarded with volume growth of 5.1%
- Gross profit margin improved to 19.0% – cost-discipline and better buying supported the Group's more competitive price position
- Greater operating efficiency, with like-for-like trading expense growth contained at 5.3%
- Tight working capital management and a measured capital investment programme delivered a R665.0 million reduction in net funding over the year, and contributed to a 38.5% saving in net interest paid
- Group performance anchored by a strong result from the core South Africa division, with turnover growth of 7.4% (5.2% like-for-like) and profit before tax up 23.8%
- The South Africa performance mitigated some operating challenges experienced outside its borders. Earnings from the Rest of Africa division down 16.2% year-on-year, reflecting difficult economic conditions in Zambia and the once-off impact of currency devaluation in Zimbabwe
- Headline earnings and diluted headline earnings per share up 25.2% and 26.1% respectively for the 53-week period, and up 18.0% and 18.8% on a comparable 52-week basis
- The Board declared a final dividend of 192.00 cents per share. The total annual dividend of 231.10 cents per share is up 22.4% on last year, maintaining a dividend cover of 1.5 times headline earnings per share for the 53-week period

In a challenging trading environment, the Group has maintained its focus on the objectives set out in its long-term plan: building a leaner and more cost-effective business which gives customers exceptional value, quality and innovation in grocery and retail services. Successful execution of this strategy has enabled the Group to report market-leading turnover growth of 7.1%, and like-for-like turnover growth of 4.8%. The core South Africa division – comprising Pick n Pay and Boxer – delivered turnover growth of 7.4%. The Group's commitment to giving hard-pressed customers even better value was demonstrated through selling price deflation of 0.3% for the year. The Group's volume growth of 5.1% represented its strongest underlying trading performance for many years.

Over the past six years, a relentless focus on improving cost and operating effectiveness has enabled the Group to invest in a winning customer offer through lower prices, more attractive promotions, better and more innovative products, compelling value-added services, and brighter and more modern stores – without sacrificing earnings growth. The Group delivered 18.0% growth in headline earnings per share over the comparable 52-week period, with solid returns from its capital investment programme, ongoing improvement in operating efficiency and strong working capital management. The growth in headline earnings per share for the 53-week period is 25.2%.

**Performance highlights over the period include:**

## LOWER PRICES, BETTER VALUE

The Group's leaner cost base – underpinned by its work in recent years to centralise its supply chain, modernise its loyalty programme, streamline its labour force and implement an effective Buy Better programme – supported substantial price investment over the year.

Pick n Pay monitors at least 2 500 prices across the retail sector every week to ensure it remains price competitive. Pick n Pay has improved its relative price position by at least 3% across thousands of products, with many costing no more – and in some cases less – than they did a year ago. In addition, Pick n Pay refined its promotional calendar, significantly reducing the number of products promoted over the year, but with much deeper value on offer.

Fewer, more meaningful promotions are easier for customers to understand, simpler to administer, and provide greater opportunity for effective supplier collaboration. Targeted promotions delivered strong volume growth over the year. Boxer provided unbeatable deals on basic commodity lines, including through bulk offers, cementing its position as the fastest growing limited range discounter in South Africa. Pick n Pay and Boxer are building trust and loyalty by providing greater value at a time when customers need it the most.

The Group continues to build stronger supplier partnerships through its Buy Better programme to provide lower prices and added value for customers. Fact-based negotiation is supported by information from our loyalty and procurement platforms. Pick n Pay is able to provide its suppliers with insight into the sales performance of their products, and can demonstrate how personalised promotions can have a positive impact. Pick n Pay is more efficient in terms of its planning, replenishment and distribution, and is a more effective retail partner in driving product growth. It unlocked more than R500 million of value through its Buy Better programme this year, supporting its more competitive price position, and driving volume growth.

## GREATER REWARD FOR LOYALTY CUSTOMERS

Pick n Pay's improved price position is augmented by its Smart Shopper loyalty programme. Smart Shopper remains the most engaged and accessible loyalty programme in South Africa. Over seven million active loyalty customers receive a personal message each week, with discounts on the items that are most relevant to them. Pick n Pay offered members R6.6 billion in personalised value this year, and saw redemptions grow by almost 30%. Discounts are partly supplier-funded, with meaningful volume uplift providing returns on investment for the Group and its suppliers.

Pick n Pay leveraged its partnership with BP this year to offer loyalty points on fuel purchased at BP forecourts. Over one million people have earned Smart Shopper points on their fuel purchases since November 2018.

Convenience and ease of use remain paramount to the success of Smart Shopper. Pick n Pay continues to modernise its programme for customers, including through switch and spend functionality at point of sale, and cardless transactions directly through its mobile app.

## OUR FRESH PROMISE

Customers judge the quality of a retailer by the quality of its fresh offer. Launched in May 2018, Pick n Pay's Fresh Promise delivers a substantially improved fresh offer, with better quality, more choice, and longer-lasting freshness across all categories. This has been achieved by building stronger, more focused and more rewarding relationships with fresh suppliers who are committed to long-term growth with the Company. Pick n Pay added new skill and experience to its fresh team, and introduced new produce, meat and bakery suppliers, with greater collaboration on technical specifications, packaging, ordering and waste management. Its stronger focus on fresh delivered a 20% increase in fresh availability, a 5% reduction in waste, and strong sales growth year-on-year.

Boxer complements its limited-range grocery offer with a small but compelling fresh offer. Greater focus on its fresh departments this year delivered strong double-digit turnover growth in butchery and bakery.

## OWN BRAND INNOVATION

The Group's enhanced fresh offer is supported by a growing range of trusted own brand products. Own brand is an opportunity to develop smaller local suppliers and to drive innovation. It also provides the Group with greater control across the supply chain, and the ability to extract cost and efficiency savings, providing better value for customers. Pick n Pay redesigned and relaunched 700 of its existing own brand products this year, and introduced a further 500 new products, taking its own brand participation to 21% of participating categories. Pick n Pay partnered with more than 100 small businesses this year through its mentorship and business development programmes. Boxer grew its own brand sales by 61.3% year-on-year, with own brand participation now at 15.5% of participating categories.

## GREATER RELEVANCE

The Group's increasingly relevant customer offer is driven by its two formidable Pick n Pay and Boxer brands, which includes support from valuable franchise partners. The strength of the Pick n Pay brand is in its appeal across broad socio-economic demographics. Everyone is welcome in our stores, and this is one of the reasons why Pick n Pay has been recognised as South Africa's most influential brand. Pick n Pay is committed to an excellent in-store experience across its estate, with optimised ranges which are specifically tailored to meet the needs of the customers served. In many instances range optimisation has led to meaningful range reductions, with simplified administration, higher on-shelf availability, reduced waste and improved trading densities.

Boxer's limited range of grocery products – alongside its strong fresh meat offer – is a key strength. A limited range, tailored precisely to the needs of its customers, enables Boxer to keep costs low and thereby deliver market-beating prices and promotions to less-affluent communities.

## GREATER EFFICIENCY ACROSS THE SUPPLY CHAIN

Greater levels of centralisation continue to unlock economies of scale and drive cost savings across the Group's distribution channels.

Pick n Pay's level of supply chain centralisation now stands at over 75%, up from 65% last year. Pick n Pay centralised over 400 new suppliers this year, including eight small suppliers mentored through its enterprise development programme. Progress includes the centralisation of ice-cream through our partnership with Vector Logistics, and positive steps in centralising liquor and fresh poultry in the Western Cape.

Pick n Pay opened a new distribution centre in KwaZulu-Natal in March 2018, taking centralisation in the region to 76% compared to 45% last year. Goods issued out of Pick n Pay distribution centres are up 13.6% on last year. Boxer continued to make good progress in delivering its plan to centralise more of its supply chain distribution, in particular by opening a new distribution centre in Gauteng in January 2019.

Boxer now has three distribution centres, including sites in KwaZulu-Natal and East London, with centralised supply in the business now over 40%.

## A MODERN ESTATE, WITH A WIDER REACH

The Group continues to expand its reach, not only into geographic areas where it is under-represented, but through locations that provide greater opportunity for modern convenience. The Group opened 130 stores across all formats this year, including 16 Pick n Pay supermarkets on an owned and franchise basis and 13 Boxer supermarkets. New Pick n Pay supermarkets are smaller in size and all offer a modern, next generation shopping experience,with a greater emphasis on convenience. The Group opened 32 Pick n Pay Express stores this year, its forecourt convenience format in partnership with BP. Pick n Pay's business development programme with local retail entrepreneurs helps to deliver safe and affordable grocery shopping to communities in townships across Gauteng and the Western Cape, with 20 independently owned Market stores at year end.

Pick n Pay's hypermarket division delivered an improved contribution to Group performance. Refurbishments undertaken in the previous year continued to pay dividends, with Pick n Pay's Durban and Northgate hypermarkets each delivering double digit turnover growth. The Group completed a further four hypermarket mini-refurbishments this year, improving trading densities through more effective layouts, modern fixtures and fittings and a sharper focus on fresh, general merchandise, clothing and liquor. Six hypermarkets provided a bulk wholesale offer to over 300 independent traders and 100 franchisees, driving wholesale turnover up more than 20% year-on-year.

The Group's core grocery offer is complemented by its growing clothing and liquor businesses. The Group opened a net 17 standalone Pick n Pay clothing stores over the year, bringing its footprint to 217 stores on an owned and franchise basis. The clothing division delivered strong like-for-like sales growth over the year, anchored by a fresh look and feel as well as contributions from its womenswear, menswear and sleepwear categories.

The Group opened a net 33 standalone Pick n Pay and Boxer liquor stores during the year, on an owned and franchise basis.

The Group's liquor division delivered double-digit turnover growth, driven by an increased focus on wine and gin categories. The Pick n Pay wine club now boasts more than 100 000 members.

The Group executed a broad and impactful renewal programme over the 2019 financial year, touching more stores in a single year than ever before. The Group revamped 103 stores this year, 45 Pick n Pay and 31 Boxer company-owned stores across all formats, 20 franchise stores and 7 supermarkets in Zimbabwe. These stores are all lighter and brighter, with improved refrigeration, modern fixtures and fittings and greater innovation in respect of the display of fresh produce, health and beauty products and general merchandise.

Pick n Pay also worked to improve its stores by lowering shelf heights, creating wider aisles and adding stronger signage. This gave customers across the country stores that are easier to navigate and easier to shop.

The Group closed 20 under-performing stores during the year. Refurbishments and closures have an impact on top-line growth, but any disruption to trade has been mitigated by the improved like-for-like volume growth delivered by refurbished stores, which are delivering on the Group's return on investment requirements.

The Group's estate numbers 1 795 stores across all formats, including 719 franchise stores. We thank our franchise partners for the energy and effort they put into supporting the Pick n Pay brand. Closer collaboration over the past year has seen a greater alignment of store operating standards and product offer. The commitment of our franchisees to service excellence continues to set a high benchmark for the Group as a whole, and we are a stronger team because of them.

## LEADING ONLINE OFFER

Pick n Pay continues to enhance its online platform, providing greater convenience and innovation for digital customers. Although online remains a relatively small part of the business, the Group recognises that digital retail will be increasingly important in the future.



The Group's new online website drove order volumes up 17%, with turnover growth of 24.3% year-on-year, including through the Group's Click n Collect option.

The Group's dedicated online distribution centres in Johannesburg and Cape Town continue to drive efficiency across the online channel, with solid improvements in stock availability, and the consistent achievement of on-time delivery rates of 98%. The Group has leveraged its online infrastructure, delivering small and single-pick orders from its distribution centres to its smaller format stores in Gauteng and the Western Cape, with issues to Express and Market stores up over 100% year-on-year, supporting growth in our smaller format platform.

## STRONGER VALUE-ADDED SERVICES

The Group cemented its meaningful value-added services proposition with its industry-first partnership with TymeBank. TymeBank is South Africa's first digital-only bank, offering a simple, transparent and inexpensive banking proposition for customers, including many previously under-served by the banking sector. Pick n Pay and Boxer supermarkets effectively serve as a convenient and extensive branch network for TymeBank, and it takes less than five minutes to open an account in store. There are no monthly fees, most transactions are free and all purchases with a TymeBank card earn Smart Shopper points, with double points earned at Pick n Pay. Over 250 000 customers have opened a TymeBank account in just three months.

Customers taking advantage of Pick n Pay's low-cost store account grew by 25% over the year to 125 000. In addition to its low-cost banking partnerships, the Group grew its domestic and cross-border money transfer services, as well as its event and ticketing offer, by over 50%, driving a significant market share gain in value-added services.

## GROWTH OUTSIDE SOUTH AFRICA

The Group has followed a measured approach to its investment outside of South Africa, building an additional engine of growth for the business, without placing the core South Africa business under undue strain.

The Group has an established presence in Botswana, Lesotho, Namibia, Eswatini, Zambia and Zimbabwe. Trading conditions in these regions have been challenging at times, particularly in Zambia, and more recently in Zimbabwe.

The Group continues to build a stronger and more resilient business in Zambia, and remains confident of the long-term growth prospects of this business, notwithstanding a currently difficult trading environment. The Group opened two new supermarkets in Zambia this year and one stand-alone liquor store, taking its footprint to 20 stores in the region.

Pick n Pay optimised its range in eight of its supermarkets in Zambia this year. Greater operating efficiency and tighter working capital has delivered a stronger price position and a greater value proposition.

The Group has a 49% interest in its associate TM Supermarkets (TM) in Zimbabwe. TM has 57 stores in the region, with 20 trading under the Pick n Pay banner. The year has seen political and economic challenges, culminating in a currency liquidity crisis, high levels of inflation, social unrest, and a significant consumer demand for basic commodity products.

A determined team ensured that TM and Pick n Pay stores remained open throughout the year, and traded successfully despite external difficulties. Hard work in building customer and supplier loyalty stood the business in good stead, and its in-stock position remained high. The estate was improved with a further seven renovations in the year. TM received a number of retail awards in Zimbabwe, including being recognised as the "Coolest Supermarket Brand" at the Generation Next Awards and the Marketers Association of Zimbabwe's (MAZ) "Superbrand of the Year" in the retail supermarkets sector.

TM delivered double digit volume and customer growth, with cost discipline and operating efficiency supporting solid earnings growth. However the Group's share of associate income was down 6.3% year-on-year, with the impact of a R42.1 million foreign exchange loss on TM's adoption of the newly recognised RTGS dollars as its functional currency, and a revaluation of relevant balance sheet items effective

October 2018. Profits earned by TM since that date have been translated by the Group at a rate of 3.3 RTGS dollars to one US dollar.

## REVIEW OF FINANCIAL PERFORMANCE

The 2019 financial year is a 53-week period, and the 53-week IFRS results are not directly comparable with those of the 52 weeks of 2018. Unless specifically stated otherwise, the result commentary that follows below is on a comparable 52-week basis. Please refer to the appendix provided for the basis of preparation of this pro forma 52-week financial information.

The prior year financial information presented is on a restated basis, with the adoption of new accounting standards: IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. For further information on the adoption of the new accounting standards during the period, refer to note 12 of the summarised audited Group annual financial statements. The restatements had an insignificant impact on the profitability and financial position of the Group.

### TURNOVER

Group turnover increased 7.1% to R86.3 billion, with like-for-like turnover growth of 4.8%. The Group delivered real volume growth of 5.1%, with selling price deflation at 0.3% year-on-year.

The Group's core South Africa division delivered turnover growth of 7.4%, with like-for-like turnover growth of 5.2%, and real volume growth of 5.5%. The Group's improved performance is anchored by strong performances from its stores serving the growing lower to middle income communities of South Africa, a more competitive price position and a substantively improved fresh offer. The Group is particularly pleased with the improved contribution from its company-owned Pick n Pay and Boxer stores.

The tough trading conditions in Zambia continued over the year, and the weak kwacha weighed on Group turnover growth. On a constant currency basis, Group turnover grew 7.3%. The Group's investment in TM Supermarkets in Zimbabwe is recognised as an associate, and its sales are not included in Group turnover or revenue.

Refer to the appendix provided for further information on the Group's constant currency and like-for-like turnover calculations.

### GROSS PROFIT

Gross profit increased 7.8% to R16.4 billion, with gross profit margin improving from 18.9% to 19.0%. The Group demonstrated tight gross profit margin management, with cost savings across the procurement and distribution channel allowing for greater investment in lower every day prices. Improved performances and increased participation from company-owned Pick n Pay and Boxer stores was positive for gross profit margin. The Group bought better on behalf of customers, and harnessed the benefits of greater levels of centralisation, optimised ranges and lower stock-holdings.

### OTHER INCOME

Other income increased 6.1% to R1.9 billion and, at 2.2% of turnover, is in line with last year.

**Franchise fee income** – was down 2.5% on last year to R389.9 million. The decrease reflects a strategic change in the terms of our partnership with BP, designed to drive the growth of the Pick n Pay Express convenience format. The reduction in franchise fee income is offset by the benefits of a greater level of volume through the Pick n Pay supply chain. The Group opened 32 Pick n Pay Express stores over the year, against a net 8 stores last year, bringing its total footprint to 151 stores across South Africa. On a comparable basis, excluding the impact of the new agreement, franchise fee income grew 4.5% year-on-year.

**Operating lease income** – increased 18.3% to R527.8 million. The increase reflects the new head leases secured by the Group to protect the long-term tenancy of its strategic franchise sites. The increase in rental income is matched by a corresponding increase in occupancy costs.

**Commissions and other income, including value-added services (VAS)** – increased 3.9% to R972.2 million. Commissions and other income now includes all commission and incentive income that is not directly related to the sale of inventory. This broad category includes a relatively small but increasingly important contribution from value-added services. Income from value-added services grew 41.5% year-on-year, driven by sustained growth in commissions received from financial services, third party bill payments and the sale of prepaid electricity.



Customers are increasingly using our stores to perform financial services transactions, with 113 million transactions taking place in our stores during the year.

### TRADING EXPENSES

Trading expenses grew 7.0% year-on-year to R16.3 billion, with like-for-like growth contained at 5.3%. The trading expense margin improved from 18.9% to 18.8% of turnover. The Group responded to a difficult trading environment by demonstrating exceptional cost discipline, restricting the growth in trading expenses to below that of turnover.

**Employee costs** – increased by 6.2% to R7.1 billion, driven by growth across the Group's store estate. The Group built on the benefits of its voluntary severance programme (VSP) in the prior year, extracting labour efficiencies through greater levels of productivity and improved scheduling. Like-for-like employee costs, excluding the cost of the VSP last year and other non-comparable costs, grew 5.9%, notwithstanding salary and wage increases ahead of CPI. Labour costs improved from 8.3% to 8.2% of turnover.

**Occupancy costs** – grew 6.9% to R3.3 billion, with a net 51 company owned stores added over the past year, and the addition of a number of head leases in respect of strategic franchise sites. Occupancy costs increased 3.3% on a like-for-like basis, notwithstanding large increases in security and insurance costs. Occupancy costs remain at 3.8% of turnover. The Group is committed to reducing occupancy costs as a percentage of turnover, and is working with landlords to secure fair rental and escalation terms that reasonably reflect the economic environment in which we operate, and seek to sustain mutual growth.

**Operations costs** – increased by 8.9% to R3.5 billion, with a like-for-like increase of 6.1%. The largest drivers in this category are repairs and maintenance and depreciation. Repairs and maintenance is up 15% year-on-year, with targeted maintenance programmes across Pick n Pay and Boxer ensuring that the benefits of the Group's broad capital investment programme are sustained. Depreciation and amortisation costs are up 10.5%, reflecting the Group's capital expansion and improvement plans over a number of years.

Electricity costs have been extremely well managed year-on-year, down 1.8% on a like-for-like basis. Pick n Pay company-owned supermarkets use less energy in absolute terms today than we used ten years ago, notwithstanding the addition of over 100 supermarkets over that time. Pick n Pay installed an additional 4 megawatts of solar energy this year at selected sites, supplying between 20% and 40% of the energy requirements for each site. Pick n Pay and Boxer were well prepared for the recent rolling electricity blackouts in South Africa, referred to locally as "load-shedding", with all stores, distribution centres and offices benefiting from back-up power. Pick n Pay has had excellent results with its water-saving initiatives in the Western Cape, reducing overall water consumption by 20% in the region. These initiatives are being rolled out across the Group's South African estate.

**Merchandising and administration costs** – grew 7.0% to R2.4 billion, with like-for-like growth of 4.9%. Greater levels of advertising spend, related to the Group's impactful programme of promotions, was mitigated by the Group's ongoing discipline on professional fees and other administrative costs.

### NET INTEREST

Net interest paid decreased 38.5% year-on-year, from R147.1 million to R90.5 million. The substantial interest savings of R56.6 million reflects the Group's lower average borrowings over the year. Increased profitability, improved working capital management and a measured capital investment programme have all contributed to a stronger net funding position. The Group's cost of borrowing is actively managed through an optimum mix of overnight and capital market funding.

### REST OF AFRICA SEGMENT

The Group's Rest of Africa division contributed R4.7 billion of segmental revenue this year, up 2.2% on last year, with negative like-for-like growth of 1.6%. The performance of the Rest of Africa division reflects difficult trading conditions in operating regions outside of South Africa, particularly the ongoing challenges in Zambia. Removing the impact of currency weakness, segmental revenue is up 5.3% in constant currency terms, and up 1.5% on a like-for-like basis.

The Group's share of its profits of its associate TM Supermarkets in Zimbabwe (TM) was down 6.3% year-on-year, and included a once-off foreign exchange loss of R42.1 million on TM's adoption of the newly recognised RTGS dollar as its functional currency, and a revaluation of relevant balance sheet items effective from October 2018. Profits earned by TM since that date have been translated at a rate of 3.3 RTGS dollars to 1.0 US dollar (4.3 RTGS dollars to 1.0 ZAR).

Rest of Africa segmental profit before tax is down 16.2% year-on-year, to R241.3 million.

### CAPITAL ITEMS

The Group realised capital profits of R5.7 million during the period against capital losses of R21.0 million last year. Capital profits arose on the sale of land and the sale of assets on the conversion of company-owned stores to franchise stores. Capital items are added back in the calculation of headline earnings.

### PROFIT BEFORE TAX AND BEFORE CAPITAL ITEMS

Profit before tax and before capital items was up 15.6% on last year to R2.1 billion, at a margin of 2.4% of turnover. Profit before tax and before capital items in the Group's core South Africa division was up 21.6% to R1.8 billion, improving from 2.0% to 2.2% of segmental turnover. Group profit before tax, after capital items, was up 17.3%.

### TAX

The Group's tax rate of 25.0% reflects the impact of the timing of its tax deductions in respect of its employee share incentive schemes. The Group tax rate is sustainable over the medium-term, with marginal increases expected as the Group expands into the rest of Africa.

### EARNINGS PER SHARE

**Earnings per share (EPS)** – increased by 19.6% to 327.20 cents per share over 52 weeks. EPS increased by 26.9% over the 53-week financial year, to 347.17 cents per share.

**Headline earnings per share (HEPS)** – increased by 18.0% to 326.71 cents per share over 52 weeks. HEPS increased by 25.2% over the 53-week financial year, to 346.69 cents per share.

**Diluted headline earnings per share (DHEPS)** – increased by 18.8% to 322.65 cents per share over 52 weeks. Diluted HEPS increased by 26.1% over the 53-week financial year, to 342.37 cents per share.

## REVIEW OF FINANCIAL POSITION

The increase in the Group's net asset base reflects the success of its long-term strategy in delivering consistent and sustainable earnings growth in a tough market, and the positive impact of the Group's capital investment plan over the past six years. The Group has grown its store estate, centralised its distribution capacity and solidified its IT infrastructure in a measured and considered manner, delivering sustained returns on investment. The Group's net asset value for the 53 weeks ended 3 March 2019 increased 9.3% year-on-year impacted by a reduction in the foreign currency translation reserve of R290.2 million as a result of the recognition of our investment in TM Supermarkets in local RTGS dollar currency, and its subsequent translation at a rate of 3.3 RTGS dollars to 1.0 US dollar (4.3 RTGS dollars to 1.0 ZAR). The fair value of the Group's investment in TM exceeds its carrying value of R184.4 million and no impairment is required.

### WORKING CAPITAL

As a result of the impact of the 53rd week, the Group's working capital position at 3 March 2019 is not comparable with that of 25 February 2018. The net working capital outflow reflects the impact of month-end supplier payments in line with the Group's normal trade terms, annual tax payments and a substantive increase in rental and other prepayments.

Tight working capital management, particularly in respect of inventory, contributed to stronger cash balances over the year, and the 38.5% reduction in net interest paid. On a comparable 52-week basis, excluding the impact of new stores and cost inflation, like-for-like inventory is down 10.5% on last year, notwithstanding the addition of a net 51 Company-owned stores over the year, and greater levels of centralisation across the Group, including the new Pick n Pay distribution centre in KwaZulu-Natal and the new Boxer distribution centre in Gauteng.



This clearly demonstrates the early benefits of in-store range optimisation and the Group's success in removing old and slow moving product lines from the business. Trade and other payables have been tightly managed alongside the Group's good work on inventory.

Trade and other receivables remain well controlled. The comparable 52-week increase year-on-year, excluding significant prepayments at year-end, reflects the addition of 59 net new franchise stores over the year and a growing wholesale debtors book in line with the growth in Pick n Pay's wholesale offer. The Group is satisfied with the overall quality of its debtors' book, with an impairment allowance of 2.7%.

| NET FUNDING | 3 March 2019 Rm | Unaudited 24 February 2019 Rm | 25 February 2018 Rm |
|---|---|---|---|
| Cash balances | 1 503.2 | 1 090.3 | 1 129.1 |
| Cost-effective overnight borrowings | (1 800.0) | (300.0) | (1 800.0) |
| **Cash and cash equivalents** | (296.8) | 790.3 | (670.9) |
| One- to three-month funding | (1 325.0) | (1 325.0) | (400.0) |
| Secured borrowings | – | – | (128.8) |
| **Net funding position** | (1 621.8) | (534.7) | (1 199.7) |

The Group's net funding position at 3 March 2019 reflects the impact of the addition of week 53, with month-end supplier payments in line with the Group's normal trade terms, and annual tax payments. On a comparable 52-week calendar basis, the Group improved its net funding position by R665.0 million, driven by stronger cash generation, tighter working capital management and proceeds from the sale of land. The Group raised one-to-three month funding to take advantage of lower interest rates available in the capital markets, and optimally manage short-term liquidity. The Group no longer has long-term secured funding, and is efficiently and cost-effectively geared through short-term borrowings. The Group's liquidity position remains strong, with R4.3 billion of unutilised facilities at 3 March 2019.

### CAPITAL INVESTMENT

The Group invested R1.5 billion in capital improvements over the year. The Group commits the majority of its spend on customer-facing initiatives, with R476 million invested in new stores, R620 million on refurbishments, and R377 million on supply chain capability and IT infrastructure.

The Group will invest a further R2.0 billion next year, and is confident of its ability to meet its capital investment requirements through internally generated cash flow. The Group delivered return on capital employed of 39%, against a weighted average cost of capital of 12.4%.

### SHARE CAPITAL

The Group issued five million shares in August 2018 under current shareholder approvals. These shares will fund the Group's employee share scheme obligations, which have increased as a result of share price growth over recent years. The shares are currently held as treasury shares.

## SHAREHOLDER DISTRIBUTION

The Board declared a final dividend of 192.00 cents per share. This brings the total annual dividend to 231.10 cents per share, 22.4% up on last year, maintaining the Group's dividend cover of 1.5 times headline earnings per share over the 53-week financial year.

## ACCOUNTING STANDARDS NOT YET ADOPTED – IFRS 16 *LEASES* (IFRS 16)

The Group will adopt IFRS 16 from 4 March 2019, the beginning of its 2020 financial year. IFRS 16 largely removes the classification of leases as either operating leases or finance leases as required by IAS 17: *Leases*, and requires lessees to account for all leases under a single on-balance sheet model.

The Group's extensive lease portfolio will mostly be capitalised on the statement of financial position – with underlying leases recognised as right-of-use assets, with a corresponding lease liability in respect of future rental obligations.

The application of IFRS 16 will have a material impact on the Group's statement of financial position, statement of comprehensive income and classifications in the statement of cash flows. Key balance sheet metrics such as gearing ratios and return on capital employed, and income statement metrics, such as earnings before interest, tax, depreciation and amortisation (EBITDA), will be impacted. IFRS 16 will have no impact on the cash generation of the Group.

To ensure the year-on-year comparability of financial information, the Group will adopt IFRS 16 on the full retrospective basis. Please refer to note 13 of the summarised audited Group annual financial statements for further detailed information.

## SUSTAINABLE GROWTH IN A TOUGH MARKET

Over the past six years, the Group has pursued a clear and consistent long-term plan focused on building a leaner and fitter business which delivers consistent turnover and earnings growth by providing customers with better value-for-money, improved quality, more innovation, and a genuine multi-channel platform with a strong online offer and attractive value-added financial services.

The Group's FY19 financial result – in which market-leading turnover growth was achieved without sacrificing earnings growth – underlines the effectiveness of the strategy and the team's ability to implement it.

Pick n Pay and Boxer serve customers across all social and income groups, and the Group is increasingly confident that it has the focus and flexibility to compete and pursue growth in the market. The Group has begun the 2020 financial year with great energy, and is committed to winning more customers in a tough market. We extend our sincere appreciation to our Pick n Pay and Boxer teams who have delivered an outstanding result, and who continue to build a modern and effective business.

**Gareth Ackerman**
Chairman

**Richard Brasher**
Chief Executive Officer

25 April 2019



# DIVIDEND DECLARATION

### PICK N PAY STORES LIMITED – TAX REFERENCE NUMBER: 9275/141/71/2

Number of shares in issue: 493 450 321

Notice is hereby given that the directors have declared a final gross dividend (number 102) of 192.00 cents per share out of income reserves.

The dividend declared is subject to dividend withholding tax at 20%.

The tax payable is 38.40 cents per share, resulting in shareholders who are not exempt from dividends tax with a net dividend of 153.60 cents per share.

### DIVIDEND DATES

The last day of trade in order to participate in the dividend (CUM dividend) will be Tuesday, 4 June 2019.

The shares will trade EX dividend from the commencement of business on Wednesday, 5 June 2019 and the record date will be Friday, 7 June 2019. The dividends will be paid on Monday, 10 June 2019.

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 June 2019 and Friday, 7 June 2019, both dates inclusive.

On behalf of the Board of directors

**Debra Muller**
Company Secretary

25 April 2019

## GROUP STATEMENT OF COMPREHENSIVE INCOME

for the period ended

| | Note | 53 weeks to 3 March 2019 Rm | Restated* 52 weeks to 25 February 2018 Rm |
|---|---|---|---|
| **Revenue** | 2 | 90 465.0 | 82 489.6 |
| **Turnover** | 2 | 88 293.2 | 80 523.5 |
| Cost of merchandise sold | | (71 539.3) | (65 294.6) |
| **Gross profit** | | 16 753.9 | 15 228.9 |
| Other income | | 1 913.0 | 1 782.0 |
| Franchise fee income | 2 | 399.1 | 400.1 |
| Operating lease income | 2 | 527.8 | 446.1 |
| Commissions and other income | 2 | 986.1 | 935.8 |
| Trading expenses | | (16 491.3) | (15 191.0) |
| Employee costs | | (7 238.9) | (6 688.7) |
| Occupancy | | (3 326.8) | (3 086.6) |
| Operations | | (3 515.5) | (3 178.8) |
| Merchandising and administration | | (2 410.1) | (2 236.9) |
| **Trading profit** | | 2 175.6 | 1 819.9 |
| Finance income | 2 | 258.8 | 184.1 |
| Finance costs | | (349.3) | (331.2) |
| Share of associate's income | 8 | 109.0 | 116.3 |
| **Profit before tax before capital items** | | 2 194.1 | 1 789.1 |
| Profit/(loss) on capital items | | 5.7 | (21.0) |
| Profit/(loss) on sale of property, plant and equipment | | 11.0 | (10.6) |
| Impairment loss on property, plant and equipment | | – | (3.5) |
| Impairment loss on intangible assets | | (5.3) | (6.9) |
| **Profit before tax** | | 2 199.8 | 1 768.1 |
| Tax | | (550.3) | (471.8) |
| **Profit for the period** | | 1 649.5 | 1 296.3 |
| **Other comprehensive income, net of tax** | | | |
| **Items that will not be reclassified to profit or loss** | | (21.4) | (0.4) |
| Remeasurement in retirement scheme assets | | (29.9) | (0.6) |
| Tax on items that will not be reclassified to profit or loss | | 8.5 | 0.2 |
| **Items that may be reclassified to profit or loss** | | (263.1) | (46.2) |
| Foreign currency translations | | (281.6) | (49.8) |
| Movement in cash flow hedge | | 3.1 | – |
| Tax on items that may be reclassified to profit or loss | | 15.4 | 3.6 |
| **Total comprehensive income for the period** | | 1 365.0 | 1 249.7 |
| **Earnings per share** | | Cents | Cents |
| Basic earnings per share | 4 | 347.17 | 273.64 |
| Diluted earnings per share | 4 | 342.85 | 268.33 |
| Headline earnings per share | 4 | 346.69 | 276.98 |
| Diluted headline earnings per share | 4 | 342.37 | 271.61 |

* *Prior period amounts restated for the adoption of new accounting standards, refer to note 12.*

## GROUP STATEMENT OF FINANCIAL POSITION

| | Note | As at 3 March 2019 Rm | Restated* As at 25 February 2018 Rm |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 6 189.3 | 6 054.4 |
| Intangible assets | | 970.6 | 991.3 |
| Operating lease assets | | 252.1 | 227.3 |
| Deferred tax assets | | 303.4 | 194.8 |
| Investment in associate | 8 | 184.4 | 365.6 |
| Loans | | 102.0 | 79.3 |
| Retirement scheme assets | | 72.2 | 97.6 |
| Investment in insurance cell captive | 10 | 35.2 | 25.7 |
| Trade and other receivables | | 82.3 | 105.4 |
| | | 8 191.5 | 8 141.4 |
| **Current assets** | | | |
| Inventory | | 5 697.2 | 5 944.1 |
| Trade and other receivables | | 4 438.7 | 3 529.1 |
| Cash and cash equivalents | | 1 503.2 | 1 129.1 |
| Right of return asset | | 20.6 | 19.6 |
| Derivative financial instruments | 10 | 3.1 | – |
| | | 11 662.8 | 10 621.9 |
| **Non-current asset held for sale** | | – | 217.2 |
| **Total assets** | | 19 854.3 | 18 980.5 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 5 | 6.0 | 6.0 |
| Treasury shares | 6 | (993.7) | (863.4) |
| Retained earnings | | 5 647.4 | 4 951.7 |
| Other reserves | | (6.0) | – |
| Foreign currency translation reserve | | (336.9) | (70.7) |
| **Total equity** | | 4 316.8 | 4 023.6 |
| **Non-current liabilities** | | | |
| Operating lease liabilities | | 1 719.4 | 1 571.6 |
| Deferred tax liabilities | | 14.2 | 13.7 |
| Borrowings | | – | 79.5 |
| | | 1 733.6 | 1 664.8 |
| **Current liabilities** | | | |
| Trade and other payables | | 10 403.6 | 10 539.3 |
| Deferred revenue | 3 | 256.2 | 281.3 |
| Overnight borrowings | | 1 800.0 | 1 800.0 |
| Borrowings | | 1 325.0 | 449.3 |
| Current tax liabilities | | 19.1 | 213.7 |
| Derivative financial instruments | 10 | – | 8.5 |
| | | 13 803.9 | 13 292.1 |
| **Total equity and liabilities** | | 19 854.3 | 18 980.5 |
| Number of ordinary shares in issue – thousands | 5 | 493 450.3 | 488 450.3 |
| Weighted average number of ordinary shares in issue – thousands | 4.2 | 475 126.9 | 473 717.3 |
| Diluted weighted average number of ordinary shares in issue – thousands | 4.2 | 481 116.5 | 483 091.1 |
| Net asset value (property value based on directors' valuation) – cents per share | | 1 056.3 | 966.2 |

* *Prior period amounts restated for the adoption of new accounting standards, refer to note 12.*

# GROUP STATEMENT OF CHANGES IN EQUITY

for the period ended

| | Note | Share capital Rm | Treasury shares Rm | Retained earnings Rm | Other reserves Rm | Foreign currency translation reserve Rm | Total equity Rm |
|---|---|---|---|---|---|---|---|
| **At 26 February 2017** | | 6.0 | (554.3) | 4 428.5 | – | (24.5) | 3 855.7 |
| **Total comprehensive income for the period** | | – | – | 1 295.9 | – | (46.2) | 1 249.7 |
| Profit for the period | | – | – | 1 296.3 | – | – | 1 296.3 |
| Foreign currency translations | | – | – | – | – | (46.2) | (46.2) |
| Remeasurement in retirement scheme assets | | – | – | (0.4) | – | – | (0.4) |
| **Transactions with owners** | | – | (309.1) | (772.7) | – | – | (1 081.8) |
| Dividends paid | | – | – | (866.5) | – | – | (866.5) |
| Share purchases | | – | (423.4) | – | – | – | (423.4) |
| Net effect of settlement of employee share options | | – | 114.3 | (112.4) | – | – | 1.9 |
| Share-based payments expense | | – | – | 206.2 | – | – | 206.2 |
| **At 25 February 2018 as published** | | **6.0** | **(863.4)** | **4 951.7** | **–** | **(70.7)** | **4 023.6** |
| **Adoption of IFRS 9 *Financial instruments*** | 12 | **–** | **–** | **(30.2)** | **–** | **–** | **(30.2)** |
| **Total comprehensive income for the period** | | **–** | **–** | **1 628.1** | **3.1** | **(266.2)** | **1 365.0** |
| Profit for the period | | **–** | **–** | **1 649.5** | **–** | **–** | **1 649.5** |
| Foreign currency translations | | **–** | **–** | **–** | **–** | **(266.2)** | **(266.2)** |
| Movement in cash flow hedge | | **–** | **–** | **–** | **3.1** | **–** | **3.1** |
| Remeasurement in retirement scheme assets | | **–** | **–** | **(21.4)** | **–** | **–** | **(21.4)** |
| **Other reserve movements** | | **–** | **–** | **–** | **(9.1)** | **–** | **(9.1)** |
| **Transactions with owners** | | **–** | **(130.3)** | **(902.2)** | **–** | **–** | **(1 032.5)** |
| Dividends paid | | **–** | **–** | **(938.0)** | **–** | **–** | **(938.0)** |
| Share purchases | | **–** | **(311.2)** | **–** | **–** | **–** | **(311.2)** |
| Net effect of settlement of employee share options | | **–** | **180.9** | **(180.6)** | **–** | **–** | **0.3** |
| Share-based payments expense | | **–** | **–** | **216.4** | **–** | **–** | **216.4** |
| **At 3 March 2019** | | **6.0** | **(993.7)** | **5 647.4** | **(6.0)** | **(336.9)** | **4 316.8** |

# GROUP STATEMENT OF CASH FLOWS

for the period ended

| | **53 weeks to 3 March 2019 Rm** | 52 weeks to 25 February 2018 Rm |
|---|---|---|
| **Cash flows from operating activities** | | |
| Trading profit | **2 175.6** | 1 819.9 |
| **Adjusted for non-cash items** | **1 518.4** | 1 419.7 |
| Amortisation | **175.4** | 174.1 |
| Depreciation | **1 026.1** | 913.5 |
| Share-based payments expense | **216.4** | 206.2 |
| Movement in net operating lease liabilities | **123.0** | 144.0 |
| Movements in retirement scheme assets | **(4.5)** | (2.9) |
| Fair value gains | **(18.0)** | (15.2) |
| **Cash generated before movements in working capital** | **3 694.0** | 3 239.6 |
| **Movements in working capital** | **(850.7)** | (119.4) |
| Movements in trade and other payables and deferred revenue | **(160.8)** | 322.3 |
| Movements in inventory and right of return asset | **238.6** | (275.7) |
| Movements in trade and other receivables | **(928.5)** | (166.0) |
| **Cash generated from trading activities** | **2 843.3** | 3 120.2 |
| Interest received | **258.8** | 184.1 |
| Interest paid | **(349.3)** | (331.2) |
| **Cash generated from operations** | **2 752.8** | 2 973.1 |
| Dividends paid | **(938.0)** | (866.5) |
| Tax paid | **(817.3)** | (320.3) |
| **Cash generated from operating activities** | **997.5** | 1 786.3 |
| **Cash flows from investing activities** | | |
| Investment in intangible assets | **(151.5)** | (101.4) |
| Investment in property, plant and equipment | **(1 312.5)** | (1 445.9) |
| Improvements to non-current asset held for sale | **–** | (4.4) |
| Proceeds on sale of non-current asset held for sale | **217.2** | – |
| Purchase of operations | **(10.5)** | (96.2) |
| Proceeds on disposal of intangible assets | **0.3** | 0.6 |
| Proceeds on disposal of property, plant and equipment | **168.2** | 50.7 |
| Loans (advanced)/repaid | **(22.7)** | 5.8 |
| **Cash utilised in investing activities** | **(1 111.5)** | (1 590.8) |
| **Cash flows from financing activities** | | |
| Borrowings raised | **4 700.0** | 445.3 |
| Repayment of borrowings | **(3 903.8)** | (50.6) |
| Share purchases | **(311.2)** | (423.4) |
| Proceeds from employees on settlement of share options | **0.3** | 1.9 |
| **Cash generated from/(utilised in) financing activities** | **485.3** | (26.8) |
| **Net increase in cash and cash equivalents** | **371.3** | 168.7 |
| Net cash and cash equivalents at beginning of period | **(670.9)** | (838.1) |
| Foreign currency translations | **2.8** | (1.5) |
| **Net cash and cash equivalents at end of period** | **(296.8)** | (670.9) |
| **Consisting of:** | | |
| Cash and cash equivalents | **1 503.2** | 1 129.1 |
| Overnight borrowings | **(1 800.0)** | (1 800.0) |

# NOTES TO THE FINANCIAL INFORMATION

**for the period ended 3 March 2019**

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The summarised Group financial statements for the period ended 3 March 2019 are prepared in accordance with the JSE Listings Requirements for abridged reports, and the requirements of the Companies Act, as applicable to summarised financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA *Financial Reporting Guides*, as issued by the Accounting Practices Committee, and the Financial Pronouncements, as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

The summarised Group financial statements do not include all the information required by IFRS for full financial statements and should be read in conjunction with the 2019 audited Group annual financial statements. The accounting policies applied in the preparation of the audited Group annual financial statements, from which the summarised Group financial statements were derived, are in terms of IFRS and are consistent with those applied in the financial statements for the 52 weeks ended 25 February 2018, except where the Group has adopted new standards effective for financial year-ends starting on or after 1 January 2018 (refer to note 12). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These summarised Group financial statements are themselves not audited, but are extracted from audited information. The audited Group annual financial statements were audited by Ernst & Young Inc., who expressed an unmodified opinion thereon. The audited Group annual financial statements and the auditor's report thereon are available for inspection at the Company's (Pick n Pay Stores Limited) registered office.

The directors take full responsibility for the preparation of these summarised Group financial statements and the correct extraction of financial information from the underlying audited Group annual financial statements.

These summarised Group financial statements have been prepared by the Finance Division under the supervision of the Chief Finance Officer, Mr Aboubakar Jakoet CA(SA).



## 2. REVENUE

| | 53 weeks to 3 March 2019 Rm | Restated* 52 weeks to 25 February 2018 Rm |
|---|---|---|
| **Revenue from contracts with customers** | **89 678.4** | 81 859.4 |
| Turnover | **88 293.2** | 80 523.5 |
| Franchise fee income | **399.1** | 400.1 |
| Commissions and other income | **986.1** | 935.8 |
| **Operating lease income** | **527.8** | 446.1 |
| **Finance income** | **258.8** | 184.1 |
| Bank balances and investments | **190.7** | 131.2 |
| Trade and other receivables | **65.5** | 50.4 |
| Staff loans and other | **2.6** | 2.5 |
| **Revenue** | **90 465.0** | 82 489.6 |

Revenue recognised during the period from amounts included in deferred revenue at the beginning of the period amounted to R177.8 million (2018: R164.9 million). Refer to note 3.

Revenue from contracts with customers has been further disaggregated into geographical regions. Refer to note 7.

## 3. DEFERRED REVENUE

| | 53 weeks to 3 March 2019 Rm | Restated* 52 weeks to 25 February 2018 Rm |
|---|---|---|
| Prepaid gift card liability | **136.1** | 138.0 |
| Smart Shopper loyalty programme liability | **96.9** | 121.3 |
| Refund liability | **23.2** | 22.0 |
| | **256.2** | 281.3 |

### Prepaid gift card liability

Gift cards can be redeemed as cash against future purchases, are redeemable on demand and expire 3 years after last date used. The balance outstanding at period end represents the fair value of the revenue received in advance, adjusted for an expected forfeiture rate of 5.4% (2018: 5.4%).

### Smart Shopper loyalty programme liability

Customers are rewarded with Smart Shopper loyalty points (reward credits) or personal Smart Shopper discounts which are effectively redeemed as cash against future purchases. Smart Shopper loyalty points are redeemable on demand and expire on average 12 months after its award date. The balance outstanding at period end represents the stand-alone selling prices of points and discounts granted and yet to be redeemed, adjusted for an expected forfeiture rate of 17.5% (2018: 12.9%).

### Refund liability

Customers are entitled to return goods purchased within a specified period of time, for a full or partial refund of the amount paid. The refund liability represents the amount of consideration that the Group does not expect to be entitled to because it will be refunded to customers within the next financial period. In addition, the Group recognised a right of return asset of R20.6 million (2018: R19.6 million) for its right to recover goods returned by the customer.

* *Prior period amounts restated for the adoption of new accounting standards, refer to note 12.*

## 4. BASIC, HEADLINE AND DILUTED EARNINGS PER SHARE

| | % change | 53 weeks to 3 March 2019 Cents per share | 52 weeks to 25 February 2018 Cents per share |
|---|---|---|---|
| Basic earnings per share | 26.9 | **347.17** | 273.64 |
| Diluted earnings per share | 27.8 | **342.85** | 268.33 |
| Headline earnings per share | 25.2 | **346.69** | 276.98 |
| Diluted headline earnings per share | 26.1 | **342.37** | 271.61 |

### 4.1 Reconciliation between basic and headline earnings

| | Rm | Rm |
|---|---|---|
| **Profit for the period – basic earnings for the period** | **1 649.5** | 1 296.3 |
| Adjustments: | **(2.3)** | 15.8 |
| (Profit)/loss on sale of property, plant and equipment | **(11.0)** | 10.6 |
| Tax effect of profit/(loss) on sale of property, plant and equipment | **1.6** | (3.0) |
| Impairment loss on property, plant and equipment | **–** | 3.5 |
| Tax effect of impairment loss on property, plant and equipment | **–** | (1.0) |
| Impairment loss on intangible assets | **5.3** | 6.9 |
| Impairment loss on property, plant and equipment of associate | **2.8** | 1.2 |
| Tax effect of impairment loss on property, plant and equipment of associate | **(0.9)** | (0.4) |
| Profit on sale of property, plant and equipment of associate | **(0.1)** | (3.1) |
| Tax effect of profit on sale of property, plant and equipment of associate | **–** | 1.1 |
| **Headline earnings for the period** | **1 647.2** | 1 312.1 |

### 4.2 Number of ordinary shares

| | 000's | 000's |
|---|---|---|
| Number of ordinary shares in issue (note 5) | **493 450.3** | 488 450.3 |
| Weighted average number of ordinary shares (excluding treasury shares) | **475 126.9** | 473 717.3 |
| Diluted weighted average number of ordinary shares in issue | **481 116.5** | 483 091.1 |
| **Reconciliation of weighted average number of ordinary shares to diluted weighted average number of ordinary shares:** | | |
| Weighted average number of ordinary shares (excluding treasury shares) | **475 126.9** | 473 717.3 |
| Dilutive effect of share awards | **5 989.6** | 9 373.8 |
| Diluted weighted average number of ordinary shares in issue | **481 116.5** | 483 091.1 |

The outstanding forfeitable shares, granted in terms of the employee share scheme, that have not met performance hurdles, had no dilutive impact on the weighted average number of ordinary shares for the current and prior period.

## 5. SHARE CAPITAL

### 5.1 Ordinary share capital

| | 53 weeks to 3 March 2019 Rm | 52 weeks to 25 February 2018 Rm |
|---|---|---|
| **Authorised** | | |
| 800 000 000 (2018: 800 000 000) ordinary shares of 1.25 cents each | **10.0** | 10.0 |
| **Issued** | | |
| 493 450 321 (2018: 488 450 321) ordinary shares of 1.25 cents each | **6.0** | 6.0 |
| | **000's** | 000's |
| **The number of shares in issue at end of period is made up as follows:** | | |
| Treasury shares held as hedge against share options granted (note 6) | **9 576.5** | 6 654.9 |
| Treasury shares allocated under the forfeitable share plan (note 6) | **8 494.0** | 6 853.5 |
| Shares held outside the Group | **475 379.8** | 474 941.9 |
| **Total shares in issue at end of period** | **493 450.3** | 488 450.3 |

The Company can issue new shares to settle the Group's obligations under its employee share schemes, but issues in this regard are limited, in aggregate, to 5% of total issued share capital or 24 672 516 (2018: 24 422 516) shares. During the period under review, 5 000 000 shares were issued to subsidiary companies within the Group as hedge against obligations under its employee share schemes. To date 15 743 000 (2018: 10 743 000) shares have been issued, resulting in 8 929 516 (2018: 13 679 516) shares remaining for this purpose.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Certain ordinary shares are stapled to B shares and are subject to restrictions upon disposal. Refer to note 5.2.

### 5.2 B Share capital

| | 53 weeks to 3 March 2019 Rm | 52 weeks to 25 February 2018 Rm |
|---|---|---|
| **Authorised** | | |
| 1 000 000 000 (2018: 1 0.00 000 000) unlisted, non-convertible, non-participating, no par value B shares | **–** | – |
| **Issued** | | |
| 259 682 869 (2018: 259 682 869) unlisted non-convertible, non-participating, no par value B shares | **–** | – |

B shares are stapled to ordinary shares and cannot be traded separately from each other. Stapled ordinary shares, together with B shares, are subject to restrictions upon disposal.

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits. Refer to note 5.1.

## 6. TREASURY SHARES

| | 53 weeks to 3 March 2019 Rm | 52 weeks to 25 February 2018 Rm |
|---|---|---|
| **At beginning of period** | 863.4 | 554.3 |
| Shares purchased during the period | 311.2 | 423.4 |
| Take-up of share options by employees | (180.9) | (114.3) |
| **At end of period** | 993.7 | 863.4 |
| | 000's | 000's |
| **The movement in the number of treasury shares held is as follows:** | | |
| **At beginning of period** | 13 508.4 | 15 868.3 |
| Shares purchased during the period | 4 249.6 | 6 809.4 |
| Shares sold during the period pursuant to the take-up of share options by employees | (3 606.5) | (2 784.8) |
| Shares delivered to participants of forfeitable share plan | (1 081.0) | (6 384.5) |
| Shares issued (note 5) | 5 000.0 | – |
| **At end of period** | 18 070.5 | 13 508.4 |
| Comprises: | | |
| As hedge against share options granted | 9 576.5 | 6 654.9 |
| Shares allocated under forfeitable share plan | 8 494.0 | 6 853.5 |

## 7. OPERATING SEGMENTS

| | South Africa Rm | Rest of Africa Rm | Total operations Rm |
|---|---|---|---|
| **53 weeks to 3 March 2019** | | | |
| **Total segment revenue** | 86 541.0 | 4 838.9 | 91 379.9 |
| Revenue from contracts with customers (note 2) | 85 774.5 | 3 903.9 | 89 678.4 |
| Operating lease income (note 2) | 518.4 | 9.4 | 527.8 |
| Finance income (note 2) | 248.1 | 10.7 | 258.8 |
| Direct deliveries* | – | 914.9 | 914.9 |
| **Segment external turnover** | 84 401.4 | 3 891.8 | 88 293.2 |
| **Profit before tax before capital items**** | 1 939.1 | 255.0 | 2 194.1 |
| **Profit before tax**** | 1 945.5 | 254.3 | 2 199.8 |
| **Other information** | | | |
| **Statement of comprehensive income** | | | |
| Finance costs | 347.8 | 1.5 | 349.3 |
| Depreciation and amortisation | 1 157.6 | 43.9 | 1 201.5 |
| Profit on sale of property, plant and equipment | 11.0 | – | 11.0 |
| Impairment loss on intangible assets | 4.6 | 0.7 | 5.3 |
| Share of associate's income | – | 109.0 | 109.0 |
| **Statement of financial position** | | | |
| Total assets | 18 462.8 | 1 391.5 | 19 854.3 |
| Total liabilities | 14 997.1 | 540.4 | 15 537.5 |
| Investment in associate | – | 184.4 | 184.4 |
| Additions to non-current assets | 1 438.2 | 34.5 | 1 472.7 |
| **52 weeks to 25 February 2018 restated#** | | | |
| **Total segment revenue** | 78 703.5 | 4 648.1 | 83 351.6 |
| Revenue from contracts with customers (note 2) | 78 089.7 | 3 769.7 | 81 859.4 |
| Operating lease income (note 2) | 436.5 | 9.6 | 446.1 |
| Finance income (note 2) | 177.3 | 6.8 | 184.1 |
| Direct deliveries* | – | 862.0 | 862.0 |
| **Segment external turnover** | 76 765.6 | 3 757.9 | 80 523.5 |
| **Profit before tax before capital items**** | 1 501.2 | 287.9 | 1 789.1 |
| **Profit before tax**** | 1 480.2 | 287.9 | 1 768.1 |
| **Other information** | | | |
| **Statement of comprehensive income** | | | |
| Finance costs | 331.1 | 0.1 | 331.2 |
| Depreciation and amortisation | 1 044.2 | 43.4 | 1 087.6 |
| Loss on sale of property, plant and equipment | (10.6) | – | (10.6) |
| Impairment loss on intangible assets | 6.9 | – | 6.9 |
| Impairment loss on property, plant and equipment | 3.5 | – | 3.5 |
| Share of associate's income | – | 116.3 | 116.3 |
| **Statement of financial position** | | | |
| Total assets | 17 193.2 | 1 787.3 | 18 980.5 |
| Total liabilities | 14 354.1 | 602.8 | 14 956.9 |
| Investment in associate | – | 365.6 | 365.6 |
| Additions to non-current assets | 1 625.8 | 22.7 | 1 648.5 |

* *Included in segmental revenue, as reviewed by the CODM, are direct deliveries by in-country suppliers to foreign franchisees, in countries where the Group does not have a statutory presence. These deliveries do not qualify as revenue in terms of IFRS but are included in segmental revenue for the purposes of the Group's review of operating segments. In countries where the Group has statutory presence, including South Africa, direct deliveries are included in the Group's reported revenue.*

** *Segmental profit before tax and profit before tax before capital items is the reported measure used for evaluating the performance of the Group's operating segments. On an overall basis, the segmental profit before tax and profit before tax before capital items is equal to the Group's reported profit before tax and profit before tax before capital items. The Rest of Africa segment's segmental profit before tax and profit before tax before capital items comprises the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental costs incurred by the South Africa segment relating to the Rest of Africa segment.*

\# *Prior period disclosures relating to segmental revenue, have been expanded in line with the adoption of IFRS 15 Revenue from Contracts with Customers. Refer to note 12.*

## 8. INVESTMENT IN ASSOCIATE

### 8.1 Accounting for the investment in associate

The Group has a 49% investment in TM Supermarkets (Pvt) Limited (TM Supermarkets), a private company incorporated in Zimbabwe which operates supermarkets throughout Zimbabwe.

Since the adoption of multiple currencies by the Zimbabwean Government in 2009, entities in Zimbabwe have been operating in a multi-currency regime. Historically, the US dollar was designated as the functional and presentation currency for our associate in Zimbabwe.

Ongoing US dollar shortages experienced in Zimbabwe have led to the increased use of electronic tender through the Real Time Gross Settlement (RTGS) system. The increased reliance on RTGS as a settlement mechanism effectively resulted in RTGS becoming a de facto currency.

On 1 October 2018, the Reserve Bank of Zimbabwe (RBZ) directed all banks to ring-fence Nostro foreign currency accounts (FCAs) by separating them into two categories, namely Nostro FCAs and RTGS FCAs. Authorities maintained that the US dollar represented in the RTGS system was at a 1:1 exchange ratio, however there was growing consensus among market participants that this did not reflect economic reality. In line with industry consensus on the matter, this event and industry discussion that followed led to a change in functional currency to RTGS dollar for our associate in Zimbabwe, with effect from 1 October 2018.

On 20 February 2019, the RBZ announced that the RTGS would be recognised as an official currency and that an interbank foreign exchange market would be established to formalise trading in RTGS balances with other currencies. The official interbank exchange rate on 3 March 2019 was 2.5 RTGS dollar to the US dollar.

For the period under review, judgements have been applied in the estimation and application of an exchange rate of 3.3 RTGS dollar to the US dollar (RTGS rate). Management has assessed that the official interbank exchange rate of 2.5 RTGS dollar to the US dollar is not available for immediate settlement as shortages of foreign currency results in the official exchange rate not being liquid. The inputs considered in this estimate include the recent announcement to increase the fuel price for those settling in RTGS dollar, and the official inflation rate. In addition, the premium at which Old Mutual and PPC shares trade on the Zimbabwe stock exchange versus the JSE was taken into consideration as an approximate indicator of an appropriate exchange rate.

The application of the change in functional currency has been applied prospectively. For inclusion in our Group statement of comprehensive income and statement of cash flows, results from the Group's associate have been translated at the average US dollar exchange rate for the period up to 30 September 2018, and at an estimated RTGS dollar rate for the remainder of the financial period. For inclusion in the Group statement of financial position, results from our associate have been translated at the closing RTGS dollar rate as determined by management.



## 8. INVESTMENT IN ASSOCIATE (continued)

### 8.1 Accounting for the investment in associate (continued)

The table below summarises the exchange rates at which the results of TM Supermarkets have been translated into South African rand.

| | Functional currency | Average rate | Closing rate |
|---|---|---|---|
| 26 February 2018 to 30 September 2018 | US dollar | 13.08 | 14.12 |
| 1 October 2018 to 3 March 2019 | RTGS dollar | 4.29* | 4.28** |

** Calculated using the average US dollar to rand exchange rate of R14.15 for the period 1 October 2018 to 3 March 2019 divided by the estimated RTGS dollar rate of 3.3 to 1 US dollar.*

*** Calculated using the closing US dollar to rand exchange rate of R14.12 at 3 March 2019 divided by the estimated RTGS dollar rate of 3.3 to 1 US dollar.*

| | 53 weeks to 3 March 2019 Rm | 52 weeks to 25 February 2018 Rm |
|---|---|---|
| **8.2 Reconciliation of investment in associate** | | |
| **At beginning of period** | **365.6** | 309.7 |
| Share of associate's income | **109.0** | 116.3 |
| Foreign currency translation | **(290.2)** | (37.6) |
| Dividend declared by associate | **–** | (22.8) |
| **At end of period** | **184.4** | 365.6 |

### 8.3 Sensitivity analysis

The table below highlights the sensitivity impact of the possible changes in the RTGS dollar exchange rate on the statement of comprehensive income and statement of financial position of the Group. All accounting principles applied by management, as stated in note 8.1, remained consistent in the preparation of this sensitivity analysis, with the exception of the RTGS dollar to US dollar rate applied.

| **53 weeks to 3 March 2019** | RTGS:USD 2.5:1 | **As reported RTGS:USD 3.3:1** | RTGS:USD 4.0:1 |
|---|---|---|---|
| Investment in associate (Rm) | 243.4 | **184.4** | 152.1 |
| Share of associate's income (Rm) | 137.2 | **109.0** | 94.0 |
| Net asset value (cents per share) | 1 115.3 | **1 056.3** | 1 024.0 |

## 9. RELATED PARTY TRANSACTIONS

During the period under review, in the ordinary course of business, certain companies within the Group entered into transactions with each other. These inter-group transactions and related balances are eliminated on consolidation.

Related parties are unchanged from those reported at 25 February 2018. For further information please refer to note 26 of the 2019 audited Group annual financial statements and note 8 of the 2019 audited Company annual financial statements.

## 10. FINANCIAL INSTRUMENTS

All financial instruments held by the Group are measured at amortised cost, with the exception of financial instruments at fair value through profit or loss and derivatives designated as hedging instruments, as set out below:

| | **53 weeks to 3 March 2019 Rm** | 52 weeks to 25 February 2018 Rm |
|---|---|---|
| **Financial instruments at fair value through profit of loss** | | |
| Investment in insurance cell captive – level 2 | **35.2** | 25.7 |
| **Derivatives designated as hedging instruments** | | |
| Forward exchange contract assets/(liabilities) – level 2 | **3.1** | (8.5) |

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable, the instruments are included in level 2.

The carrying value of all other financial instruments approximate their fair value.

There have been no transfers between level 1, level 2 and level 3 of the fair value hierarchy during the period.

In accordance with IFRS 9 *Financial Instruments*, as a new accounting policy, the Group now applies hedge accounting on its forward exchange contracts. The forward exchange contracts are classified as cash flow hedges, utilised as hedge against imports of goods for resale denominated in currencies other than South African rand.

## 11. COMMITMENTS

| | **53 weeks to 3 March 2019 Rm** | 52 weeks to 25 February 2018 Rm |
|---|---|---|
| **Authorised capital expenditure** | | |
| **Contracted for** | **41.4** | 231.0 |
| Property | **–** | 69.8 |
| Furniture, fittings, equipment and vehicles | **39.9** | 67.8 |
| Intangible assets | **1.5** | 93.4 |
| **Not contracted for** | **1 958.6** | 1 469.0 |
| Property | **39.5** | 20.0 |
| Furniture, fittings, equipment and vehicles | **1 829.2** | 1 417.2 |
| Intangible assets | **89.9** | 31.8 |
| **Total commitments** | **2 000.0** | 1 700.0 |

## 12. ADOPTION OF NEW ACCOUNTING STANDARDS

### 12.1 Adoption of new accounting standards

The following new accounting standards have been applied in the 2019 financial period:

**IFRS 9 *Financial Instruments***
IFRS 9 *Financial Instruments* (replacing IAS 39 *Financial Instruments: Recognition and Measurement*) is applicable to the Group for the 2019 annual financial period.

The objective of IFRS 9 is to establish principles for the classification and measurement of financial assets and liabilities, hedging and the introduction of the expected credit loss (ECL) model for the measurement of impairment allowances for financial assets.

The key impact of IFRS 9 for the Group relates to the application of the ECL model in the measurement of the impairment allowance of our trade and other receivables (through the application of the simplified approach). In terms of IAS 39, trade and other receivables were impaired when there was objective evidence of default. IFRS 9 dictates that the impairment is based on the lifetime expected credit losses on trade and other receivables. In general, the ECL model is expected to result in a higher impairment allowance than the historical incurred loss model, as provision rates must now reflect all possible future losses based on past experience as well as future economic factors.

To measure ECLs, trade receivables are assessed on an individual basis. The ECL rates are based on historical credit loss experienced during the period, adjusted to reflect current and forward looking information on macro economic factors affecting the ability of the debtor to settle the receivable.

The Group applied IFRS 9 with an initial application date of 26 February 2018. The Group applied the standard retrospectively but has elected not to restate comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been made to the opening balances at the date of initial application. The impact for the Group is an additional impairment allowance of R42.0 million against opening retained earnings and an increase in deferred tax assets of R11.8 million, resulting in a R30.2 million impact, net of tax.

**IFRS 15 *Revenue from Contracts with Customers***
IFRS 15 *Revenue from Contracts with Customers* (replacing IAS 18 *Revenue*) is applicable to the Group for the 2019 annual financial period.

IFRS 15 relates to the measurement, classification and disclosure of revenue from contracts with customers and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised as the Group satisfies performance obligations and transfers control of goods or services to its customers as opposed to the application of the risks and rewards criteria under IAS 18.

The measurement of revenue is determined based on the amount to which the Group expects to be entitled, allocated to each specific performance obligation. Depending on whether certain criteria are met, revenue is recognised either over time or at a point in time, as or when control of goods or services is transferred to the customer. The Group has applied IFRS 15 using the full retrospective method of adoption. The Group has not presented the impact of the adoption on the period under review, as the standard provides an optional practical expedient.

## 12. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

### 12.1 Adoption of new accounting standards (continued)

The key impacts of IFRS 15 for the Group relates to the following:

- The IFRS 15 principles dictate that revenue is recognised as and when the control over goods and services are transferred to customers. This impacted the Group's assessment of whether it is the agent or the principal when recognising revenue from certain value-added services. In certain instances, revenue from these value-added services previously recognised on a gross basis as turnover and cost of merchandise sold is now required to be recognised on a net basis in other income.
- IFRS 15 requires that all discounts, rebates or loyalty payments to customers should be deducted from revenue, unless it is directly funded by suppliers. All Group discounts and the related supplier funding were reviewed and, discounts are now adjusted against revenue only if there is no direct funding from suppliers.
- Right of return assets, previously disclosed as trade and other receivables, have been reclassified and presented separately on the statement of financial position.
- Deferred revenue, previously disclosed as trade and other payables, have been reclassified and presented separately on the statement of financial position.

Relevant prior period financial information has been restated and reclassified, with no impact on the Group's previously reported earnings and headline earnings. The Group has not disclosed the impact of the adoption on the period preceding the prior period, as the adoption of IFRS 15 had no material impact on previously reported earnings, headline earnings and the statement of financial position.

### 12.2 Impact of adoption of IFRS 15 on the statement of comprehensive income for the 52 weeks ended 25 February 2018

| | Restated 52 weeks to 25 February 2018 Rm | Impact of IFRS 15 Rm | As previously published 52 weeks to 25 February 2018 Rm |
|---|---|---|---|
| Revenue | 82 489.6 | (1 015.2) | 83 504.8 |
| Turnover | 80 523.5 | (1 036.6) | 81 560.1 |
| Cost of merchandise sold | (65 294.6) | 1 015.2 | (66 309.8) |
| Gross profit | 15 228.9 | (21.4) | 15 250.3 |
| Other income | 1 782.0 | 21.4 | 1 760.6 |
| Commissions and other income | 935.8 | 21.4 | 914.4 |
| Profit for the period | 1 296.3 | – | 1 296.3 |

### 12.3 Impact of adoption of IFRS 15 on the statement of financial position as at 25 February 2018

| | Restated As at 25 February 2018 Rm | Impact of IFRS 15 Rm | As previously published As at 25 February 2018 Rm |
|---|---|---|---|
| Inventory | 5 944.1 | (19.6) | 5 963.7 |
| Right of return asset | 19.6 | 19.6 | – |
| Trade and other payables | 10 539.3 | (281.3) | 10 820.6 |
| Deferred revenue | 281.3 | 281.3 | – |



## 13. ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

### International Financial Reporting Standards (IFRS)

There are a number of new standards, amendments to standards and interpretations that are applicable to the Group with an effective date after the date of the 2019 audited Group annual financial statements, and have not been applied in preparing the 2019 audited Group annual financial statements. The standard expected to have a key impact on the Group is IFRS 16 *Leases*.

### IFRS 16 *Leases* (effective for the Group for the financial period ending February 2020)

The Group will adopt IFRS 16 from 4 March 2019, the start of its financial period ending 2 March 2020. IFRS 16 replaces IAS 17 *Leases* and requires lessees to account for all leases under a single on-balance sheet model, in a similar manner to finance leases under IAS 17. The only exceptions are short-term and low-value leases.

As a result, most of the leases in the Group's extensive lease portfolio will now be brought onto the statement of financial position. Under IFRS 16, the leases of most retail premises in the Group will be recognised as an asset, representing the right to use the premises, with a corresponding lease liability, representing the obligation to pay rent.

Changes to the statement of comprehensive income will result in the current operating lease payments being replaced by the amortisation of the right-of-use assets and the associated finance costs of the lease liability. The amortisation of the right-of-use assets is recorded on a straight-line basis over the lease term while the associated finance costs of the lease liability is front-loaded. IFRS 16 will therefore result in a higher upfront net charge (amortisation plus finance costs) for new and young leases when compared to the related operating lease expense recorded under IAS 17. The inverse would be true for more mature leases. This will have no impact on the cash flow of the Group, although some classifications in the statement of cash flow line items will be affected. The Group has an extensive portfolio of leases of various maturities. The Group's lease terms ranges between one and 20 years. Most of its stores are leased with non-cancellable operating lease commitments of R17.3 billion as at the reporting date (refer to note 11 of the 2019 audited Group annual financial statements), representing the approximate undiscounted value of the lease liability under IFRS 16, without including any lease renewal periods. The application of IFRS 16 will have a material impact on the Group's statement of financial position, statement of comprehensive income and classifications in the statement of cash flows.

The Group also has numerous head lease arrangements where it sublets to its franchisees. In these instances, IFRS 16 requires the recognition of the obligation to pay rent under the head lease as a lease liability, with a corresponding asset representing the rent receivable from the franchisee under the sublease arrangement. In most instances, the accounting for the head lease and the sublease under IFRS 16 has an equal and opposite impact on the statement of comprehensive income, similar to the net impact under IAS 17. Changes on the following line items will however occur: operating lease income, operating lease expenses, finance income and finance costs. More than one third of our franchise stores are subject to sublease arrangements with non-cancellable operating lease receivables of R2.8 billion as at the reporting date (refer note 11 of the 2019 audited Group annual financial statements) representing the approximate undiscounted value of the lease receivable under IFRS 16, without including any lease renewal periods.

## 13. ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED (continued)

### IFRS 16 *Leases* (effective for the Group for the financial period ending February 2020) (continued)

To ensure year-on-year comparability of financial information, the Group will adopt IFRS 16 using the full retrospective approach. Given the complex nature and maturity of the Group's lease portfolio, an extensive project is in its final stages to determine the current and historical financial implications. First time disclosure of the IFRS 16 impacts will be made ahead of our interim result announcement in October 2019, once the impact has been assessed by our external auditors.

The application of IFRS 16 will result in changes to the statement of financial position, statement of comprehensive income and cash flow statement line items, including, but not limited to, property, plant and equipment, operating lease assets, operating lease liabilities, deferred tax, occupancy costs, operational costs, finance income and finance costs. More specifically, items such as amortisation, operating lease expenses and operating lease income will be impacted. Key balance sheet metrics such as leverage, finance ratios and debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), will be impacted. IFRS 16 will have no impact on the cash generation of the Group.

**The following new or amended standards are not expected to have a significant impact on the Group's financial statements:**

- *Foreign currency transactions and advance consideration (IFRIC Interpretation 22)*
- *Investments in associates and joint ventures - clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (amendments to IAS 28)*
- *Uncertainty over income tax treatments (IFRIC Interpretation 23)*
- *Prepayment features with negative compensation (amendments to IFRS 9)*
- *Long-term interests in associates and joint ventures (amendments to IAS 28)*
- *Plan amendment, curtailment or settlement (amendments to IAS 19)*
- *Accounting for acquisitions of interests in joint operations (amendments to IFRS 3)*
- *Accounting for acquisitions of interests in joint arrangements (amendments to IFRS 11)*
- *Income tax consequences of payments on financial instruments classified as equity (amendments to IAS 12)*
- *Borrowing costs eligible for capitalisation (amendments to IAS 23)*
- *Definition of a business (amendments to IFRS 3)*
- *Definition of material (amendments to IAS 1 and IAS 8)*
- *Sale of contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)*



# APPENDIX

## PRO FORMA INFORMATION

Certain financial information presented in these summarised annual financial results constitutes pro forma financial information.

### BASIS OF PREPARATION: 52-WEEK FINANCIAL INFORMATION

The Group manages its retail operations on a 52-week trading calendar where the reporting period will always end on a Sunday. To ensure calendar alignment, a 53rd week of trading is required approximately every six years and as a result, the current financial year includes a 53rd week.

In order to provide useful and transparent comparative information, a 52-week period result for the current financial period ("52-week financial information") is presented for comparison against the corresponding 52-week result, as reported in the previous financial year. The 52-week financial information constitutes pro forma financial information.

The 52-week financial information is presented for illustrative purposes only and is the responsibility of the Board of directors of the Group. Due to its nature, the 52-week financial information may not fairly represent the Group's financial position, changes in equity, results of operations and cash flows.

The Group's external auditor has issued a reporting accountants' report on the 52-week financial information as presented in the table on page 78. The 52-week financial information has been extracted from the Group annual financial statements. The reporting accountants' report on the 52-week financial information included in the Group annual financial statements is available for inspection at the Group's registered office.

The 52-week financial information for the 52 weeks ended 24 February 2019 as presented, consists of the audited Group results for the 53 weeks to 3 March 2019, less the impact of the week from 25 February 2019 to 3 March 2019 (the 53rd week). The Group's accounting policies as adopted in the audited Group annual financial statements for the financial period ended 3 March 2019, which have been prepared in accordance with International Financial Reporting Standards, have been used in the preparation of the 52-week financial information. The calculation of earnings per share, headline earnings per share and diluted headline earnings per share for the pro forma 52 weeks is based on the weighted average number of shares in issue over the full 53-week period.

The 53rd week financial impact was calculated as follows:

- Revenue and related cost of sales adjusted for the week of 25 February 2019 to 3 March 2019.
- Other income and expenses related to the week based on an assessment of management information.
- The relevant amounts for the 53rd week have been extracted and recalculated from the Group's accounting records.
- The tax rate applied is equal to the Group's effective tax rate for the 53 weeks ended 3 March 2019.

The 53rd week financial impact as calculated, in the opinion of the directors of the Group, fairly reflects the result of the week of 25 February 2019 to 3 March 2019.

**The table below presents the impact of week 53:**

| | As reported 53 weeks to 3 March 2019[1] Rm | Week 53[2] Rm | Pro forma 52 weeks to 24 February 2019[3] Rm | As reported 52 weeks to 25 February 2018[4] Rm |
|---|---|---|---|---|
| **Revenue** | **90 465.0** | 2 045.1 | **88 419.9** | 82 489.6 |
| **Turnover** | **88 293.2** | 2 022.0 | **86 271.2** | 80 523.5 |
| Cost of merchandise sold | **(71 539.3)** | (1 685.2) | **(69 854.1)** | (65 294.6) |
| **Gross profit** | **16 753.9** | 336.8 | **16 417.1** | 15 228.9 |
| **Other income** | **1 913.0** | 23.1 | **1 889.9** | 1 782.0 |
| Franchise fee income | **399.1** | 9.2 | **389.9** | 400.1 |
| Operating lease income | **527.8** | – | **527.8** | 446.1 |
| Commissions and other income | **986.1** | 13.9 | **972.2** | 935.8 |
| **Trading expenses** | **(16 491.3)** | (233.3) | **(16 258.0)** | (15 191.0) |
| Employee costs | **(7 238.9)** | (136.9) | **(7 102.0)** | (6 688.7) |
| Occupancy | **(3 326.8)** | (27.3) | **(3 299.5)** | (3 086.6) |
| Operations | **(3 515.5)** | (52.5) | **(3 463.0)** | (3 178.8) |
| Merchandising and administration | **(2 410.1)** | (16.6) | **(2 393.5)** | (2 236.9) |
| **Trading profit** | **2 175.6** | 126.6 | **2 049.0** | 1 819.9 |
| Net interest paid | **(90.5)** | – | **(90.5)** | (147.1) |
| Share of associate's income | **109.0** | – | **109.0** | 116.3 |
| **Profit before tax before capital items** | **2 194.1** | 126.6 | **2 067.5** | 1 789.1 |
| Profit/(loss) on capital items | **5.7** | – | **5.7** | (21.0) |
| **Profit before tax** | **2 199.8** | 126.6 | **2 073.2** | 1 768.1 |
| Tax | **(550.3)** | (31.7) | **(518.6)** | (471.8) |
| **Profit for the period** | **1 649.5** | 94.9 | **1 554.6** | 1 296.3 |
| **Headline earnings** | **1 647.2** | 94.9 | **1 552.3** | 1 312.1 |
| **Earnings per share** | **Cents** | Cents | **Cents** | Cents |
| Basic earnings per share | **347.17** | 19.97 | **327.20** | 273.64 |
| Diluted earnings per share | **342.85** | 19.73 | **323.12** | 268.33 |
| Headline earnings per share | **346.69** | 19.98 | **326.71** | 276.98 |
| Diluted headline earnings per share | **342.37** | 19.72 | **322.65** | 271.61 |
| **South Africa operating segment** | **Rm** | Rm | **Rm** | Rm |
| Total segment revenue | **86 541.0** | 1 972.2 | **84 568.8** | 78 703.5 |
| Segmental external turnover | **84 401.4** | 1 949.5 | **82 451.9** | 76 765.6 |
| Profit before tax before capital items | **1 939.1** | 113.6 | **1 825.5** | 1 501.2 |
| Profit before tax | **1 945.5** | 113.6 | **1 831.9** | 1 480.2 |
| **Rest of Africa operating segment** | **Rm** | Rm | **Rm** | Rm |
| Total segment revenue | **4 838.9** | 89.5 | **4 749.4** | 4 648.1 |
| Segmental external turnover | **3 891.8** | 72.5 | **3 819.3** | 3 757.9 |
| Profit before tax before capital items | **255.0** | 13.0 | **242.0** | 287.9 |
| Profit before tax | **254.3** | 13.0 | **241.3** | 287.9 |

[1] *Presents the audited Group result for the 53 weeks ended 3 March 2019.*
[2] *Presents the financial impact of the week from 25 February 2019 to 3 March 2019 (the 53. week).*
[3] *Presents the 52-week financial information for the 52 weeks ended 24 February 2019.*
[4] *Presents the audited Group result for the 52 weeks ended 25 February 2018*



**The table below presents the Group profit for the current and previous period on a comparable basis, after removing the impact of week 53.**

| | Pro forma 52 weeks to 24 February 2019 Rm | % of turnover | % change | As reported 52 weeks to 25 February 2018 Rm | % of turnover |
|---|---|---|---|---|---|
| **Revenue** | **88 419.9** | | 7.2 | 82 489.6 | |
| **Turnover** | **86 271.2** | | 7.1 | 80 523.5 | |
| Cost of merchandise sold | **(69 854.1)** | | 7.0 | (65 294.6) | |
| **Gross profit** | **16 417.1** | 19.0 | 7.8 | 15 228.9 | 18.9 |
| **Other income** | **1 889.9** | 2.2 | 6.1 | 1 782.0 | 2.2 |
| Franchise fee income | **389.9** | 0.5 | (2.5) | 400.1 | 0.5 |
| Operating lease income | **527.8** | 0.6 | 18.3 | 446.1 | 0.6 |
| Commissions and other income | **972.2** | 1.1 | 3.9 | 935.8 | 1.2 |
| **Trading expenses** | **(16 258.0)** | 18.8 | 7.0 | (15 191.0) | 18.9 |
| Employee costs | **(7 102.0)** | 8.2 | 6.2 | (6 688.7) | 8.3 |
| Occupancy | **(3 299.5)** | 3.8 | 6.9 | (3 086.6) | 3.8 |
| Operations | **(3 463.0)** | 4.0 | 8.9 | (3 178.8) | 3.9 |
| Merchandising and administration | **(2 393.5)** | 2.8 | 7.0 | (2 236.9) | 2.8 |
| **Trading profit** | **2 049.0** | 2.4 | 12.6 | 1 819.9 | 2.3 |
| Net interest paid | **(90.5)** | 0.1 | (38.5) | (147.1) | 0.2 |
| Share of associate's income | **109.0** | 0.1 | (6.3) | 116.3 | 0.1 |
| **Profit before tax before capital items** | **2 067.5** | 2.4 | 15.6 | 1 789.1 | 2.2 |
| Profit/(loss) on capital items | **5.7** | | | (21.0) | |
| **Profit before tax** | **2 073.2** | 2.4 | 17.3 | 1 768.1 | 2.2 |
| Tax | **(518.6)** | 0.6 | | (471.8) | 0.6 |
| **Profit for the period** | **1 554.6** | 1.8 | 19.9 | 1 296.3 | 1.6 |
| **Earnings per share** | **Cents** | | % change | Cents | |
| Basic earnings per share | **327.20** | | 19.6 | 273.64 | |
| Diluted earnings per share | **323.12** | | 20.4 | 268.33 | |
| Headline earnings per share | **326.71** | | 18.0 | 276.98 | |
| Diluted headline earnings per share | **322.65** | | 18.8 | 271.61 | |
| **South Africa operating segment** | **Rm** | | % change | Rm | |
| Total segment revenue | **84 568.8** | | 7.5 | 78 703.5 | |
| Segmental external turnover | **82 451.9** | | 7.4 | 76 765.6 | |
| Profit before tax before capital items | **1 825.5** | | 21.6 | 1 501.2 | |
| Profit before tax | **1 831.9** | | 23.8 | 1 480.2 | |
| **Rest of Africa operating segment** | **Rm** | | % change | Rm | |
| Total segment revenue | **4 749.4** | | 2.2 | 4 648.1 | |
| Segmental external turnover | **3 819.3** | | 1.6 | 3 757.9 | |
| Profit before tax before capital items | **242.0** | | (15.9) | 287.9 | |
| Profit before tax | **241.3** | | (16.2) | 287.9 | |

## BASIS OF PREPARATION: CONSTANT CURRENCY PRO FORMA INFORMATION

Constant currency information constitutes pro forma financial information. The Group discloses constant currency information in order to report on the Group's turnover and the Group's Rest of Africa segmental revenue results, excluding the impact of foreign currency fluctuations (collectively the "constant currency pro forma information").

The constant currency pro forma information has been presented to illustrate the impact of changes in the Group's major foreign currencies, namely the Zambia kwacha and the Botswana pula, and has been presented on a 52-week basis for comparability purposes. The Group's turnover growth in constant currency is calculated by translating the prior period local currency turnover at the current period average exchange rates on a country-by-country basis and then comparing that against the current period 52-week turnover translated at the 52-week average exchange rates. The segmental revenue growth in constant currency is calculated by translating the prior period local currency segmental revenue at the current period 52-week average exchange rates on a country-by-country basis and then comparing that against the current period 52-week segmental revenue translated at the current period 52-week average exchange rates. The average Zambia kwacha exchange rate to the South African rand is 0.79 (2018: 0.72) and the average Botswana pula exchange rate to the South African rand is 0.76 (2018: 0.79).

The constant currency pro forma information, which is the responsibility of the Group's directors, has been presented for illustrative purposes and because of its nature may not fairly present the Group's financial position, changes in equity or results of operations.

The Group's external auditor has issued a reporting accountants' report on the constant currency pro forma information. The constant currency pro forma information has been extracted from the Group annual financial statements. The reporting accountants' report on the constant currency pro forma information included in the Group financial statements is available for inspection at the Group's registered office.

| **52 weeks to 24 February 2019** | % increase reported currency | % increase constant currency |
|---|---|---|
| Rest of Africa segmental revenue | 2.2 | 5.3 |
| Group turnover | 7.1 | 7.3 |

## ADDITIONAL INFORMATION

### LIKE-FOR-LIKE TURNOVER GROWTH COMPARISONS

Like-for-like turnover growth is a measure of the Group's comparable turnover growth, removing the impact of store openings and closures in the current and previous reporting periods.

## NUMBER OF STORES

| | 25 February 2018 | Opened | Closed | Converted openings | Converted closures | 3 March 2019 |
|---|---|---|---|---|---|---|
| **COMPANY-OWNED** | | | | | | |
| **Pick n Pay** | **722** | **42** | **(10)** | **2** | **(7)** | **749** |
| Hypermarkets | 20 | – | – | – | – | 20 |
| Supermarkets | 244 | 9 | (2) | 1 | (4) | 248 |
| Local | 38 | 1 | (1) | – | – | 38 |
| Clothing | 183 | 22 | (5) | – | – | 200 |
| Liquor | 235 | 10 | (2) | 1 | (3) | 241 |
| Pharmacy | 2 | – | – | – | – | 2 |
| **Boxer** | **246** | **26** | **(3)** | **1** | **–** | **270** |
| Supermarkets | 152 | 13 | – | 1 | – | 166 |
| Build | 31 | 1 | (1) | – | – | 31 |
| Liquor | 43 | 12 | – | – | – | 55 |
| Punch | 20 | – | (2) | – | – | 18 |
| **Total company-owned** | 968 | 68 | (13) | 3 | (7) | 1 019 |
| **FRANCHISE** | | | | | | |
| **Pick n Pay** | | | | | | |
| Supermarkets | 299 | 7 | (4) | 4 | (2) | 304 |
| Family | 281 | 7 | (3) | 3 | (1) | 287 |
| Mini-markets | 17 | – | (1) | 1 | – | 17 |
| Daily | 1 | – | – | – | (1) | – |
| Market | 14 | 6 | – | – | – | 20 |
| Express | 119 | 32 | – | – | – | 151 |
| Clothing | 17 | 1 | (1) | – | – | 17 |
| Liquor | 211 | 15 | (2) | 3 | (1) | 226 |
| Pharmacy | – | 1 | – | – | – | 1 |
| **Total franchise** | 660 | 62 | (7) | 7 | (3) | 719 |
| **Total Group stores** | 1 628 | 130 | (20) | 10 | (10) | 1 738 |
| **TM Supermarkets – associate** | 57 | – | – | – | – | 57 |
| **Total with TM Supermarkets** | 1 685 | 130 | (20) | 10 | (10) | 1 795 |
| **AFRICAN FOOTPRINT** – included in total stores above | 144 | 6 | (2) | – | – | 148 |
| Pick n Pay company-owned | 17 | 3 | – | – | – | 20 |
| Boxer company-owned | 7 | 2 | – | – | – | 9 |
| Pick n Pay franchise | 63 | 1 | (2) | – | – | 62 |
| TM Supermarkets – associate | 57 | – | – | – | – | 57 |
| **AFRICAN FOOTPRINT** – by country | 144 | 6 | (2) | – | – | 148 |
| Botswana | 12 | – | – | – | – | 12 |
| Lesotho | 3 | – | – | – | – | 3 |
| Namibia | 38 | – | (2) | – | – | 36 |
| Eswatini | 17 | 3 | – | – | – | 20 |
| Zambia | 17 | 3 | – | – | – | 20 |
| Zimbabwe | 57 | – | – | – | – | 57 |

# REMUNERATION REPORT

"The Group's remuneration policies balance our employees' needs with those of our shareholders."

**HUGH HERMAN | CHAIRMAN REMUNERATION COMMITTEE**

**Members:** Gareth Ackerman, Audrey Mothupi, Jeff van Rooyen

## SECTION 1: COMMITTEE CHAIRMAN'S REPORT

The remuneration committee is mandated by the Board to ensure our remuneration policy promotes the achievement of the Group's strategic objectives in a fair and responsible way. A key objective is to ensure that the policy helps to deliver value creation over the short, medium and long term.

Our remuneration policy seeks to support the Group's strategy by incentivising behaviour that will deliver on our strategic plan, measured against clear performance targets across our seven business acceleration pillars. Decisions on pay and reward for the Board and senior management must be appropriate to attract, motivate and retain a winning team while aligning their interests with that of shareholders.

### THE YEAR IN REVIEW

The economic climate became increasingly difficult in South Africa this year, with retailers battling against stagnant economic growth and competing for a constrained consumer facing an escalating cost of living, high levels of household debt and rising levels of unemployment. Financial results across the sector testify to the fact that it has not been easy for retailers in South Africa to find growth in this environment. However, the Pick n Pay Group has done just that. The Group took difficult action last year to become leaner and more productive, with a view to invest the benefits of cost and efficiency savings in its customer offer in more difficult times. The steps taken last year were well timed, and allowed the Group to invest in a more a competitive price position at a time when customers needed it the most. The Group is not only sharper on price. It has delivered solid and sustained progress against its long-term plan, delivering a stronger fresh and own brand offer, greater loyalty rewards, innovation in financial and other services, and an enhanced and expanded store estate focusing on delivering greater relevance to the communities it serves. Customers have responded positively to the tangible improvements in the Group's offer, and have rewarded the Group through market share gains over the year, and strong like-for-like sales volume growth.

### 2019 FINANCIAL RESULT AND ANNUAL BONUS

The remuneration committee continues to exercise careful judgement, to ensure that its policies and expectations of performance remain relevant in a tough retail environment. In response to the more difficult macroeconomic climate, the committee revised its original FY19 growth targets published last year.

The Group follows a 52-week retail financial calendar, which requires the inclusion of an additional week every few years. The 2019 financial year included an additional 53rd trading week, and its results are not directly comparable with last year. The growth targets set by the remuneration committee are on a comparable 52-week basis.

Primary targets for the award of a short-term incentive bonus:

**Growth in profit before tax and exceptional items (PBTAE)**

| | Published last year | Revised |
|---|---|---|
| Threshold | 15% | 10% |
| Target | 20% | 15% |
| Stretch | 25% | 20% |

The Group delivered growth in profit before tax and exceptional items (PBTAE) of 15.6%, exceeding the remuneration committee's threshold hurdle, for the award of a short-term incentive bonus. Group profit growth was in line with the remuneration committee's target. While the stretch hurdle of 20% was not met, the remuneration committee felt it right to appropriately reward the management team for their determined execution of a clear and customer-centric plan, their delivery of an industry-leading trade performance, and the achievement of sustained earnings growth in an exceedingly tough market. Senior executives were rewarded following an individual personal assessment of the attainment of individual key performance indicators, including progress delivered against long-term strategic objectives. Please refer to page 49 for further information on bonuses awarded to executive directors.

### PARITY OF REMUNERATION ACROSS GENDER AND RACE GROUPS

The Group is committed to fair and reasonable remuneration for all. Fixed and variable benefits are benchmarked against industry norms, and remuneration policies seek to build a strong and diverse team, rewarded and advanced on merit. As a responsible corporate citizen, proud of our history and commitment to all our employees and being an ambassador for employment equity, we devote the necessary focus to important issues of employment equity, gender equity and pay parity. Comprehensive statistical analysis at all levels of remuneration is ongoing, with reference to the scale of each role and length of tenure, to identify and address any differential pay rates based on race or gender. We have made strong progress on our employment equity and gender equity targets across the business, while acknowledging that there is more to do in our most senior roles. Our work in analysing pay to identify any differentials is ongoing. However, the initial findings are encouraging, with good evidence of gender pay parity at all levels across the business. Our work in this area continues on a department-by-department basis, with the following commitments to our employees:

- We will take deliberate action to continue to improve the Group's employment and gender equity, particularly at senior levels.
- We are equitable in our recruitment and remuneration
- Colleagues will enjoy fair pay for work done – equal pay for equal work
- Everybody will have the opportunity to progress in the Group

### REVIEW OF LONG-TERM SHARE INCENTIVE SCHEMES

The Group implemented its Forfeitable Share Plan (FSP) as a long-term incentive tool for its senior executive team in 2014. After five years, the remuneration committee felt it was timely to evaluate the success of the FSP scheme in meeting the long-term strategic objectives of the business, and to weigh up the merits of the scheme against other long-term employee incentive plans operated across our industry. We engaged an independent expert to assist in our deliberations, and assessed a number of alternative schemes. After a comprehensive review, the remuneration committee elected to retain the structure of the FSP, concluding that the scheme has been effective in attracting and retaining key executives, has provided a meaningful incentive for the delivery of long-term strategy, and has supported long-term value creation for all stakeholders. The remuneration committee will continue to assess the effectiveness and appropriateness of its various share incentive schemes, and seek to modernise its incentive tools when appropriate.

**IN ADDITION TO THE KEY DECISIONS AND FOCUS AREAS HIGHLIGHTED, THE REMUNERATION COMMITTEE:**

Reviewed the Group's remuneration policy to ensure alignment with the Group's strategic objectives of building a winning team and driving long-term value creation

Reviewed the Group's remuneration policy in line with best practice in the market

Agreed the remuneration packages of executive directors and reviewed the remuneration packages of senior management and key employees in line with market-related benefits

Reviewed and approved performance-related short-term incentives as well as long-term share-based incentives, including the fifth allocation of shares under the Group's forfeitable share plan

Determined the overall salary increase for salaried staff across the Group – with higher increases provided to lower levels of salaried staff, recognising the greater impact the difficult economic environment has on these employees

Proposed fees for non-executive directors, for shareholder approval

Considered talent management and succession planning, including succession of the Group CFO

## STABILITY OF LABOUR RELATIONS

The Group has secured three-year labour agreements with its major labour unions in South Africa. These agreements reflect encouraging levels of co-operation with our labour partners, and a commitment to work together for the future success and stability of our business, and for the security and benefit of our employees.

## RETIREMENT OF OUR GROUP CFO

Bakar Jakoet will retire as CFO over the coming months, after 34 years with the Group and eight years in the role. We extend our sincere thanks to Bakar for his outstanding contribution to the Group over a distinguished career, and particularly for his guidance and support over our challenging turnaround period. The Board, with the support of the nominations committee, are following a formal process to identify and appoint a successor. Bakar will stay on during this process and has offered his ongoing support through a handover period. We look forward to Bakar playing a non-executive role in the business going forward.

## LOOKING AHEAD

The Group's resolute focus on the objectives set out in its long-term plan is building a sustainable and future-fit business, better able to respond to changing customer needs and industry trends. This creates exceptional and exciting opportunities for people looking to build a successful career in retail. We are strengthening a winning team, and with our focus on diversity, skills training and development, we are becoming an employer of choice within the retail industry. The remuneration committee will continue its work this year on employment equity, gender equity and pay parity across the Group and will continue to focus on talent management, retention and succession planning, including through the effective balance of short- and long-term incentives linked to the achievement of Group strategy.

**Hugh Herman**
Chairman: Remuneration committee
21 June 2019

## REPORTING TO OUR STAKEHOLDERS

**To drive sustainable value creation for our stakeholders, our remuneration policy seeks to build the most skilled and talented retail business in South Africa.**

Our remuneration policy, including all reward principles, is consistent with last year and is outlined in section 2 of this report.

Read more from page 40.

The application of our remuneration policy in 2019 is detailed in section 3 of this report.

Read more from page 49.

The remuneration committee is confident that the remuneration policy achieved its stated objectives in support of the Group's long-term strategy:

- senior management and staff were remunerated fairly, commensurate with market best practice
- current achievements were recognised
- future performance was incentivised in line with the objectives of the Group's long-term strategy and shareholders' interests.

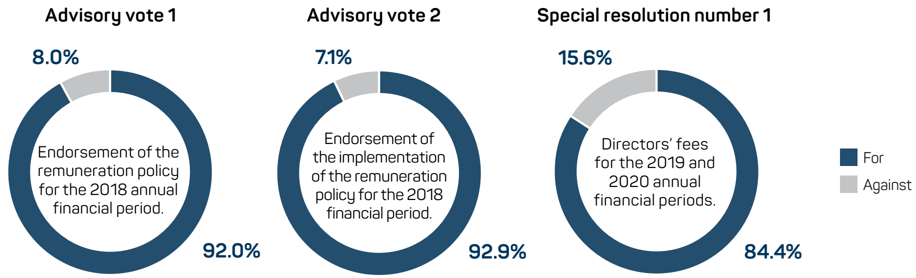
In line with King IV, we will present section 2 and 3 of this report separately to our shareholders for non-binding votes at the AGM on 30 July 2019. The proposed directors' fees for the 2020 and 2021 financial periods will be submitted to shareholders for approval at the AGM. Please refer to page 51 for further information.

In the event that either the remuneration policy or the implementation report receives 25% or more dissenting votes, management will engage directly with shareholders to:

- determine the reasons for the dissenting votes; and address all legitimate objections
- take any reasonable steps to resolve shareholder concerns.

We value open and constructive engagement with our shareholders. We therefore encourage them to engage with management on material remuneration issues to ensure that they are informed when voting on the Group's remuneration policy and the application thereof.

**The remuneration policy and directors' fees for the 2019 financial period were approved by shareholders at the AGM held on 30 July 2018 as follows:**




**The remuneration committee is satisfied that it has fulfilled its responsibilities in terms of the Board charter and its objectives for the 2019 financial period.**

## THE REMUNERATION COMMITTEE'S ROLE

The remuneration committee assists the Board in meeting its responsibility to determine and administer an appropriate and effective remuneration policy, which is:

- balanced in the best short- and long-term interests of the Group, its shareholders and its employees
- aligned to the Group's strategic objectives.

The committee considers and recommends the remuneration policy for all levels of staff in the Group, with a particular focus on executive directors, senior management and non-executive directors. It meets at least twice a year, is chaired by an independent non-executive director and comprises only non-executive directors. The committee operates in terms of a Board-approved charter, which is reviewed annually by the Board. No amendments were made to the charter during the year under review.

### COMPOSITION AND MEETING ATTENDANCE

| Director | Attendance |
|---|---|
| Hugh Herman | 3/3 |
| Gareth Ackerman | 3/3 |
| Audrey Mothupi | 3/3 |
| Jeff van Rooyen | 3/3 |

Although independent expert advice is obtained as required, no external advisers attended the remuneration committee meetings during the year.

### TRAINING

The remuneration committee received training from independent remuneration consultants in April 2019, incorporating an overview of local and international best remuneration practices. The committee was gratified to find that its policies, procedures and focus areas are aligned with best practice.

## SECTION 2: OVERVIEW OF REMUNERATION POLICY

### WHAT GUIDES OUR REMUNERATION

### REMUNERATION PHILOSOPHY

Our remuneration philosophy is to develop and reward a diverse, high-performance team that delivers on our strategic objectives and creates sustainable value for all stakeholders over the short, medium and long term. Our remuneration philosophy reflects the following principles:

- **Performance-driven reward:** Staff are rewarded for creating and delivering sustainable value in line with our strategic objectives
- **Meritocracy:** Staff are recognised and advanced based on merit
- **Most talented South African retail business:** We attract, retain and develop the most talented staff in the retail industry
- **Effective and lean organisation:** We build a high-performance culture that rewards productivity and value creation
- **Diversity:** We offer equal opportunities to people from all walks of life and our team should reflect the communities we serve

### REMUNERATION POLICY

The Group's underlying remuneration policies support this philosophy through balanced reward that recognises the delivery of short-term performance goals, while incentivising sustainable value creation over the long term. The interests of our team are aligned with those of our shareholders through policies which include the following:

- Remuneration at all levels is benchmarked against the remuneration policies and practices of comparable companies (locally and internationally) to ensure that it is fair and reasonable, and key or scarce skills are remunerated in the upper quartile of the market
- Independent experts assist with remuneration benchmarking to ensure that remuneration decisions made are objective and fair
- Remuneration is balanced between fixed remuneration and variable short- and long-term incentives, applying a higher proportion of variable remuneration to senior management to drive performance, and placing a greater emphasis on fixed pay for middle and junior management
- Non-executive directors do not receive remuneration or incentive awards related to share price or corporate performance

### ALIGNING REMUNERATION WITH STRATEGY

The Group's remuneration philosophy and policies are aligned with the strategic objectives of the Group. Short- and long-term incentives are linked to the achievement of key performance targets linked to strategic objectives, and will contribute to building a winning team and long-term, sustainable value creation in the business for all stakeholders.

The primary performance target for the management teams' short-term incentive bonus, is growth in profit before tax and exceptional items (PBTAE).

This primary target has a 100% weighting in determining whether an annual bonus will be awarded.

Thereafter secondary key performance indicators apply, to determine the value of individual bonuses awarded.

**Primary PBTAE threshold not met** → No short-term incentives are paid

**Primary PBTAE threshold met** → Bonus is payable at the discretion of the remuneration committee, subject to an assessment of changes in the economic environment and a review of the level of delivery of certain secondary performance targets, including individual key performance indicators (refer diagram on page 41).

**Stage 1: Stabilise the business** ✓

**Strategic objectives** (read from page 44 of the 2019 IAR)

- Grow sales in line with or ahead of the market
- High levels of operating efficiency
- Sustainable margin improvement

**Stage 2: Change the trajectory**

**Business acceleration pillars** (read from page 45 of the 2019 IAR)

1. Better for customers
2. A flexible and winning estate
3. Efficient and effective operations
4. Every product, every day
5. A winning team
6. Boxer – a national brand
7. Rest of Africa – a second engine of growth

**Short-term incentives**

*Group performance*

**Primary performance target:**

- Growth in profit before tax and exceptional items (PBTAE)

100% weighting

*Individual performance*

**Secondary short-term performance targets examples include:**

- Annual individual performance review
- Turnover growth
- Improved cost ratios
- Reduced net finance costs
- Stronger profit margins
- Reduced stock-on-hand days
- BBBEE performance
- Resource efficiency

Discretionary considerations depending on the level of delivery

**Long-term incentives**

*Group performance*

**Primary performance target:**

- HEPS
- ROCE
- Share price

100% weighting

**Stage 3: Sustainable long-term growth**

*Group performance*

**Primary long-term performance targets:**
Sustainable HEPS growth over a rolling three-year period

- ROCE > WACC
- Share price appreciation
- PBT margin at or above 3.0% over the medium term

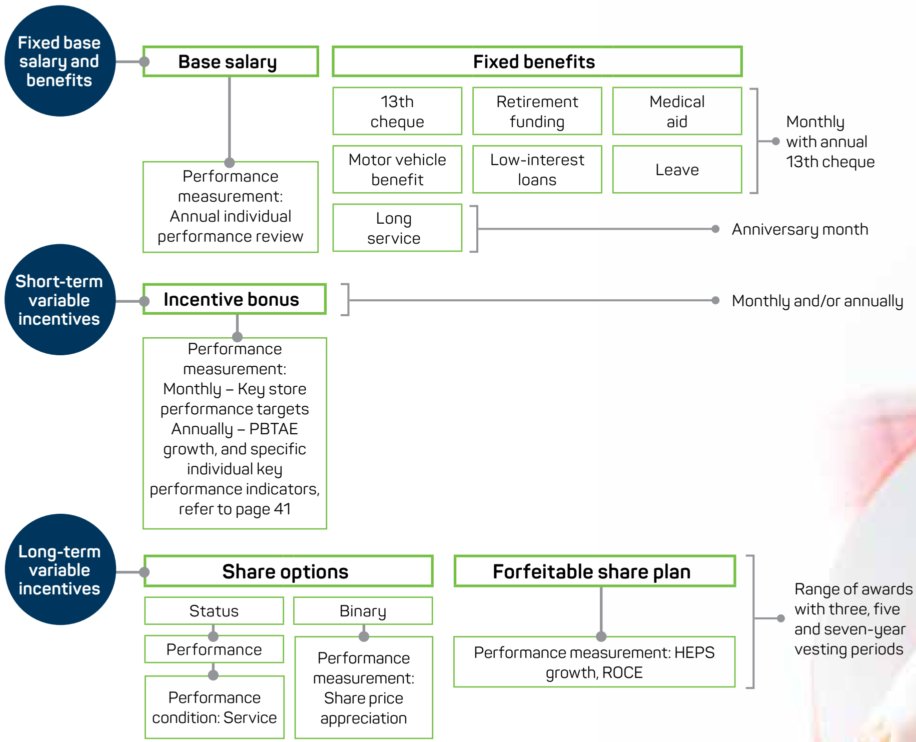
## FAIR AND RESPONSIBLE REMUNERATION

The remuneration committee reviewed the Group's remuneration policies to ensure that executive director remuneration is fair and responsible in the context of overall employee remuneration, particularly given the socio-economic climate of South Africa and the South African retail industry.

The committee is satisfied that the Group's remuneration policies, supported by strong underlying governance principles, ensure that levels of pay awarded to executive directors are set objectively and reasonably, and are free from discrimination, prejudice or favouritism. Executive pay is directly linked to the achievement of strategic objectives set out in the Group's long-term plan, which are reflected in the performance targets set by the remuneration committee.

The remuneration committee recognises its important role in ensuring that the Group's remuneration policies support the Group's strategic goals. And, it also ensures that executive directors are remunerated fairly and for reasonable performance in line with industry benchmarks and shareholder expectations. The executive team will not be unduly rewarded where performance does not meet expectations. However, the committee will strive to find a fair and reasonable balance in order to retain key executives and attract quality executives from outside the business to ensure that the Group delivers on its strategic objectives.

## REMUNERATION STRUCTURE




## FIXED BASE SALARY AND BENEFITS

**The Group is committed to furthering the economic empowerment and well-being of employees and, as such, the provision of retirement and medical benefits is a key part of the remuneration policy.**

### Base salary

Annual base salaries, across all levels of the Group, are set at levels that are competitive with the rest of the market. This enables us to attract, motivate and retain the right calibre of diverse people to achieve the Group's strategic business objectives. The fixed base salary reflects the relative skill, experience, contribution and performance of the individual. Remuneration is directly linked to formal annual performance assessments. Annual increases are determined with reference to the scope of the employee's role, his/her competence and performance, the projected consumer price index and comparable increases in the general and retail market.

### Retirement funding

It is a condition of employment that all employees, including variable-time employees[3], join one of the retirement funds provided by the Group. The Group contributes up to 8.7% of the individual employee's salary towards retirement funding, depending on the fund and the terms and conditions of employment.

### Medical aid

Medical aid provisions are in place for all full-time[1], part-time[2] and variable-time[3] employees. We provide a number of medical aid schemes. Membership is compulsory for all employees at junior grade and above, unless they are covered by a third-party medical aid. Membership of the medical aids provided is optional for NMBU[4] employees. We contribute 50% of medical aid contributions on behalf of employees.

### 13th cheque

A 13th cheque is paid to qualifying employees in November each year. Variable-time employees[3] participate based on the average number of hours worked in a month. Employees must have been in the employ of the Group for at least three months to be eligible to receive this benefit.

### Motor vehicle benefit

Certain employees in middle management and above are entitled to a motor vehicle benefit. Depending on the requirements of their role, it may be in the form of a travel allowance or provision of a company car. This benefit may include payment of maintenance, fuel and insurance.

### Leave

Annual leave accumulates from the date of starting employment and varies between three and five weeks per annum depending on the terms, conditions and length of employment. Variable-time employees[3] accumulate leave based on ordinary hours worked. The Group also provides family responsibility and religious leave, where applicable.

### Long service

The Group rewards long service with a cash award in the month an employee attains a five-year service anniversary, and again for every five-year anniversary thereafter. Long service is also recognised with an additional allocation of leave, depending on the terms and conditions of employment, at five-year intervals.

### Low-interest loans

All employees have access to low-interest loans from the Group. The primary objective is to assist employees with the acquisition of residential property. Loan values are capped at varying amounts, depending on the employee's position. Affordability tests are performed before any loan is granted to ensure that the employee does not experience financial strain.

All housing loans are secured by the employee's retirement funding. No financial assistance is provided to assist employees to buy shares in the Group. For further details on employee loans, refer to note 14 on page 63 of the 2019 AFS.

[1] *Full-time employees have a fixed contract with the Group and work either 40 or 45 hours per week.*
[2] *Part-time employees have a fixed contract with the Group and work a maximum of 25 hours per week.*
[3] *Variable-time employees have a variable contract with the Group, which guarantees either 85 hours per month, or a maximum of 40 hours per week.*
[4] *NMBU refers to our non-management bargaining unit.*

## SHORT-TERM VARIABLE INCENTIVES

The short-term incentive bonus is discretionary. It is triggered by the attainment of a threshold target of growth in PBTAE, as set by the remuneration committee. The primary short-term performance target is supported by secondary short-term targets aligned to the Group's strategic plan. Refer to page 41.

The bonus pool is self-funding and is created after the achievement of predefined targets, inclusive of the value of the incentive. The bonus pool increases in value as threshold, target or stretch targets are attained. Bonuses are paid as a multiple of basic monthly salary. Each individual's share of the bonus pool is dependent on the overall Group target being reached and on their own individual performance, as measured through the Group's annual performance appraisal process.

Bonuses are capped at the following multiples:

| Grades | Category | Bonus cap |
|---|---|---|
| A | CEO | 24 x basic monthly salary |
| A | Group executive | 12 x basic monthly salary |
| B | Senior management | 6 x basic monthly salary |
| C and D | Middle management | 4 x basic monthly salary |
| E and F | Junior management | 13th cheque |

The bonus paid to middle management is reduced by the value of the fixed 13th cheque. Other, more frequent incentive bonuses are paid to qualifying staff at store level. These incentives are linked directly to short-term store performance targets, including turnover, stockholdings, shortages and waste.

## LONG-TERM VARIABLE INCENTIVES

It is Group policy to maintain a broad-based share scheme for employees. This is an integral part of our remuneration philosophy and ensures that the long-term interests of staff are aligned with those of shareholders. The primary performance targets are long-term sustainable HEPS growth and share price appreciation. All levels of management can acquire Group shares, affording them the opportunity for economic upliftment, and it encourages employee retention. It is a key differentiator between the Group and other retail employers in South Africa.

The Group operates two share incentive schemes:

1. Share option scheme
2. Forfeitable share plan (FSP)

**Funding of share incentive schemes**

Shareholders have authorised the Board to utilise up to 63.9 million shares of Pick n Pay Stores Limited, representing 13% of issued share capital, for the purpose of managing the Group's share schemes. Both the Group's share schemes fall within this limit, which means the aggregate number of shares that can be awarded under both schemes cannot exceed the authorised limits.

The two share schemes are further constrained by an aggregate limit of 5% of the issued share capital of Pick n Pay Stores Limited, in respect of the amount of new shares that can be issued to cover obligations under the employee share schemes.

The Group issued 5 million shares during the year. The Group has cumulatively issued 15.7 million shares to date and is therefore able to issue a further 8.9 million shares or 1.8% of its issued share capital to fund future obligations under the share schemes. Refer to notes 5 and 18 of the 2019 AFS for further details of the outstanding options and limits available under the schemes.

### 1. SHARE OPTION SCHEME

The employee share option scheme (the scheme) facilitates broad employee share ownership, fosters trust and loyalty among employees and rewards performance. The scheme incentivises management and employees through the acquisition of Group shares, thereby aligning interests with shareholders and encouraging employee retention. Furthermore, binary share options incentivise senior management to achieve specified market-related performance targets.

During the 2019 financial year, 6.5 million Pick n Pay Stores Limited (PIK) options were issued to employees in respect of their progress and performance. A total of 27.8 million PIK share options were held by employees at year-end, amounting to 5.6% of shares in issue. Refer to note 5 of the 2019 AFS for further information.

**The future net realisable value of all outstanding share options as at 3 March 2019:**

| Year | Average grant price R | Number of options 000's | Net realisable value* Rm |
|---|---|---|---|
| Outstanding share options may be taken up during this following financial periods: | | | |
| 2020 | 37.67 | 11 830.5 | 372.2 |
| 2021 | 57.33 | 2 294.2 | 27.1 |
| 2022 | 58.61 | 2 217.7 | 23.3 |
| 2023 | 68.46 | 3 251.5 | 2.2 |
| 2024 and after | 67.74 | 8 178.7 | 11.4 |
| | | 27 772.6 | 436.2 |

* *The net realisable value of outstanding share options was calculated using the prevailing market share price at year-end of R69.13 less the average grant price. Binary share options include performance hurdles that, if met, trigger discounted grant prices.*

**Status share options – service conditions attached**

Status share options are granted to employees who attain grade F, and further options are granted at each promotion to higher levels of management.

This is a broad-based scheme, rewarding and empowering employees at all levels of management and, as such, no further performance conditions are attached. Vesting is only dependent on the employee remaining in the employ of the Group over the specified vesting period. If the employee leaves the employ of the Group before the end of a vesting period, unvested share options lapse.

**Performance share options – service conditions attached**

Middle-management employees may be eligible for performance "top-up" share options in recognition of their individual performance and contribution to the Group. These options vest in the same manner as status share options.

**In order to encourage employee retention, status and performance shares vest in three tranches (vesting periods) as follows:**

3 years of service
40%

5 years of service
30%

7 years of service
30%

**Binary share options – service and performance conditions attached**

Binary share options are granted to employees in senior management positions. These three- to six-year options may only be taken up when prescribed performance conditions linked to the growth of the PIK share price are met. Should further performance hurdles be achieved, discounted grant prices may apply. If the initial eligibility hurdle is not met, the options are forfeited.

**Binary share options issued to executive director**

In November 2012, 1 000 000 binary share options were issued to Richard Brasher on his appointment as CEO. The binary share options were issued at a grant price of R42.24 and were initially due to vest in November 2017, subject to the attainment of prescribed share price conditions.

In September 2017 the remuneration committee extended the vesting term of these binary options to November 2018, in light of the earnings impact of the voluntary severance programme (VSP) undertaken in that year, and the potential for a negative short-term impact on the share price in an increasingly volatile local equities market. The VSP was an important step in repositioning the Group for sustainable growth in a difficult economic climate, and the committee agreed that the CEO should not be unreasonably disadvantaged for strategic action taken for the long-term benefit of the Group.

The salient features are summarised below:

| Hurdles | Share price November 2018 | Annual compound growth rate | Exercise price November 2018 |
|---|---|---|---|
| Eligibility hurdle | R68.03 | 10% | R42.24 |
| Performance hurdle 1 | R84.96 | 15% | R21.12 |
| Performance hurdle 2 | R128.91 | 25% | R1.00 |

In addition to the terms above, if the 20-day VWAP up to 14 November 2018 reached R105.11 (representing an annual compound growth rate of 20% from grant date), a cash bonus of R10.6 million would be paid.

The 20-day VWAP on 14 November 2018 was R69.18, and as such the binary shares vested in full and were available for take-up at an exercise price of R42.24. As the 20-day VWAP did not reach R105.11, no further cash bonus was paid.

## 2. THE FORFEITABLE SHARE PLAN (FSP)

The FSP recognises key employees who have a significant role to play in delivering Group strategy and ensuring the growth and sustainability of the business in the future. Through the attachment of performance conditions, the FSP incentivises participating employees to deliver earnings growth in the future. An award of shares may also be used to attract talented prospective employees.

The participant becomes the beneficial owner of the forfeitable shares on the date of the award. Beneficial ownership affords the employee full shareholder voting rights and full rights to any dividends declared.

The shares are held by a Central Securities Depository Participant (CSDP) on behalf of the employee during the time of the vesting period and the employee will not be able to dispose of the shares before the vesting date. If the employee leaves the employ of the Group before the completion of the vesting period (other than on normal retirement, disability or death), all shares will be forfeited.

The remuneration committee awards shares to participants. The actual number of shares awarded takes into account recognised market benchmarks, and each participant's individual contribution to value creation, annual salary, employment grade and other relevant retention and attraction requirements.

The performance conditions are linked to the Group's financial performance, with growth in headline earnings per share (HEPS) as the primary performance measure. Performance conditions are applied on a linear, rising scale, allowing for the vesting of an increasing number of shares, as earnings thresholds are met and exceeded. All growth thresholds are after recognising the applicable IFRS 2 share-based payments expense, which is charged to the income statement over the vesting term of the forfeitable shares. The scheme is therefore self-funding.

To ensure that the FSP is aligned with the best interests of the Group and its shareholders, the performance conditions are subject to an overriding condition that the Group's return on capital employed (ROCE) must be greater than its weighted average cost of capital (WACC) over the vesting period, before any FSP shares are allowed to vest. This is to ensure that the Group has generated a real return for shareholders before rewarding its management team.

### FSP awards

The HEPS performance conditions attached to FSP awards are adjusted to reflect relevant changes in accounting policy over the vesting period of the shares, as appropriate.

**2015 award (FSP 2)**

**Issue date:** August 2015
**Vesting date:** June 2018

**Performance conditions:**

| 2015 Baseline HEPS Cents | Three-year CAGR % | 2018 HEPS Cents | Position of shares which vest % | Number of shares which vest 000's | Net realisable value* Rm |
|---|---|---|---|---|---|
| 173.34 | < 10 | < 230.72 | All forfeited | – | – |
| 173.34 | 10 | 230.72 | 30 | 330.1 | 25.9 |
| 173.34 | 11 | 237.07 | 65 | 715.3 | 56.1 |
| 173.34 | 12 | 243.53 | 100 | 1 100.4 | 86.3 |

* *The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at the date of vesting of R78.38.*

The Group delivered HEPS of 276.98 cents in FY18, exceeding the stretch target of 243.53 cents per share. FSP fully vested on 25 June 2018, delivering 1.1 million shares to the value of R86.3 million to 98 participants.

**2016 award (FSP 3)**

**Issue date:** August 2016
**Vesting date:** June 2019

**Performance conditions:**

| 2016 Baseline HEPS Cents | Three-year CAGR % | 2019 HEPS Cents | Position of shares which vest % | Number of shares which vest 000's | Net realisable value* Rm |
|---|---|---|---|---|---|
| 215.22 | < 10 | < 286.46 | All forfeited | – | – |
| 215.22 | 10 | 286.46 | 30 | 456.8 | 31.6 |
| 215.22 | 12 | 302.37 | 65 | 989.6 | 68.4 |
| 215.22 | 14 | 318.86 | 100 | 1 522.5 | 105.3 |

* *The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at year-end of R69.13.*

The Group delivered HEPS of 322.65 in FY19 (normalised for a 52-week trading calendar), exceeding the stretch target of 318.86 cents. The 2016 FSP award will vest on 25 June 2019. A total of 1.5 million shares are held by a CSDP on behalf of 103 participants.

**2017 award (FSP 4)**

**Issue date:** June 2017
**Vesting date:** June 2020

**Performance conditions:**

| 2017 Baseline HEPS Cents | Three-year CAGR % | 2020 HEPS Cents | Position of shares which vest % | Number of shares which vest 000's | Net realisable value* Rm |
|---|---|---|---|---|---|
| 258.65 | < 10 | < 344.29 | All forfeited | – | – |
| 258.65 | 10 | 344.29 | 30 | 1 123.6 | 77.7 |
| 258.65 | 11 | 353.76 | 65 | 2 434.6 | 168.3 |
| 258.65 | 12 | 363.41 | 100 | 3 745.5 | 258.9 |

* *The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at year-end of R69.13.*

A total of 3.7 million shares are held by a CSDP on behalf of 118 participants.

**2018 award (FSP 5)**
**Issue date:** June 2018
**Vesting date:** June 2021

**Performance conditions:**

| 2018 Baseline HEPS Cents | Three-year CAGR % | 2021 HEPS Cents | Position of shares which vest % | Number of shares which vest 000's | Net realisable value* Rm |
|---|---|---|---|---|---|
| 276.98 | < 10 | < 368.66 | All forfeited | | |
| 276.98 | 10 | 368.66 | 30 | 947.1 | 65.5 |
| 276.98 | 11 | 389.14 | 65 | 2 052.1 | 141.9 |
| 276.98 | 12 | 410.36 | 100 | 3 157.0 | 218.2 |

* *The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at year-end of R69.13.*

A total of 3.2 million shares are held by a CSDP on behalf of 121 participants.

## SERVICE CONTRACTS

Executive directors and senior management are employed in terms of the Group's standard contract of employment. They are only employed under fixed-term contracts under specific circumstances. Senior management personnel are required to give a reasonable notice period of their intention to terminate their services, which varies from one to 12 calendar months.

Employment contracts do not provide for any exceptional benefits or compensation on the termination of employment. Certain managers who are considered key in carrying out the Group's strategy are subject to contractual restraint of trade provisions. Discretionary termination or restraint of trade payments may be made in this regard.

The retirement age for all employees is 60 years. The Group's Chief Finance Officer, Bakar Jakoet, has reached retirement age and was employed under a fixed-term contract in FY19. Bakar has announced his retirement from the Group, and will step down as Group CFO during FY20.

## REMUNERATION STRUCTURE: NON-EXECUTIVE DIRECTORS

The remuneration committee proposes fees to be paid for the membership of the Board and Board committees. Such fees are market-related, commensurate with the time required for directors to undertake their duties and must be approved by the Board and shareholders. Approved fees are set for the annual financial period. Refer to page 51 for more detail on the proposed fees for 2020. Fees are not subject to attendance of meetings as attendance of Board meetings is generally good.

Non-executive director remuneration is not linked to the performance of the Group or the Group's share price performance. Non-executive directors do not receive performance-related bonuses and are not granted any share awards.

When non-executive directors provide additional consultancy services to the Board and its committees, the related fees are determined and approved by the remuneration committee on an ad hoc basis, taking into account the nature and scope of the services rendered.



# SECTION 3: IMPLEMENTATION OF REMUNERATION POLICY

## WORK PERFORMED AND DECISIONS TAKEN BY REMUNERATION COMMITTEE

The main items considered and approved by the remuneration committee during the 2019 financial period were as follows:

### EXECUTIVE DIRECTOR REMUNERATION BENCHMARKING, INCLUDING A REVIEW OF ALL BENEFITS PROVIDED

The remuneration committee reviewed the total remuneration of executive directors, including all benefits, to ensure alignment with the Group's strategic objectives and best practice in the market. The balance between guaranteed remuneration and short- and long-term incentives was considered to ensure its appropriateness to drive the delivery of both short- and long-term strategic objectives. The remuneration is considered fair and competitive against market benchmarks and the role and performance of each individual executive director.

### REVIEWING AND SETTING THE ANNUAL COMPENSATION FOR THE CEO

In setting Richard Brasher's annual base salary at R10.1 million, the remuneration committee considered his extensive experience in the retail industry and the Group's strong and consistent profit growth delivered under Richard's stewardship. The remuneration committee is satisfied that Richard's benchmarked base salary is fair in relation to the market, his expertise and his considerable contribution to date.

### DETERMINING ANNUAL INCREASES IN FIXED REMUNERATION FOR EXECUTIVE DIRECTORS, AND AN OVERALL SALARY INCREASE FOR SALARIED STAFF ACROSS THE GROUP

The increase in total fixed base salary and benefits (fixed remuneration) paid to executive directors year on year was 3.2%, reflecting lower remuneration in 2019 for Richard van Rensburg and Jonathan Ackerman. Richard van Rensburg's fixed remuneration is up 1.8% year on year, with one-off fringe benefits in the base. The 20.4% decrease in Jonathan Ackerman's remuneration reflects his personal decision to reduce the size of his executive role in the business. On a normalised basis, the increase in executive fixed remuneration is 5.0%, against an average for the Group of 7.0%, excluding employees governed by a labour union agreement (NMBU). The average annual increase for NMBU employees was between 7.5% and 9.6%. Annual increases were determined in April 2018 after formal performance reviews, and reflect individual performance against key performance indicators, the scope of each role, as well as comparable increases in the general and retail market, and a projected consumer price index of 5.0%.

### DETERMINING AN APPROPRIATE SHORT-TERM INCENTIVE BONUS, AND THE REASONABLE ALLOCATION THEREOF TO EXECUTIVE DIRECTORS AND QUALIFYING EMPLOYEES

The remuneration committee sets annual performance targets (threshold, target and stretch) in line with the Group's strategic objectives that must be achieved before a short-term incentive bonus is payable. The targets are based on profit before tax and exceptional items (PBTAE), which is inclusive of the cost of the short-term incentive.

The PBTAE targets for FY19, on a comparable 52-week financial calendar basis, were as follows:

**10%** Threshold

**15%** Target

**20%** Stretch

Secondary performance targets are set, which include turnover growth, improved operating cost and other efficiency ratios and key working capital metrics. However, the overarching PBTAE threshold target must first be met before a short-term bonus is considered. Thereafter, the bonus is allocated based on the level of delivery against the secondary performance targets and individual performance, as evaluated through a formal performance appraisal process.

The Group delivered PBTAE of R2 067.5 million, for the comparable 52 weeks ended 24 February 2019, a 15.6% increase on the prior period, and in line with the target set by the remuneration committee. As a result, a short-term incentive bonus was awarded to all qualifying management personnel, in recognition of progress delivered in a more challenging trading environment.

The remuneration committee agreed to a full bonus of R20.6 million for CEO Richard Brasher, in recognition of his sterling leadership over the past year, and his success in navigating the Group through a difficult economy, while maintaining the Group's positive earnings trajectory. The remuneration committee awarded CFO Bakar Jakoet a full annual bonus of R5.2 million, in recognition of his valuable stewardship over the year. In addition, the remuneration committee granted Bakar an additional award of R10.0 million on his retirement, in appreciation of his outstanding contribution to the Group over the 34 years of his career. Bakar will step down once the Board has formally appointed his successor. The remuneration committee will then assess the value of outstanding share options and FSP shares held by Bakar and determine an appropriate settlement value. CIO Richard van Rensburg was awarded a full bonus of R4.8 million, in recognition of his significant contribution in driving innovation in the Group, with income from value-added services up 41.5% year on year.

The remuneration committee has set new and appropriate targets for the 2020 financial period, based on a comparable 52-week financial calendar, which include overarching primary short-term PBTAE growth targets of:

8% Threshold

12% Target

15% Stretch

### REVIEWING THE GROUP'S SHARE OPTION INCENTIVE SCHEME, ITS ALIGNMENT TO LONG-TERM STRATEGY AND ALLOCATIONS TO EXECUTIVE DIRECTORS

The remuneration committee undertook a detailed review of all the share options held by the executive directors, including all the service and performance conditions attached. No new share options were granted to executive directors during the year.

The remuneration committee asked the Group's senior executive team to perform a comprehensive performance review of its middle-management structures (levels C and D) to identify those employees who were considered top performers and would be important contributors to the future success of the business. Recognising the importance of rewarding and retaining the future leaders of the business, the remuneration committee issued 2.1 million "top-up" performance share options to 112 employees. Individual awards reflected the scale of each position and the performance of each employee, with vesting terms over three, five and seven years.

### REVIEWING THE GROUP'S FORFEITABLE SHARE PLAN –SETTING APPROPRIATE PERFORMANCE CONDITIONS AND ALLOCATING FORFEITABLE SHARES TO EXECUTIVE DIRECTORS AND QUALIFYING SENIOR MANAGEMENT

The remuneration committee agreed an annual award of forfeitable shares to senior management personnel, to ensure executives continue to have competitive and market-related long-term incentives in place to drive delivery of the long-term strategy. The FSP provides the Group with added security over the retention and tenure of key executives. The remuneration committee set the financial performance conditions to be attached to the June 2018 award (FSP 5) and agreed on the 121 participants and the level at which each would participate, with particular focus on allocations to executive directors. For further information, refer to page 48 of this report.

### REVIEWING AND RECOMMENDING NON-EXECUTIVE DIRECTORS' FEES FOR THE 2020 FINANCIAL PERIOD, FOR FINAL APPROVAL BY SHAREHOLDERS AT THE AGM

Fees (excluding value-added tax) for the current and proposed periods are as follows:

| | Proposed 2020 R | Actual 2019 R | % Change |
|---|---|---|---|
| Chairman of the Board | 4 660 000 | **4 438 000** | 5.0% |
| Lead independent non-executive director of the Board | 145 000 | **138 000** | 5.0% |
| Non-executive director of the Board | 435 000 | **413 000** | 5.3% |
| Chairman of the audit, risk and compliance committee | 375 000 | **340 000** | 10.0%# |
| Member of the audit, risk and compliance committee | 145 000 | **138 000** | 7.0%# |
| Chairman of the remuneration committee | 200 000 | **181 000** | 10.5%# |
| Member of the remuneration committee | 94 500 | **90 000** | 5.0% |
| Member of the nominations committee[1] | 90 000 | **85 000** | 5.9% |
| Member of the social and ethics committee[2] | 94 500 | **90 000** | 5.0% |
| Chairman of the corporate finance committee[3] | 200 000 | **193 000** | 3.6% |
| Member of the corporate finance committee[3] | 135 000 | **130 000** | 3.8% |
| Member of the corporate governance committee[4] | 90 000 | **–** | – |
| Trustee of the employee share purchase trust | 42 000 | **40 000** | 5.0% |

*# Above inflation increases were agreed for the Chairman and members of the audit, risk and compliance committee, and for the Chairman of the remuneration committee in recognition of the scale of the roles and the increased level of compliance and regulation in these areas.*

*1 The Chairman of the nominations committee is the Chairman of the Board and does not receive an additional fee for chairing this committee.*

*2 The Chairman of the social and ethics committee is an executive director and does not receive an additional fee for chairing this committee.*

*3 The corporate finance committee is an ad hoc committee. The fees payable are determined in relation to the number of meetings held during the financial period, but will not be more than the annual proposed fee. No formal meetings were held during the 2018 financial period, and therefore no fees were paid.*

*4 Historically, no fee was paid to members of the corporate governance committee. This anomaly has been corrected. The Chairman of the corporate governance committee is the Chairman of the Board and does not receive an additional fee for chairing this committee.*

### REVIEWING AND RECOMMENDING TO THE BOARD THE OVERALL COMPENSATION FOR THE CHAIRMAN, FOR FINAL APPROVAL BY SHAREHOLDERS AT THE AGM

In setting the Chairman's proposed annual fee of R4.6 million, the remuneration committee (Gareth Ackerman recused himself from the discussion) considered the active role he plays in the corporate governance of the Group and in formulating overarching strategy for the individual companies within the Group. Gareth does not play a day-to-day role in the executive management and administration of the business but does make himself available to the executive team in an advisory capacity.

### REVIEWING AND APPROVING OF THE GROUP'S REMUNERATION POLICY AND REPORT

This report and the recommendations of the remuneration committee have been approved by the Board and will be submitted to shareholders for consideration at the AGM to be held on 30 July 2019.



## PAYMENTS, ACCRUALS AND AWARDS TO DIRECTORS

### TOTAL REMUNERATION OF EXECUTIVE DIRECTORS

| | Fees for board meetings* R'000 | Base salary R'000 | Retirement and medical contri-butions R'000 | Fringe and other benefits R'000 | Total fixed remune-ration R'000 | Dis-cretionary award** R'000 | Bonus and gratuity$^{\Delta}$ R'000 | Total remune-ration R'000 | Long-term share awards expense# R'000 |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | | |
| Richard Brasher | – | 10 140.0 | 916.4 | 293.7 | 11 350.1 | – | 20 640.0 | 31 990.1 | 32 477.3 |
| Bakar Jakoet | – | 5 088.6 | 33.8 | 152.6 | 5 275.0 | – | 15 216.0$^{\Delta}$ | 20 491.0 | 4 628.4 |
| Richard van Rensburg | – | 4 720.5 | 408.8 | 323.6 | 5 452.9 | – | 4 800.0 | 10 252.9 | 4 628.4 |
| Suzanne Ackerman-Berman | – | 2 832.0 | 262.2 | 286.6 | 3 380.8 | – | 720.0 | 4 100.8 | 2 603.2 |
| Jonathan Ackerman | – | 1 393.7 | 257.0 | 297.5 | 1 948.2 | – | 360.0 | 2 308.2 | 1 733.8 |
| **Total remuneration** | **–** | **24 174.8** | **1 878.2** | **1 354.0** | **27 407.0** | **–** | **41 736.0** | **69 143.0** | **46 071.1** |
| **2018** | | | | | | | | | |
| Richard Brasher | 1.5 | 9 474.0 | 857.1 | 288.5 | 10 621.1 | 800.0 | – | 11 421.1 | 23 618.5 |
| Bakar Jakoet | 1.5 | 4 605.0 | 34.6 | 389.0 | 5 030.1 | 400.0 | – | 5 430.1 | 5 882.4 |
| Richard van Rensburg | 1.5 | 4 423.5 | 383.1 | 547.6 | 5 355.7 | 375.5 | – | 5 731.2 | 5 882.4 |
| Suzanne Ackerman-Berman | 1.5 | 2 586.1 | 245.9 | 278.8 | 3 112.3 | 224.0 | – | 3 336.3 | 3 446.6 |
| Jonathan Ackerman | 1.5 | 1 844.8 | 320.2 | 282.1 | 2 448.6 | 112.0 | – | 2 560.6 | 2 940.6 |
| **Total remuneration** | **7.5** | **22 933.4** | **1 840.9** | **1 786.0** | **26 567.8** | **1 911.5** | **–** | **28 479.3** | **41 770.5** |

* *Executive directors no longer receive fees for attending board meetings.*

** *During the prior period, the Group did not meet the required performance measures set by the remuneration committee for the payment of a short-term annual bonus. However, the remuneration committee acknowledged that certain important strategic steps were taken during the comparative period to drive sustainable performance, but which had a negative impact on short-term profitability. The remuneration committee recognised the strategic action taken and progress delivered through the payment of an ex gratia award to executive directors and senior management.*

$^{\Delta}$ *A gratuity of R10.0 million was granted to Bakar Jakoet on his retirement, in appreciation of his outstanding contribution to the Group over his 34-year career.*

\# *The expense of the long-term share awards is determined in accordance with IFRS 2 Share-based Payments. The fair value is measured at grant date and the cost of the awards granted is spread over the period during which the employees become unconditionally entitled to the options (the vesting period). The amounts in the column represent the current year's charge, as recorded in the statement of comprehensive income and statement of changes in equity. The long-term share awards will vest in the future only if all the criteria set out on pages 47 to 48 are met.*

## TOTAL REMUNERATION OF NON-EXECUTIVE DIRECTORS

| | Directors' fees R'000 | Lead independent director R'000 | Audit committee R'000 | Remuneration committee R'000 | Nominations committee R'000 | Corporate finance committee R'000 | Social and ethics committee R'000 | Employee share trust R'000 | Total remuneration R'000 |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | | |
| Gareth Ackerman | **4 438.0** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **4 438.0** |
| David Friedland | **413.0** | **–** | **138.0** | **–** | **85.0** | **–** | **–** | **–** | **636.0** |
| Hugh Herman | **413.0** | **138.0** | **138.0** | **181.0** | **–** | **–** | **–** | **40.0** | **910.0** |
| Alex Mathole | **413.0** | **–** | **–** | **–** | **–** | **–** | **90.0** | **–** | **503.0** |
| Audrey Mothupi | **413.0** | **–** | **138.0** | **90.0** | **–** | **–** | **–** | **40.0** | **681.0** |
| Lorato Phalatse* | **206.5** | **–** | **–** | **–** | **42.5** | **61.5** | **45.0** | **–** | **355.5** |
| David Robins | **413.0** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **413.0** |
| Jeff van Rooyen | **413.0** | **–** | **340.0** | **90.0** | **–** | **–** | **–** | **40.0** | **883.0** |
| **Total remuneration** | **7 122.5** | **138.0** | **754.0** | **361.0** | **127.5** | **61.5** | **135.0** | **120.0** | **8 819.5** |
| **2018** | | | | | | | | | |
| Gareth Ackerman | 4 187.0 | – | – | – | – | – | – | – | 4 187.0 |
| David Friedland | 390.0 | – | 130.0 | – | 80.0 | – | – | – | 600.0 |
| Hugh Herman | 390.0 | 130.0 | 130.0 | 171.0 | – | – | – | 38.0 | 859.0 |
| Alex Mathole | 390.0 | – | – | – | – | – | 42.5 | – | 432.5 |
| Audrey Mothupi | 390.0 | – | 130.0 | 85.0 | – | – | – | 38.0 | 643.0 |
| Lorato Phalatse | 390.0 | – | – | – | 80.0 | – | 85.0 | – | 555.0 |
| David Robins | 390.0 | – | – | – | – | – | – | – | 390.0 |
| Jeff van Rooyen | 390.0 | – | 321.0 | 85.0 | – | – | – | 38.0 | 834.0 |
| **Total remuneration** | **6 917.0** | **130.0** | **711.0** | **341.0** | **160.0** | **–** | **127.5** | **114.0** | **8 500.5** |

* *Lorato Phalatse resigned as a director of Pick n Pay Stores Limited on 31 August 2018.*





## SHARE AWARDS GRANTED TO EXECUTIVE DIRECTORS

| **2019** | Calendar year granted | Award grant price R | Balance held at 25 February 2018 | Granted/ (exercised) | Exercise price R | Balance held at 3 March 2019 | Available for take-up |
|---|---|---|---|---|---|---|---|
| **Richard Brasher** | | | | | | | |
| Share options | 2012 | 42.24 | 1 000 000 | (1 000 000) | 74.05 | – | n/a |
| | 2012 | 42.24 | 1 000 000 | (1 000 000)* | 74.05 | – | n/a |
| Forfeitable shares | 2015 | Nil | 220 000 | (220 000) | 78.38 | – | n/a |
| | 2016 | Nil | 230 000 | – | – | 230 000 | June 2019 |
| | 2017 | Nil | 400 000 | – | – | 400 000 | June 2020 |
| | 2018 | Nil | – | 1 000 000 | – | 1 000 000 | June 2021 |
| | | | **2 850 000** | **(1 220 000)** | | **1 630 000** | |
| **Richard van Rensburg** | | | | | | | |
| Share options | 2016 | 31.14 | 487 464 | – | – | 487 464 | Now |
| Forfeitable shares | 2015 | Nil | 35 000 | (35 000) | 78.38 | – | n/a |
| | 2016 | Nil | 45 000 | – | – | 45 000 | June 2019 |
| | 2017 | Nil | 140 000 | – | – | 140 000 | June 2020 |
| | 2018 | Nil | – | 30 000 | – | 30 000 | June 2021 |
| | | | **707 464** | **(5 000)** | | **702 464** | |
| **Bakar Jakoet** | | | | | | | |
| Share options | 2003 | 12.00 | 250 000 | (250 000) | 80.67 | – | n/a |
| | 2005 | 23.59 | 195 | (195) | 80.67 | – | n/a |
| | 2007 | 31.15 | 5 779 | (5 779) | 80.67 | – | n/a |
| | 2008 | 23.24 | 293 | (293) | 80.67 | – | n/a |
| | 2008 | 26.55 | 7 907 | (7 907) | 80.67 | – | n/a |
| | 2008 | 26.14 | 150 000 | – | – | 150 000 | Now |
| | 2009 | 28.20 | 12 413 | (12 413) | 80.67 | – | n/a |
| | 2010 | 32.82 | 195 | (195) | 80.67 | – | n/a |
| | 2010 | 42.28 | 1 799 | (1 799) | 80.67 | – | n/a |
| | 2011 | 41.70 | 500 000 | – | – | 500 000 | Now |
| | 2014 | 46.44 | 195 | (195) | 80.67 | – | n/a |
| Forfeitable shares | 2015 | Nil | 35 000 | (35 000) | 78.38 | – | n/a |
| | 2016 | Nil | 45 000 | – | – | 45 000 | June 2019 |
| | 2017 | Nil | 140 000 | – | – | 140 000 | June 2020 |
| | 2018 | Nil | – | 30 000 | – | 30 000 | June 2021 |
| | | | **1 148 776** | **(283 776)** | | **865 000** | |
| **Suzanne Ackerman-Berman** | | | | | | | |
| Share options | 2008 | 26.14 | 100 000 | (100 000) | 66.27 | – | n/a |
| | 2008 | 26.14 | – | – | – | – | n/a |
| | 2016 | 58.10 | 196 | (196) | 66.27 | – | n/a |
| Forfeitable shares | 2015 | Nil | 20 000 | (20 000) | 78 | – | n/a |
| | 2016 | Nil | 25 000 | – | – | 25 000 | June 2019 |
| | 2017 | Nil | 80 000 | – | – | 80 000 | June 2020 |
| | 2018 | Nil | – | 15 000 | – | 15 000 | June 2021 |
| | | | **225 196** | **(105 196)** | | **120 000** | |
| **Jonathan Ackerman** | | | | | | | |
| Share options | 2008 | 26.14 | 100 000 | (100 000) | 66.27 | – | n/a |
| Forfeitable shares | 2015 | Nil | 20 000 | (20 000) | 78.38 | – | n/a |
| | 2016 | Nil | 25 000 | – | – | 25 000 | June 2019 |
| | 2017 | Nil | 40 000 | – | – | 40 000 | June 2020 |
| | 2018 | Nil | – | 8 000 | – | 8 000 | June 2021 |
| | | | **185 000** | **(112 000)** | | **73 000** | |

* *The exercising of these binary options was subject to specific performance criteria relating to the growth of the Company's share price over the term of the option. These performance criteria were met during the period under review; refer to page 45 for more information.*

## DIRECTORS' INTERESTS IN PICK N PAY STORES LIMITED ORDINARY SHARES

| 2019 | How held* | Balance held at 25 February 2018 | Additions/ grants | Disposals | Balance held at 3 March 2019@ | Beneficial/ non-beneficial interest |
|---|---|---|---|---|---|---|
| Gareth Ackerman | direct | 309 | – | – | 309 | Beneficial |
| | indirect | 1 653 200 | 34 000 | – | 1 687 200 | Beneficial |
| | indirect | 19 762 | – | – | 19 762 | Non-beneficial |
| Ackerman Pick n Pay Foundation** | indirect | 101 900 | – | – | 101 900 | Non-beneficial |
| Ackerman Investment Holdings Proprietary Limited*** | indirect | 124 677 238 | – | – | 124 677 238 | Non-beneficial |
| Mistral Trust**** | indirect | 2 720 008 | 15 000 | – | 2 735 008 | Non-beneficial |
| Richard Brasher | direct | 604 770 | 220 000 | (361 192) | 463 578 | Beneficial |
| | direct – FSP | 850 000 | 1 000 000 | (220 000) | 1 630 000 | Beneficial |
| Bakar Jakoet | direct | 758 764 | – | – | 758 764 | Beneficial |
| | direct – FSP | 220 000 | 30 000 | (35 000) | 215 000 | Beneficial |
| | indirect | 13 059 | – | – | 13 059 | Non-beneficial |
| Richard van Rensburg | direct | 291 439 | 35 000 | (35 000) | 291 439 | Beneficial |
| | direct – FSP | 220 000 | 30 000 | (35 000) | 215 000 | Beneficial |
| Suzanne Ackerman-Berman | direct | 120 528 | – | – | 120 528 | Beneficial |
| | direct – FSP | 125 000 | 15 000 | (20 000) | 120 000 | Beneficial |
| | indirect | 554 356 | 53 313 | (9 060) | 598 609 | Beneficial |
| Jonathan Ackerman | direct | 122 888 | – | – | 122 888 | Beneficial |
| | direct – FSP | 85 000 | 8 000 | (20 000) | 73 000 | Beneficial |
| | indirect | 655 190 | 80 556 | (9 060) | 726 686 | Beneficial |
| | indirect | 11 039 | – | – | 11 039 | Non-beneficial |
| David Friedland | direct | 31 688 | 5 000 | – | 36 688 | Beneficial |
| David Robins | direct | 975 | – | – | 975 | Beneficial |
| | indirect | 90 436 | – | – | 90 436 | Non-beneficial |
| Hugh Herman | direct | 30 000 | – | – | 30 000 | Beneficial |
| | indirect | 256 | – | – | 256 | Beneficial |
| Alex Mathole | direct | 86 | – | – | 86 | Beneficial |

* *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a trust, of which the director is a trustee, or a spouse and minor children of directors.*

** *The indirect non-beneficial interest in the Ackerman Pick n Pay Foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman in their capacity as trustees.*

*** *The indirect non-beneficial interest in the Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

**** *The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees and/or potential beneficiaries.*

@ *There have been no changes in the directors' interest in shares since 3 March 2019 up to the date of approval of the 2019 audited Group annual financial statements.*

## DIRECTORS' INTERESTS IN PICK N PAY STORES LIMITED B SHARES

| 2019 | How held* | Balance held at 25 February 2018 | Additions/ (disposals) | Balance held at 3 March 2019@ | Beneficial/ non-beneficial interest |
|---|---|---|---|---|---|
| Gareth Ackerman | direct | 522 | – | 522 | Beneficial |
| | indirect | 3 227 861 | – | 3 227 861 | Beneficial |
| | indirect | 39 140 | – | 39 140 | Non-beneficial |
| Ackerman Investment Holdings Proprietary Limited** | indirect | 246 936 847 | – | 246 936 847 | Non-beneficial |
| Mistral Trust *** | indirect | 5 349 559 | – | 5 349 559 | Non-beneficial |
| Suzanne Ackerman-Berman | direct | 233 767 | – | 233 767 | Beneficial |
| | indirect | 926 084 | – | 926 084 | Beneficial |
| Jonathan Ackerman | direct | 243 307 | – | 243 307 | Beneficial |
| | indirect | 1 135 009 | – | 1 135 009 | Beneficial |
| | indirect | 21 862 | – | 21 862 | Non-beneficial |
| David Robins | direct | 1 931 | – | 1 931 | Beneficial |
| | indirect | 179 118 | – | 179 118 | Non-beneficial |

* *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a trust, of which the director is a trustee, or a spouse and minor children of directors.*

** *The indirect non-beneficial interest in Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

*** *The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees and/or potential beneficiaries.*

@ *There have been no changes in the directors' interest in shares since 3 March 2019 up to the date of approval of the 2019 audited Group annual financial statements.*

# NOTICE OF ANNUAL GENERAL MEETING

The 51st annual general meeting (AGM) of shareholders of Pick n Pay Stores Limited (the Company, alternatively Stores) for the 2019 annual financial period will be held at 08:30 on Tuesday, 30 July 2019. Shareholders or their proxies are invited to attend the AGM at the registered office of the Company, situated at Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town, 7708. To ensure that registration procedures are completed by 08:30, please register for the AGM from 08:00.

All mentions of the "Companies Act" in this notice of AGM and the ordinary and special resolutions set out below are references to the South African Companies Act, No 71 of 2008, as amended.

The Board of directors of the Company has established that the record date for the purpose of determining which shareholders of the Company are entitled to receive notice of the 51st AGM is Friday, 28 June 2019 and the record date for purposes of determining which shareholders of the Company are entitled to participate in and vote at the AGM is Friday, 19 July 2019. Accordingly, only shareholders who are registered in the register of members of the Company on Friday, 19 July 2019 will be entitled to participate in and vote at the AGM.

Each of the ordinary and special resolutions set out below may be proposed and passed, with or without modification or amendment, at the AGM or at any postponement or adjournment of the AGM.

Ordinary resolutions require the approval of at least 50% (fifty percent) of the voting rights plus 1 (one) vote exercised on the resolution. Special resolutions require the approval of at least 75% (seventy-five percent) of the voting rights exercised on the resolutions.

The purpose of the AGM is for the following business to be transacted and for the following special and ordinary resolutions to be proposed:

1. TO PRESENT THE AUDITED ANNUAL FINANCIAL STATEMENTS, THE DIRECTORS' REPORT AND THE AUDIT, RISK AND COMPLIANCE COMMITTEE'S REPORT OF THE COMPANY FOR THE 2019 ANNUAL FINANCIAL PERIOD

   The full annual financial results are published on the Pick n Pay website, **www.picknpayinvestor.co.za**, or can be requested from the Company Secretary at **demuller@pnp.co.za**. The audit, risk and compliance committee's report of the Company and its subsidiaries is set out in the corporate governance section of the integrated annual report.

2. ORDINARY RESOLUTION NUMBER 1

   **Appointment of external auditors**

   "RESOLVED that Ernst & Young Inc. are hereby appointed as the external auditors of the Company."

   The audit, risk and compliance committee has recommended the reappointment of Ernst & Young Inc. as external auditors of the Company.

3. ORDINARY RESOLUTION NUMBER 2

   **Reappointment of directors**

   Curricula vitae of directors to be elected are presented on pages 67 and 68.

   Hugh Herman, Jeff van Rooyen, David Friedland, Suzanne Ackerman-Berman and Jonathan Ackerman retire in accordance with the Company's Memorandum of Incorporation (MOI). Hugh Herman and Jeff van Rooyen have served on the Board for more than nine years. Being eligible, they offer themselves for further terms of one year. David Friedland, Suzanne Ackerman-Berman and Jonathan Ackerman offer themselves for three-year terms.

   The Board recommends the re-election of Hugh Herman, Jeff van Rooyen, David Friedland, Suzanne Ackerman-Berman and Jonathan Ackerman.

   Shareholders are requested to consider and, if deemed fit, re-elect Hugh Herman, Jeff van Rooyen, David Friedland, Suzanne Ackerman-Berman and Jonathan Ackerman by way of passing the separate ordinary resolutions set out below:

   *ORDINARY RESOLUTION NUMBER 2.1*

   **Appointment of Hugh Herman as director**

   "RESOLVED that Hugh Herman be and is hereby elected as a director of the Company for a term of one-year."

   *ORDINARY RESOLUTION NUMBER 2.2*

   **Appointment of Jeff van Rooyen as director**

   "RESOLVED that Jeff van Rooyen be and is hereby elected as a director of the Company for a term of one-year."

   *ORDINARY RESOLUTION NUMBER 2.3*

   **Appointment of David Friedland as director**

   "RESOLVED that David Friedland be and is hereby elected as a director of the Company for a term of three years."

   *ORDINARY RESOLUTION NUMBER 2.4*

   **Appointment of Suzanne Ackerman-Berman as director**

   "RESOLVED that Suzanne Ackerman-Berman be and is hereby elected as a director of the Company for a term of three years."

   *ORDINARY RESOLUTION NUMBER 2.5*

   **Appointment of Jonathan Ackerman as director**

   "RESOLVED that Jonathan Ackerman be and is hereby elected as a director of the Company for a term of three years."

4. ORDINARY RESOLUTION NUMBER 3

   **Appointment of audit, risk and compliance committee members for the 2020 annual financial period**

   Curricula vitae are presented on page 68.

   *ORDINARY RESOLUTION NUMBER 3.1*

   **Appointment of Jeff van Rooyen as a member of the audit ,risk and compliance committee**

   "RESOLVED that Jeff van Rooyen be and is hereby elected as a member of the audit, risk and compliance committee of the Company for the 2020 annual financial period, subject to his re-election as a director of the Company in terms of ordinary resolution number 2.2."

   *ORDINARY RESOLUTION NUMBER 3.2*

   **Appointment of Hugh Herman as a member of the audit, risk and compliance committee**

   "RESOLVED that Hugh Herman be and is hereby elected as a member of the audit, risk and compliance committee of the Company for the 2020 annual financial period, subject to his re-election as a director of the Company in terms of ordinary resolution number 2.1."

   *ORDINARY RESOLUTION NUMBER 3.3*

   **Appointment of Audrey Mothupi as a member of the audit, risk and compliance committee**

   "RESOLVED that Audrey Mothupi be and is hereby elected as a member of the audit, risk and compliance committee of the Company for the 2020 annual financial period."

   *ORDINARY RESOLUTION NUMBER 3.4*

   **Appointment of David Friedland as a member of the audit, risk and compliance committee**

   "RESOLVED that David Friedland be and is hereby elected as a member of the audit, risk and compliance committee of the Company for the 2020 annual financial period, subject to his re-election as a director of the Company in terms of ordinary resolution number 2.3."

5. ADVISORY VOTE

   **Remuneration policy and report for the 2019 annual financial period**

   The directors table the remuneration report for the 2019 annual financial period. The remuneration policy and report are set out from page 36.

*ADVISORY NOTE NUMBER 1*

**Endorsement of the remuneration policy**

"Resolved that, by way of a non-binding advisory vote, the remuneration policy of the Company as outlined in the remuneration report in the integrated annual report, is endorsed."

As this is a non-binding advisory vote, no minimum voting threshold is required. Nevertheless, for record purposes, in terms of the King IV Report on Corporate Governance for South Africa, 2016 (King IV™) more than 75% of the voting rights exercised on this resolution must be cast in favour for it to be adopted. This non-binding advisory vote allows shareholders to express their views on the remuneration policy adopted by the Company. In the event that 25% or more of the voting rights exercised are cast against this resolution, the Board will invite dissenting shareholders to engage with the remuneration committee regarding their concerns in line with the provisions of the JSE Limited (JSE) Listings Requirements (JSE Listings Requirements).

*ADVISORY NOTE NUMBER 2*

**Endorsement of the remuneration implementation report**

"Resolved that, by way of a non-binding advisory vote, the remuneration implementation report of the Company as outlined in the remuneration report in the integrated annual report, is endorsed."

As this is a non-binding advisory vote; no minimum voting threshold is required. Nevertheless, for record purposes, in terms of King IV, more than 75% of the voting rights exercised on this resolution must be cast in favour for it to be adopted. This non-binding advisory vote allows shareholders to express their views on the Company's remuneration implementation report. In the event that 25% or more of the voting rights exercised are cast against this resolution, the Board will invite dissenting shareholders to engage with the remuneration committee regarding their concerns in line with the provisions of the JSE Listings Requirements.

6. SPECIAL RESOLUTION NUMBER 1

**Directors' fees for the 2020 and 2021 annual financial periods**

"RESOLVED, as a special resolution, that the directors' fees, to be paid to the directors in their capacity as directors only, for the 2020 annual period, and to be increased by Consumer Price Index for the 2021 annual financial period, be as follows:

- Chairman: R4 660 000 (previously R4 438 000)
- Lead non-executive director: R145 000 (previously R138 000)
- Non-executive directors: R435 000 (previously R413 000)
- Chairman of the audit risk and compliance committee: R375 000 (previously R340 000)
- Chairman of the remuneration committee: R200 000 (previously R181 000)
- Chairman of the corporate finance committee: R200 0000* (previously R193 000)
- Member of the audit risk and compliance committee: R145 000 (previously R138 000)
- Member of the remuneration committee: R94 500 (previously R90 000)
- Member of the nominations committee: R90 000 (previously R85 000)
- Member of the social and ethics committee: R94 500 (previously R90 000)
- Member of the corporate governance committee: R90 000 (previously unpaid)
- Member of the corporate finance committee: R135 000* (previously R130 000)

Where applicable, directors' fees are exclusive of VAT."

* *The corporate finance committee is an ad hoc committee. In the event that it is convened during the financial period, fees to be paid shall not exceed the annual fees proposed in special resolution number 1.*

**Reason for and effect of special resolution number 1**

The reason for special resolution number 1 is to obtain shareholder approval for the remuneration of each of the directors of the Company in accordance with section 66(9) of the Companies Act. The passing of this special resolution will have the effect of approving the remuneration of each of the directors of the Company in accordance with section 66(9) of the Companies Act.

This authority will be in place for a period of two years from the date of adoption of this special resolution number 1 or until superseded by another special resolution, whichever is the shorter period of time.

7. SPECIAL RESOLUTION NUMBER 2

**Provision of financial assistance to related or inter-related companies and others**

The Board undertakes that it shall not adopt any resolution to authorise financial assistance as contemplated in the special resolutions numbered 2.1 and 2.2 unless the Board of directors of the Company:

- is satisfied that immediately after providing such financial assistance, the Company will satisfy the solvency and liquidity test as referred to in section 45(3)(b)(i) of the Companies Act; and
- is satisfied that the terms under which such financial assistance is proposed to be given are fair and reasonable to the Company as contemplated in section 45(3)(b)(ii) of the Companies Act; and
- has ensured that, to the extent which may be applicable, any conditions or restrictions in respect of the granting of financial assistance set out in the Company's MOI have been satisfied as contemplated in section 45(4) of the Companies Act.

*SPECIAL RESOLUTION NUMBER 2.1*

**Provision of financial assistance to related or inter-related companies**

"RESOLVED, as a special resolution, that the Board of directors be and is hereby authorised to the extent required by section 45 of the Companies Act as a general approval, to authorise the Company to provide any direct or indirect financial assistance ("financial assistance" having the meaning attributed to such term in section 45(1) of the Companies Act) that the Board may deem fit to any one or more related or inter-related companies or corporations ("related" and "inter-related" having the meaning attributed to such terms in section 2 of the Companies Act), on the terms and conditions and for the amounts that the Board of directors may determine."

*NOTES ON THE INTERPRETATION OF SPECIAL RESOLUTION NUMBER 2.1*

This authority is required in order to grant the Board of directors the authority to authorise the Company to provide inter-Group loans and other financial assistance for the purpose of funding the day-to-day operational decisions of the Group.

**Reason for and effect of special resolution number 2.1**

The reason for and effect of special resolution number 2.1 is to grant the directors of the Company the general authority to provide direct and indirect financial assistance to any company or corporation forming part of the Group, by way of loan, guarantee, the provision of security or otherwise. This authority will be in place for a period of two years from the date of adoption of this special resolution number 2.1, or until superseded by another special resolution, whichever is the shorter period of time.

*SPECIAL RESOLUTION NUMBER 2.2*

**Provision of financial assistance to persons**

"RESOLVED, as a special resolution, that the Board of directors be and is hereby authorised to the extent required by section 45 of the Companies Act as a general approval, to authorise the Company to provide any direct or indirect financial assistance ("financial assistance" having the meaning attributed to such term in section 45(1) of the Companies Act) that the Board may deem fit to an employee of the Company or its subsidiaries, on the terms and conditions and for the amounts that the Board of directors may determine, within the Company's existing housing loan policy."

*NOTES ON THE INTERPRETATION OF SPECIAL RESOLUTION NUMBER 2.2*

This special resolution allows the Company to continue with its existing policy of providing financial assistance to employees. The policy will continue to be limited to housing loans that may be extended to executives and management of the Group. In terms of this policy, no loans are extended to non-executive directors or to related parties. All loans are secured against the employee's retirement funding. All loans bear interest at varying rates, subject to a maximum rate of 8% (eight percent), and have varying repayment terms. The Company does not intend to amend this policy in the foreseeable future.

This special resolution does not authorise the provision of financial assistance to a person related to an employee of the Company or any of its subsidiary companies.

**Reason for and effect of special resolution number 2.2**

The reason for and effect of special resolution number 2.2, is to grant the directors of the Company the general authority to provide direct or indirect financial assistance to an employee of the companies in the Group, by way of loan, guarantee, the provision of security or otherwise. This authority will be in place for a period of two years from the date of adoption of this special resolution number 2.2, or until superseded by another special resolution, whichever is the shorter period of time.

8. SPECIAL RESOLUTION NUMBER 3

**General approval to repurchase Company shares**

"RESOLVED, as a special resolution, that the Company hereby approves, as a general approval, the acquisition by the Company or any of its subsidiaries, from time to time, of the issued shares of the Company upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the MOI of the Company, the provisions of the Companies Act, and the JSE Listings Requirements as presently constituted and which may be amended from time to time, and provided that acquisitions by the Company and its subsidiaries of shares in the capital of the Company may not, in the aggregate, exceed in any one financial year 5% (five percent) of the Company's issued share capital of the class of repurchased shares from the date of the grant of this general approval."

**Additional requirements imposed by the JSE Listings Requirements**

It is recorded that the Company or its subsidiaries may only make a general acquisition of shares if the following JSE Listings Requirements are met:

- any such acquisition of shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company or its subsidiaries and the counterparty or in any other manner approved by the JSE;
- the general approval shall only be valid until the Company's next AGM, or for 15 (fifteen) months from the date of passing of this special resolution, whichever period is shorter;
- an announcement will be made as soon as the Company and/or its subsidiaries has/have acquired shares in terms of this authority constituting, on a cumulative basis, 3% (three percent) of the number of shares of the class of shares acquired in issue at the time of granting of this general approval and for each 3% (three percent) in aggregate of the initial number of that class of shares acquired thereafter, which announcement shall contain full details of such acquisitions as required by paragraph 11.27 of the JSE Listings Requirements;
- in determining the price at which shares are acquired by the Company or its subsidiaries in terms of this general approval, the maximum price at which such shares may be acquired may not be greater than 10% (ten percent) above the weighted average of the market value at which such shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date of the acquisition of such shares by the Company or its subsidiaries;
- a resolution by the Board of directors of the Company that they authorised the repurchase, that the Company passed the solvency and liquidity test, and that since the test was done there have been no material changes to the financial position of the Group; and
- the Company and/or its subsidiaries may not repurchase any shares in terms of this authority during a prohibited period, as defined in the JSE Listings Requirements, unless there is a repurchase programme in place where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been submitted to the JSE prior to the commencement of the prohibited period.

**Statement by the Board of directors of the Company**

Pursuant to the JSE Listings Requirements the Board of directors of the Company hereby states that:

- the intention of the directors of the Company is to utilise the general approval to repurchase shares in the capital of the Company if at some future date the cash resources of the Company are in excess of its requirements or there are other good grounds for doing so. In this regard, the directors will take account of, *inter alia*, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company and the interests of the Company;
- in determining the method by which the Company intends to repurchase its securities, the maximum number of securities to be repurchased and the date on which such repurchase will take place, the directors of the Company will only make repurchases if, at the time of the repurchase, they are of the opinion that:
  - the Company and its subsidiaries will, after the repurchase, be able to pay their debts as they become due in the ordinary course of business for the 12 (twelve) month period following the date of the repurchase;
  - the consolidated assets of the Company and its subsidiaries, fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the repurchase, be in excess of the consolidated liabilities of the Company and its subsidiaries for the 12 (twelve) month period following the date of the repurchase;
  - the issued share capital and reserves of the Company and its subsidiaries will, after the repurchase, be adequate for the ordinary business purposes of the Company and its subsidiaries for the 12 (twelve) month period following the date of the repurchase; and
  - the working capital available to the Company and its subsidiaries will, after the repurchase, be adequate for the ordinary business purposes of the Company and its subsidiaries for the 12 (twelve) month period following the date of the repurchase; and
- the repurchase shall only be effected if the Board of directors has, at the time of the repurchase, passed a resolution authorising the repurchase in terms of sections 48 and 46 of the Companies Act and it reasonably appears that the Company and its subsidiaries have satisfied the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the Company and its subsidiaries.

**Directors' responsibility statement**

The directors, whose names are given on page 72, collectively and individually accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted that would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the integrated annual report and this document contain all information required by law and the JSE Listings Requirements.

**Material changes**

Other than the facts and developments reported on in terms hereof and in the integrated annual report, there have been no material changes in the financial or trading position of the Company.

**Share capital and major shareholders**

Shareholders are referred to pages 70 and 71.

**Reason for and effect of special resolution number 3**

The reason for special resolution number 3 is to grant the Company a general authority in terms of the JSE Listings Requirements for the acquisition by the Company or any of its subsidiaries of shares issued by the Company, which authority shall be valid until the earlier of the next AGM of the Company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company, provided that the general authority shall only be valid until the Company's next AGM, or for 15 (fifteen) months from the date of passing of this special resolution, whichever period is shorter. The passing of this special resolution will have the effect of authorising the Company or any of its subsidiaries to acquire shares issued by the Company.

The Board will exercise this resolution to buy back shares from employees who are exercising their share options, and to cover share scheme obligations, including the forfeitable share plan.

Other than as set out above, the Board has no specific intention, at present, for the Company to repurchase any of its shares, but consider that such a general authority should be put in place should an opportunity present itself to do so during the year, which the Board deems to be in the best interests of the Company and its shareholders, taking prevailing market conditions and other factors into account.

9. ORDINARY RESOLUTION NUMBER 4

**Directors' authority to implement special and ordinary resolutions**

"RESOLVED that each and every director of the Company be and is hereby authorised to do all such things and sign all such documents as may be necessary for, or incidental to, the implementation of the resolutions passed at this meeting."

10. TO TRANSACT SUCH OTHER BUSINESS THAT MAY BE TRANSACTED AT AN AGM

**GENERAL INSTRUCTIONS AND INFORMATION**

In addition to the notice and proxy, this document contains:

- The curricula vitae of directors standing for re-election on page 67
- The curricula vitae of directors nominated for election as members of the audit committee on page 68
- The remuneration policy from page 40
- The remuneration implementation report from page 49
- The directors' interest in shares on page 56 and 57

The integrated annual report, incorporating the annual financial statements, is published on the Pick n Pay website, **www.picknpayinvestor.co.za**, or can be requested from the Company Secretary at **demuller@pnp.co.za**.

There are no material changes to the Group's financial or trading position, nor are there any material legal or arbitration proceedings (pending or threatened) that may affect the financial position of the Group between the 2019 annual financial period and 28 June 2019.

All shareholders are encouraged to attend, speak and vote at the AGM.

**ENTITLEMENT TO ATTEND AND VOTE AT THE AGM IN PERSON OR BY PROXY**

If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own-name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant (CSDP) to hold your shares in your own name in the Company subregister) then:

- you may attend and vote at the AGM; alternatively
- you may appoint an individual as a proxy (who need not be a shareholder of the Company) to attend, participate in and speak and vote in your place at the AGM by completing the attached form of proxy. For administrative purposes, it is recommended that the proxy form be returned to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited (Computershare), the details of which are set out on the inside back cover, by no later than 08:30 on Friday, 26 July 2019. Please note that your proxy may delegate his/her authority to act on your behalf to another person, subject to the restrictions set out in the attached form of proxy. Please also note that the attached form of proxy must be delivered to the registered office of the Company or to the transfer secretaries, Computershare, before the commencement of the AGM so that your proxy may exercise any of your rights as a shareholder at the AGM. The contact details of Computershare are in note 5 to the form of proxy.

Unless revoked before then, a signed proxy form shall remain valid at any adjournment or postponement of the AGM and the proxy so appointed shall be entitled to vote, as indicated on the proxy form, on any resolution (including any resolution which is amended or modified) at such AGM or any adjournment or postponement thereof.

Please note that:

- any shareholder of the Company that is a company may authorise any person to act as its representative at the AGM. Please also note that section 63(1) of the Companies Act requires that persons wishing to participate in the AGM (including a company's representative) must provide reasonably satisfactory identification before they may participate;
- if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Strate) held through a CSDP or broker (or their nominee) and are not registered as an "own-name dematerialised shareholder", then you are not a registered shareholder, but your CSDP or broker (or their nominee) would be.

Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker:

- if you wish to attend the AGM, you must contact your CSDP or broker and obtain the relevant letter of representation from it; alternatively;
- if you are unable to attend the AGM but wish to be represented, you must contact your CSDP or broker; (or their nominee); and furnish it with your voting instructions in respect of the AGM and/ or request it to appoint a proxy. You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker within the period required by your CSDP or broker.

CSDPs, brokers or their nominees recorded in the Company's subregister as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of Strate should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares, vote by either appointing a duly authorised representative to attend and vote at the AGM or by completing the attached form of proxy in accordance with the instructions thereon. For administrative purposes, it is recommended that the proxy form be returned to the registered office of the Company or to the transfer secretaries, Computershare, the details of which are set out in the shareholder information section of the integrated annual report, by no later than 08:30 on Friday, 26 July 2019.

By order of the Board

**Debra Muller**
Company Secretary
Cape Town

21 June 2019

Pick n Pay Stores Limited





# CURRICULA VITAE OF DIRECTORS TO BE ELECTED

Curricula vitae of all directors can be found in the Board of directors section of the integrated annual report, which is published on the Pick n Pay website, **www.picknpayinvestor.co.za**, or which can be requested from the Company Secretary at **demuller@pnp.co.za**.

Curricula vitae of directors to be elected to the Board of directors, and to the audit committee, are to be found below.

## BOARD OF DIRECTORS

### REAPPOINTMENT OF DIRECTORS

**Hugh Herman**
*Attorney, BA LLB, LLD (hc)*
**Lead non-executive director**
**Remuneration committee chairman**
Hugh was a partner at attorney's firm Sonnenberg Hoffmann & Galombik before joining Pick n Pay in 1976. He was Managing Director of Pick n Pay from 1986, before joining Investec Bank in 1993. Hugh was appointed group chairman of Investec Bank Limited in 1994, a position from which he retired in 2011. Appointed as honorary life president of the Investec Group, Hugh remains chairman of Investec Asset Management.

**Other listed company directorships:** Growthpoint Properties Limited

**Jeff van Rooyen**
*BCom, Hons BCompt SA, CA(SA)*
**Audit and risk committee and corporate finance committee chairman**
A chartered accountant with extensive experience in both the private and public sectors, Jeff is the founder chief executive officer (CEO) of Uranus Investment Holdings Proprietary Limited. His involvement in the accounting profession over the years is extensive. Former appointments include being a trustee of the IFRS Foundation, chairman of the Public Accountants and Auditors Board (now IRBA) and founding president of the Association for the Advancement of Black Accountants. His public sector record is equally extensive. Former appointments include: chairman of the Financial Reporting Standards Council; executive officer of the Financial Services Board; member of the advisory committee, Faculty of Economics and Management Sciences of the University of Pretoria; and member of the Standing Advisory Committee on Company Law.

**Other listed company directorships:** MTN Group Limited, Exxaro Resources Limited

**David Friedland**
*BCom, CA(SA)*
David was the audit engagement partner and lead/ relationship partner at Arthur Andersen and KPMG for several listed companies, as well as large owner-managed companies, principally in the retail sector.

**Other listed company directorships:** Investec Limited, Investec plc, The Foschini Group Limited

**Suzanne Ackerman-Berman**
*BA, Fellow: Aspen Business Institute; First Movers*
Following broad executive experience in the Company, Suzanne was appointed Director of Transformation on the Group Executive in 2007. In addition to her executive contribution to the Company, she was appointed to the Board as a representative of the controlling shareholder in March 2010. Suzanne is chairperson of the social and ethics committee.

Suzanne is active in many areas of philanthropy across different sectors of society. In particular, she is a passionate proponent of enterprise development. She is chairperson of the Ackerman Pick n Pay Foundation and heads the Pick n Pay Small Business Incubator.

**Jonathan Ackerman**
*BA Marketing*
Returning to South Africa after studying and working in the USA, Jonathan joined Pick n Pay in 1992. Having worked in many divisions, Jonathan ensures that the well-being of Pick n Pay's customers is the primary motivating factor for any strategic decision taken in the Company in his current role as customer director on the Group Executive. He was appointed to the Board as a representative of the controlling shareholder in March 2010.

## AUDIT COMMITTEE

### ELECTION OF AUDIT COMMITTEE MEMBERS

**Jeff van Rooyen**

Please see curriculum vitae on previous page.

**Hugh Herman**

Please see curriculum vitae on previous page.

**Audrey Mothupi**

*BA (Hons)*

Audrey is the CEO of SystemicLogic Group, a global financial innovation and technology disruptor. Audrey's experience spans various business domains including group strategy, talent design, marketing and communications strategy, integrated with strong corporate relationship management. Prior to SystemicLogic Group, Audrey served as the head of inclusive banking at Standard Bank Group and before that the chief executive of Strategic Services at the Liberty Group of companies. Audrey has completed the executive programme, Artificial Intelligence: Implications for Business Strategy at MIT Sloan School for Management.

Audrey serves on the boards of Brainworks Capital and listed company Life Healthcare Group as an independent non-executive director. She is chairperson of Roedean School South Africa, as well as Orange Babies South Africa, a non-profit organisation focused on the prevention of mother-to-child transmission of HIV/Aids and the care of Aids orphans and vulnerable children. Audrey is a member of the Numeric Board of South Africa, an organisation that focuses on helping young South Africans excel in mathematics and training world-class mathematics teachers.

**Other listed company directorships:**
Life Healthcare Group

**David Friedland**

Please see curriculum vitae on previous page.

# ANALYSIS OF ORDINARY SHAREHOLDERS

| SHAREHOLDER SPREAD | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| 1 – 1 000 shares | 7 989 | 63.2 | 2 222 641 | 0.5 |
| 1 001 – 10 000 shares | 3 330 | 26.4 | 10 764 220 | 2.2 |
| 10 001 – 100 000 shares | 960 | 7.6 | 31 684 334 | 6.4 |
| 100 001 – 1 000 000 shares | 287 | 2.3 | 86 745 963 | 17.6 |
| 1 000 001 shares and over | 63 | 0.5 | 362 033 163 | 73.3 |
| **Total** | **12 629** | **100.0** | **493 450 321** | **100.0** |

| PUBLIC/NON-PUBLIC SHAREHOLDERS | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| **Non-public shareholders** | 16 | 0.1 | 150 556 998 | 30.5 |
| Ackerman Investment Holdings (Pty) Ltd | 1 | 0.0 | 124 677 238 | 25.3 |
| Mistral Trust | 1 | 0.0 | 2 735 008 | 0.6 |
| Ackerman Pick n Pay Foundation | 1 | 0.0 | 101 900 | 0.0 |
| Directors | 10 | 0.1 | 4 972 302 | 1.0 |
| Shares held on behalf of FSP participants | 1 | 0.0 | 8 494 000 | 1.7 |
| Pick n Pay Retailers Proprietary Limited | 1 | 0.0 | 155 000 | 0.0 |
| The Pick 'n Pay Employee Share Purchase Trust | 1 | 0.0 | 9 421 550 | 1.9 |
| **Public shareholders** | 12 613 | 99.9 | 342 893 323 | 69.5 |
| **Total** | 12 629 | 100.0 | 493 450 321 | 100.0 |

| BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE | Number of shares | % |
|---|---|---|
| Ackerman Investment Holdings (Pty) Ltd | 124 677 238 | 25.3 |
| Public Investment Corporation Limited | 56 339 744 | 11.4 |
| Coronation Balanced Plus Fund | 16 599 950 | 3.4 |
| GIC Private Limited | 11 867 648 | 2.4 |
| Alexander Forbes Investments | 11 991 423 | 2.4 |
| The Pick 'n Pay Employee Share Purchase Trust | 9 421 550 | 1.9 |
| Shares held on behalf of FSP participants | 8 494 000 | 1.7 |
| Vanguard Emerging Markets Stock Index Fund (US) | 6 608 089 | 1.3 |
| Vanguard Total International Stock Index Fund | 5 410 530 | 1.1 |



# ANALYSIS OF B SHAREHOLDERS

| SHAREHOLDER SPREAD | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| 1 – 1 000 shares | 1 | 3.9 | 1 100 | – |
| 1 001 – 10 000 shares | 7 | 26.9 | 52 868 | – |
| 10 001 – 100 000 shares | 8 | 30.8 | 223 670 | 0.1 |
| 100 001 – 1 000 000 shares | 5 | 19.2 | 1 582 276 | 0.6 |
| 1 000 001 shares and over | 5 | 19.2 | 257 822 955 | 99.3 |
| **Total** | **26** | **100.0** | **259 682 869** | **100.0** |

| PUBLIC/NON-PUBLIC SHAREHOLDERS | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| **Non-public shareholders** | 6 | 23.1 | 258 295 007 | 99.5 |
| Ackerman Investment Holdings Proprietary Limited | 1 | 3.9 | 246 936 847 | 95.1 |
| Directors | 4 | 15.3 | 6 008 601 | 2.3 |
| Mistral Trust | 1 | 3.9 | 5 349 559 | 2.1 |
| **Public shareholders** | 20 | 76.9 | 1 387 862 | 0.5 |
| **Total** | 26 | 100.0 | 259 682 869 | 100.0 |

| BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE | Number of shares | % |
|---|---|---|
| Ackerman Investment Holdings Proprietary Limited | 246 936 847 | 95.1 |
| Mistral Trust | 5 349 559 | 2.1 |
| Gareth Ackerman | 3 228 383 | 1.2 |

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits. All B shares are stapled to certain ordinary shares.

# CORPORATE INFORMATION

**PICK N PAY STORES LIMITED**
Registration number: 1968/008034/06
JSE share code: PIK
ISIN: ZAE000005443

**BOARD OF DIRECTORS**
EXECUTIVE
Richard Brasher (CEO)
Aboubakar (Bakar) Jakoet (CFO)
Richard van Rensburg (CIO)
Suzanne Ackerman-Berman
Jonathan Ackerman

NON-EXECUTIVE
Gareth Ackerman (Chairman)
David Robins

INDEPENDENT NON-EXECUTIVE
David Friedland
Hugh Herman
Alex Mathole
Audrey Mothupi
Lorato Phalatse (resigned 31 August 2018)
Jeff van Rooyen

**REGISTERED OFFICE**
Pick n Pay Office Park
101 Rosmead Avenue
Kenilworth
Cape Town 7708
Tel: +27 21 658 1000
Fax: +27 21 797 0314

POSTAL ADDRESS
PO Box 23087
Claremont
Cape Town 7735

**REGISTRAR**
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
Tel: +27 11 370 5000
Fax: +27 11 688 5248

POSTAL ADDRESS
PO Box 61051
Marshalltown 2107

**JSE LIMITED SPONSOR**
Investec Bank Limited
100 Grayston Drive
Sandton 2196

**AUDITORS**
Ernst & Young Inc.

**ATTORNEYS**
Edward Nathan Sonnenberg

**PRINCIPAL TRANSACTIONAL BANKERS**
Absa Limited
First National Bank

**COMPANY SECRETARY**
Debra Muller
Email address: demuller@pnp.co.za

**PROMOTION OF ACCESS TO INFORMATION ACT**
Information Officer – Penny Gerber
Email address: pennygerber@pnp.co.za

**INVESTOR RELATIONS**
David North
Email address: dnorth@pnp.co.za

Penny Gerber
Email address: pennygerber@pnp.co.za

**WEBSITE**
Pick n Pay: www.pnp.co.za
Investor relations: www.picknpayinvestor.co.za

**CUSTOMER CARELINE**
Tel: +27 800 11 22 88
Email address: customercare@pnp.co.za

**ONLINE SHOPPING**
Tel: +27 860 30 30 30
www.pnp.co.za

ENGAGE WITH US ON

## NOTES

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