

# INTEGRATED ANNUAL REPORT

**Pick n Play**

**Pick n Play**

good food

**Thyme**  
On the Border

20  
20



We are pleased to provide our

# 2020

Integrated Annual Report  
to our stakeholders



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# OUR REPORT TELLS OUR VALUE CREATION STORY

## How to navigate our value creation story

We use six broad capitals to create sustainable stakeholder value:

- Financial
- Human
- Manufactured
- Social and relationship
- Intellectual
- Natural

Refer to pages 20 to 24 for more information.

We consider and address our key stakeholders' issues and concerns to create lasting value:

- Customers
- Community
- Employees
- Suppliers
- Franchisees
- Shareholders

Refer to pages 40 to 43 for more information.

We have six clear engines for long-term strategic growth:

- Pick n Pay: South Africa's most trusted retailer
- Boxer: Africa's favourite discounter
- Bearing down on costs
- Value-added customer services
- Expansion in Africa
- Force for Good

Refer to pages 45 to 51 for more information.

## How we create value

Pick n Pay has played a valuable role in the economic and social development of southern Africa for over five decades – and our belief that doing good is good business ensures that we create value not only for our shareholders but for all our stakeholders.

### We ensure meaningful and balanced interactions

between our different stakeholder groups within the various retail market, regulatory, social and environmental contexts in which we operate. Read more from page 26.

### Our business model maintains a virtuous circle

that considers our stakeholders and our operating context and effectively manages the trade-offs between the capitals on which we rely. Read more from page 20.

### We successfully execute our customer-led, innovative and forward-looking strategy

to create sustainable value. Read more from page 45.

### We add to this value through our sustainability strategy,

which supports our business strategy. Our sustainability strategy is aligned with our stakeholder needs and with the seven United Nations Sustainable Development Goals (SDGs) most relevant to our business. Read more from page 52.



The Board is accountable for the Group's performance and ensures that the business is adequately positioned to create sustainable long-term value for all stakeholders.

### Sustainable value creation is measured across the Group's environmental, social and governance objectives

as set out in our long-term strategy, and with reference to the effective management of our capitals and the balanced and appropriate management of stakeholder needs.

### Our ethical value system strengthens our relationships with stakeholders.

Read more from page 40.

## The value we create for our stakeholders

The value we create for our stakeholders is summarised in our business model from page 20. For further detail on our key stakeholder groups, why we engage with them and the value derived from open and constructive engagement during the year, refer to pages 40 to 43.



### Customers

We provide an inclusive and diverse spectrum of customers in southern Africa with convenient and reliable access to high-quality, safe and competitively priced products and value-added services, in outstanding stores, and underpinned by great service.



### Community

We give back to the communities we serve through investment aimed at economic and social upliftment. This includes education and literacy programmes, housing, nutrition and poverty relief schemes, such as our Feed the Nation campaign. In addition, we support cultural and theatrical projects, sports development and environmental programmes.



### Employees

We provide direct employment to 90 000 people across our owned and franchise businesses – augmented by a focus on training and skills development, and a commitment to diversity and career advancement that is based on merit.



### Suppliers

We create substantial economic development and employment opportunities across our value chain, procuring goods and services from around 10 000 local suppliers and service providers. This includes many small to medium-sized businesses that have been mentored through our enterprise development programmes.



### Franchisees

We support our franchisees and market store partners by helping them build profitable and sustainable businesses through mutually beneficial partnerships. These partnerships are built on the strength of the Pick n Pay brand and are supported by efficient and effective distribution and administrative platforms.



### Shareholders

We provide our shareholders with a consistent and sustainable return on investment through a rigorous focus on capital efficiency and strategy execution that takes a sustainable long-term view.

## Our enduring values

Pick n Pay is a much-loved brand, valued within society, built on a genuine desire to make life better for our customers and to make a positive contribution to the communities in which we live and work. Our strong and unique family values have guided the business for 53 years, providing a solid foundation for growth, innovation, service excellence and generosity.

We are passionate about our customers and will fight for their rights

We live by honesty and integrity

We foster personal growth and opportunity

We take individual responsibility

We care for and respect each other

We support and participate in our communities

We nurture leadership and vision, and reward innovation

We are all accountable

# OUR 2020 INTEGRATED ANNUAL REPORT

## We are pleased to present our 2020 Integrated Annual Report for the 52 weeks ended 1 March 2020.

The Board assumes accountability for the Group's performance. The Board guides and oversees the business in the context of material and emerging risks and opportunities to ensure that our strategy remains relevant and responsive. Board oversight includes taking into account environmental, social and governance (ESG) issues as part of its decision-making processes to support sustainable stakeholder value creation.

The Board is confident that this report provides stakeholders with an accurate and balanced view of the Group's performance, its strategy and its prospects over the short, medium and long term. It further addresses the material issues faced by the Group. The audit, risk and compliance committee reviewed this report and recommended it for approval to the Board. The Board subsequently reviewed and approved it for release to stakeholders on 1 July 2020.

The directors consider the report to be presented in accordance with the International Integrated Reporting Council's <IR> Framework. This report provides a fair representation of the financial position of the Group as at 1 March 2020, and its performance for the financial year.

- Gareth Ackerman**  
Chairman
- Richard Brasher**  
Chief Executive Officer
- Lerena Olivier**  
Chief Finance Officer
- Richard van Rensburg**  
Chief Information Systems Officer
- Suzanne Ackerman-Berman**  
Executive director
- Jonathan Ackerman**  
Executive director
- Jeff van Rooyen**  
Lead independent non-executive director
- David Friedland**  
Independent non-executive director
- Hugh Herman**  
Independent non-executive director
- Alex Mathole**  
Independent non-executive director
- Audrey Muthupi**  
Independent non-executive director
- Bakar Jakoet**  
Non-executive director
- David Robins**  
Non-executive director

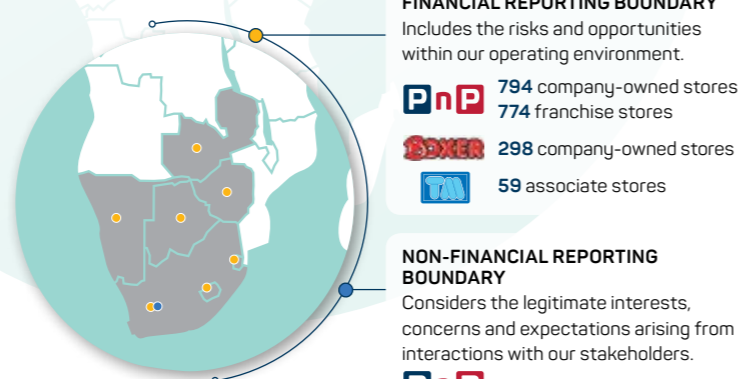
Three new independent non-executive directors were appointed post the FY20 financial year-end. Please refer to page 86 for further information.

## The scope and boundary of this report

This report covers the integrated financial and non-financial performance of Pick n Pay Stores Limited, its subsidiaries and its associate (the Group) for the 52 weeks ended 1 March 2020. It contains relevant comparisons to previous periods, and is consistent with information and performance indicators included in internal management reporting. The Integrated Annual Report is our primary report to stakeholders. It is principally aimed at providers of financial capital, being our shareholders and debt providers; however, it considers the information needs of all our stakeholders.

### Integrated reporting boundary

Our reporting boundary is influenced by our broader macro-economic environment across seven southern African countries, taking into account stakeholder needs.



Our business depends on a stable and functioning society that is able to thrive and develop. We are mindful of our broad societal and environmental reach and impact, and remain committed to responsible and sustainable business and governance practices across our value chain.

### What materiality means to us

We apply materiality to determine the scope and content of the Integrated Annual Report. Materiality is determined, reviewed and approved annually by the Board. For more insight into our materiality determination process and material matters refer to pages 32 to 38.

## About the forward-looking information contained in this report

This report contains certain forward-looking statements which relate to the possible future performance and financial position of the Group. All forward-looking statements are solely based on the views and considerations of the directors. These statements involve risk and uncertainty as they relate to events and depend on circumstances that may or may not occur in the future. The Group does not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information, future events or otherwise. These forward-looking statements have not been reviewed or reported on by the Group's external auditors.

## Assurance on report content

Reporting element	Assurance status and provider
Integrated Annual Report	Reviewed by the directors and management, but has not been externally assured.
Financial information	The summarised financial information is extracted from the annual financial statements, which includes both audited and unaudited information. The audited information in the annual financial statements was audited by Ernst & Young Inc. (EY) who expressed an unmodified audit opinion thereon.
Selected non-financial performance metrics	Accredited service providers and agencies have verified selected non-financial performance metrics contained in the report, including our carbon footprint and our BBBEE rating.
All other non-financial performance information	Management has verified the processes for measuring all other non-financial information.

## Our approach to online reporting

Our Integrated Annual Report is available online on the Group's website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za). Printed copies are available on request from our Company Secretary, Debra Muller, at [demuller@pnp.co.za](mailto:demuller@pnp.co.za) or by fax at +27 21 797 0314.

## We produce a suite of publications tailored to meet our stakeholders' specific information requirements. Our reports comply with the reporting frameworks detailed in the table provided.

### Integrated Annual Report (IAR)

A review of the Group's strategy, material issues, risks and opportunities and our operational and financial performance for the period. The report includes relevant extracts of the FY20 annual financial results, disclosure on environmental and social sustainability, our governance structures and our remuneration report.

### Annual Financial Statements (AFS)

The audited Group and Company Annual Financial Statements for Pick n Pay Stores Limited for the FY20 financial year. The report includes our audit, risk and compliance committee and directors' reports.

### Corporate Governance Report (CGR)

A review of the Group's commitment to good corporate governance in implementing its strategy and governance framework. The report includes our Notice of the Annual General Meeting to be held on 4 August 2020 and Board committee reports.

### Summarised results and AGM notices (AGM)

A high-level review of our operational and financial performance, including the summarised audited Group Annual Financial Statements, remuneration report, relevant shareholder information, and Notice of the annual general meeting to be held on 4 August 2020 and the proxy voting form.

### Sustainable Living Report (SLR)

This report is published every two years and details our sustainability strategy and performance against strategic non-financial targets.

Online version available on our website: [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za)

Print version available on request

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Our reports comply with the following reporting standards and frameworks:	IAR	AFS	CGR	AGM	SLR
The International Integrated Reporting <IR> Framework	✓				
The Companies Act, No 71 of 2008, as amended (Companies Act)	✓	✓	✓	✓	
The JSE Listings Requirements	✓	✓	✓	✓	
The King IV Report on Corporate Governance™ for South Africa, 2016 (King IV) <sup>1</sup>	✓	✓	✓	✓	✓
International Financial Reporting Standards (IFRS)		✓			
The Global Reporting Initiative's (GRI) Standards	✓				✓

## The report structure and how to give us feedback

This report includes summarised financial information, with audited financial statements (prepared in terms of IFRS) available on our website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za). For more information, please email our Company Secretary, Debra Muller, at [demuller@pnp.co.za](mailto:demuller@pnp.co.za). We continue to engage with all stakeholders to ensure that we improve year-on-year.

# A MESSAGE FROM OUR CHAIRMAN

I salute the commitment our store management, supply chain and frontline teams have shown to keep our stores open and safe under extraordinary pressure.

True to our value of doing good, our Feed the Nation programme has done incredible work to supply food to some of the most vulnerable in our society.

Within our business, our people have demonstrated true commitment and our execution has been phenomenal under extraordinary pressure.

These are extraordinary circumstances to be presenting a review of the year. While the year ended before the COVID-19 lockdown, it has dominated our operations and our planning for the past few months. At the time of writing, we have entered Level 3 of the crisis, and we hope this will give the economy a chance of recovery.

We don't know when the pandemic will end, but we can be sure it will leave us profoundly changed. We all know about the severe impact on people's lives and the economy. But we have a responsibility to remain positive and to look to positive change where possible.

## Committed to our customers in time of crisis

I am incredibly proud of how our Group has stepped up to the crisis. One of our core values – business efficiency – has never been more important. The pressure has been immense. From the earliest days of the crisis, we have had to accelerate all our work to stay safe, stay working, stay open and stay fully stocked. Our core value of consumer sovereignty, putting customers first, has been at the forefront of everything we have done during this crisis, and will remain so.

One of the properties of a crisis is that it strips away the superfluous to reveal the essential, and the essence of Pick n Pay has never shone through more clearly. We have stepped forward when it counted and done truly heroic work on the frontlines of a national emergency. The Pick n Pay and Boxer teams have responded magnificently. Our Information Technology team has delivered faultlessly in responding to substantial additional demands, and our supply chain team has worked tirelessly to keep our stores full. The store teams have laboured under punishing pressure and deserve both praise and thanks.

The Consumer Goods Council of SA has also done important work in representing the consumer goods industry, and they deserve thanks for the role they have played and continue to play.

## Maintaining food security and supporting vulnerable communities

Our vital role in society is to keep the nation fed. Our Pick n Pay and Boxer stores play a major role as suppliers of food and distributors of social grants, and are a critical and highly efficient network in the country. We trust government adequately appreciates the role retailers play in ensuring food security.

True to our value of doing good, our Feed the Nation programme has done incredible work, alongside a large number of NGOs, including the Solidarity Fund, to supply food to some of the most vulnerable in our society. In doing this, we have been supported by wonderful generosity from farmers, suppliers, and customers. We have also instituted a virtual voucher and other electronic systems to facilitate this process.

This campaign has collected over R60 million from customers, partners and benefactors. This has helped us deliver over 14 million meals to date – an extraordinary result.

I have talked about the importance of food security for many years. It has taken this crisis for the debate to become mainstream.

We are learning good lessons every day about what is produced at home and abroad, where the vulnerabilities are, and how they can be overcome in the short and long term. We must not forget these lessons when the crisis is over. We must use these lessons to inform how we improve our operations in the future.

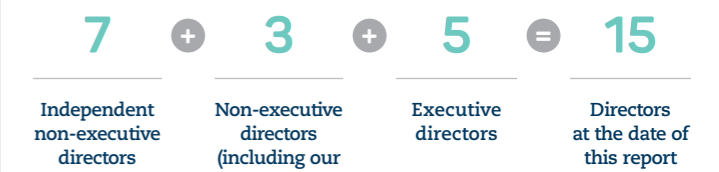
Reducing food waste is one simple and powerful way to increase food security. I am sure the crisis has made many of us more conscious of waste and more determined to use and re-use rather than throw away.

Some of our more important activities and achievements include:

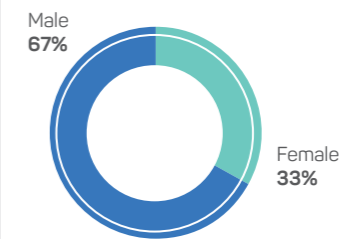
- Pick n Pay was the first South African retailer to sign up to the 10x20x30 Food Waste Initiative. It brings together 10 of the most influential retailers globally and involves working closely with our suppliers to reduce food waste in our supply chain.
- The 10x20x30 target involves working towards a 50% reduction in food waste by 2030, which is aligned to the United Nations Sustainable Development Goal (SDG) 12.3 target.
- Pick n Pay has confirmed that all 20 of our largest suppliers will join us on this initiative and set ambitious goals and targets that will significantly reduce food waste in our extended supply chain.
- We are reducing food waste through more accurate procurement, replenishment and demand planning. Several shelf life extension projects by our technical and commercial teams are aimed at further reducing food waste in store.
- We have clear food donation policies to distribute surplus food as efficiently as possible while maintaining our food safety standards.
- One of our primary contributions to alleviating hunger is through donating excess food from our stores. Any food that has passed its sell-by date, but not its expiry date, is donated. We donate more than 1 600 tonnes of food every year to NGOs.

## A quick overview of our Board – July 2020

### Board composition

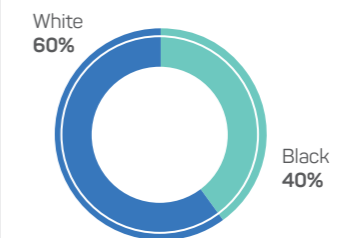


### Gender diversity – %



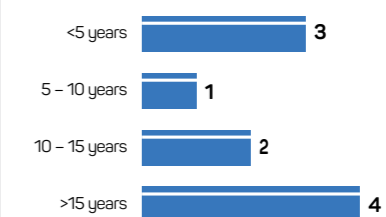
The Board has met its targets for gender diversity and, with three new Board appointments in recent months, took additional steps to strengthen female participation on the Board.

### Racial diversity – %



The Board has met its targets for racial diversity and, with three new Board appointments in recent months, took additional steps to strengthen racial diversity on the Board.

### Non-executive director tenure



The Board has established a good balance between the experience of long-standing directors and the fresh insights from more recently appointed directors.

“ Our vital role in society is to keep the nation fed. Our Pick n Pay and Boxer stores play a major role as suppliers of food and distributors of social grants, and are a critical and highly efficient network in the country. ”



Gareth Ackerman  
Chairman

## Taking action to transform the economy

It is important to focus not only on the immediate crisis, but on how we can play a positive role after the crisis. We must not forget the economic state the country was in before the COVID-19 crisis, and this result reports in a difficult economic period.

As the President of South Africa has made clear, we must take every opportunity to nurture new businesses and hasten the pace of transformation. The Group and the Ackerman Pick n Pay Foundation through their enterprise development programmes do brilliant work on this.

We must now find ways to do even more.

In its recent report, the Competition Commission expressed concern that exclusive lease agreements might discourage small and speciality retailers from opening in shopping centres. We want to see thriving centres, where innovative and diverse businesses excite customers and raise the bar for everyone. We have had excellent dialogue with the Competition Commission, and have announced that Pick n Pay will not seek to enforce any exclusivity agreement against a small or speciality retailer in any centre in which we operate.

I hope that, after the current crisis, government and the competition authorities give due priority to stimulating healthy competition. This will enable us to create jobs and transform the economy in the way that will desperately be needed.

## Shareholder distribution

The coronavirus pandemic is a massive shock to the economy in an already challenging environment. We must take the right decisions now to safeguard our future – individually, in our institutions and as a nation.

This is why, after much deliberation, we took the difficult decision to defer the consideration of our annual dividend. In normal circumstances, on the back of our results, the Group would recommend a final dividend in line with our dividend cover of 1.3 times comparable headline earnings per share.

However, given the current economic upheaval, and the great uncertainty about events in the coming months, the Board took a prudent and responsible decision to preserve cash at this time.

We understand that many shareholders rely on their dividends to supplement their incomes. We will review the decision as soon as we have greater clarity later in the year.

## An update on our Board and executive management team

Within our business, our people have demonstrated true commitment and our execution has been phenomenal under extraordinary pressure. We have learnt better than ever how to work as a team.

At the fore of our response to the crisis is our CEO, Richard Brasher and his executive team. Richard deserves enormous credit for his leadership over the past seven years, and especially during this crisis. He has earned huge respect both internally and externally, and deservedly so.

Richard had planned to announce his retirement from Pick n Pay at our annual results in May. However, he has elected to roll up his sleeves and help us navigate this crisis. We had already started the recruitment process for Richard's replacement, but COVID-19 has made this difficult to complete. We will, with Richard, continue to work to put his replacement in place when practical. We are grateful to Richard for his commitment to stay with the Group until the appointment of a suitable successor, or until a retirement date of 31 March 2022.

At the 2019 AGM, we undertook to review and refresh the composition of our Board, and to this end, we announced three new Board appointments. Mariam Cassim and Dr Haroon Bhorat joined the Board on 18 May as independent non-executive directors. Effective 4 August 2020, Annemarie van der Merwe will also be joining us as a non-executive director, replacing Alex Mathole, who has resigned from the Board as a result of the pressures of her executive role in FirstRand.

All three bring with them a wealth of experience from a wide variety of roles and experience, and we are delighted they have agreed to join us. We welcome them to our Board, and thank Alex for her valuable contribution over the years.

After many years as lead independent director, Hugh Herman has stood down and Jeff van Rooyen has been appointed to the role. We thank Hugh for his ongoing support and advice and we are pleased he will be remaining on the Board and retaining his role as chairman of the remuneration committee and member of the audit, risk and compliance committee.

I also welcome Lerena Olivier into the role of CFO. Lerena took over from Bakar Jakoet in September 2019, and we congratulate her on her well-deserved appointment. We look forward to her valuable contribution as an executive director on the Board.

## Looking forward to the year ahead

It is ten years since I became Chairman of Pick n Pay. We have made enormous changes for the better. We are a very different company today, and a much better one. By becoming stronger, we are better able to weather this storm. Our values have remained strong, and they mean that – even in the middle of the storm – we help our customers and communities first.

The last year's economic environment has been enormously challenging. COVID-19 is a once-in-a-lifetime event and a defining moment for our country, and will make this year even more difficult.

I recognise the challenges facing government at the moment. It has the extremely difficult task of taking steps to limit spread of the virus, while trying to ensure that these actions do not destroy jobs and create greater hardship. My plea is that, in making the difficult decisions, the government continues to give due consideration to the impact on the economy, on livelihoods, on companies that provide jobs, and on tax revenue which funds the work of government. We need to have a functioning and growing economy, a free society and a safe population at the end of this crisis.

This coming year will be a challenge to us all, from the Board to those who serve at the frontlines. We have the energy, the commitment, and the values to work as hard as we can to serve our customers with efficiency, empathy, and dedication.

**Gareth Ackerman**

Chairman

1 July 2020

## Key focus areas of the Board during the year

- We assessed the effectiveness of the Group's strategy and monitored the management team's efforts to improve the efficiency of the business.
- Oversaw the appointment of new CFO, Lerena Olivier.
- Reviewed and worked on the succession planning for Richard Brasher, the Chief Executive Officer.
- We focused on Group operations outside South Africa to ensure tight management during tough economic times.
- Stability of labour relations across the supply chain remains a key risk, and is closely monitored by the Board.
- We are cognisant of the increased risk of cyberattacks and reviewed and updated the Group's technology and information policy framework to ensure it reflects all relevant risks in our operating environment.
- We monitored the work being done by the Group to achieve a diverse workforce at all levels.
- We monitored various factors related to financial reporting, including new accounting standards such as IFRS 16, IFRS 15 and IAS 29.
- We continue to build proficiency in the areas of environmental, social and governance (ESG) reporting and risk management.

## How the Board responded to COVID-19

The advantage of the Group's established corporate governance policies became increasingly clear in the context of the lockdown, as the business implemented the various regulatory measures governing operations – while ensuring that our customers had access to quality products, at fair prices, in a safe store environment.

- The Group formed a COVID-19 steering committee to implement formal protocols and procedures to ensure we stay safe, stay open, stay full and stay working.
- Under the supervision of the Board, and as informed by the audit, risk and compliance committee, the Group expanded its risk strategy and framework regarding crisis management to specifically address the COVID-19 pandemic.
- We worked closely with our CEO and CFO on all market communication.
- All meetings are being held via video conferencing.
- Shareholders approved the directors' fees, with the 2020 annual financial period fees to be increased by CPI for the 2021 annual financial period. However, directors have waived their right to the increase in light of the COVID-19 pandemic. Directors fees will remain unchanged for the 2021 annual financial period.

# 02



## THIS IS PICK N PAY

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## ABOUT US

Consumer champion Raymond Ackerman purchased the first four Pick n Pay stores in Cape Town, South Africa, in 1967. Since then, the Group has grown to encompass stores across South Africa, Namibia, Botswana, Zambia, Eswatini and Lesotho. Pick n Pay also owns a 49% share of Zimbabwean supermarket chain, TM Supermarkets.

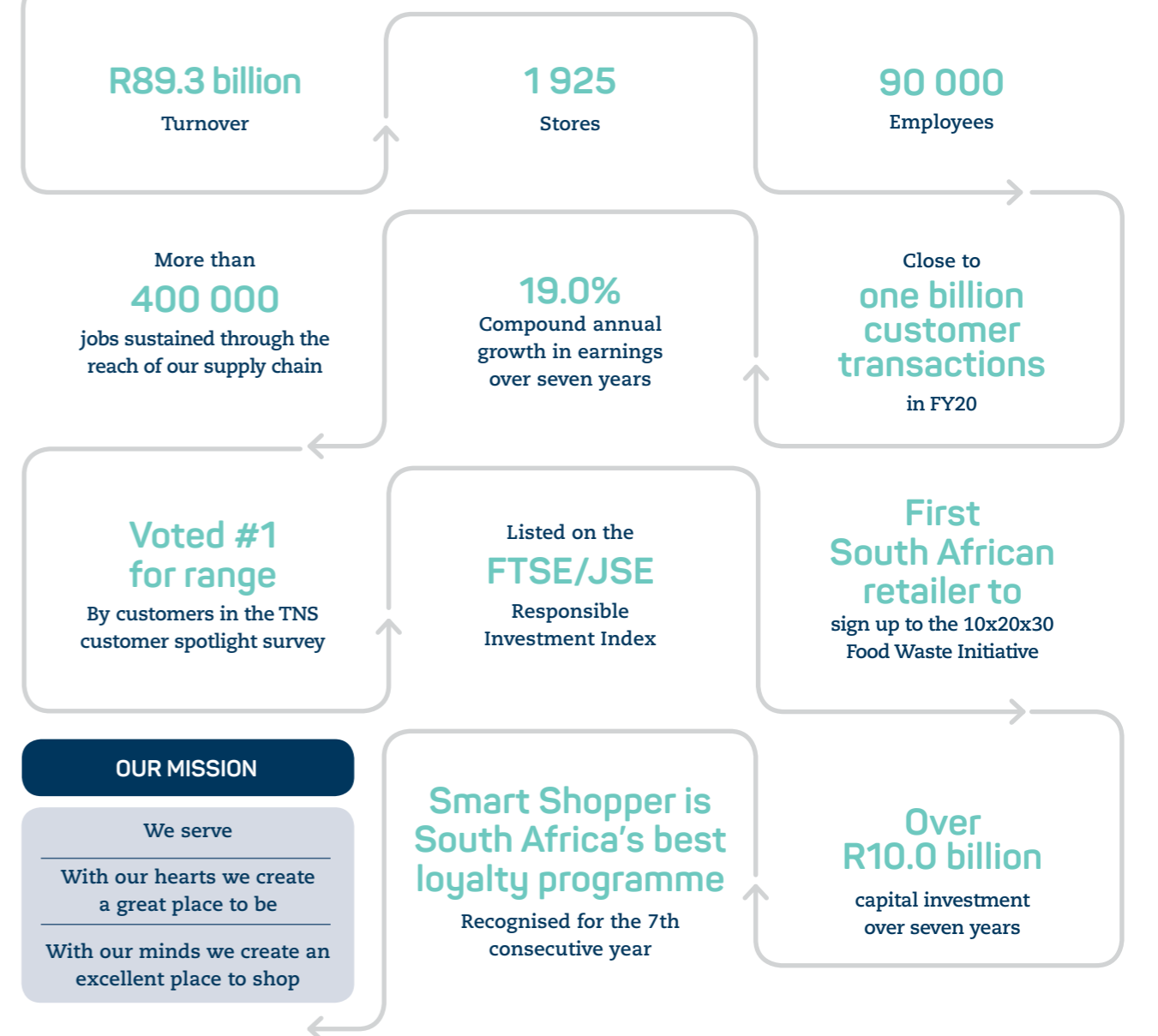
Pick n Pay is a retail business in the fast-moving consumer goods industry. We operate through multiple store formats under three brands – Pick n Pay, Boxer and TM Supermarkets – and have the largest online grocery business in sub-Saharan Africa.

We procure quality products at the best available prices, and our lean and efficient operating model is supported by a strong and talented team. This enables us to provide our customers with a tailored range of high-quality food, grocery and general merchandise products at competitive prices.

At Pick n Pay, we believe doing good is good business. Greater efficiency and investment in our customer offer enables us to drive sales and grow value for all our stakeholders.

For further information on our business model and the value we create, refer to pages 20 to 24.

### KEY FACTS



# THE PICK N PAY INVESTMENT CASE – WHAT SETS US APART

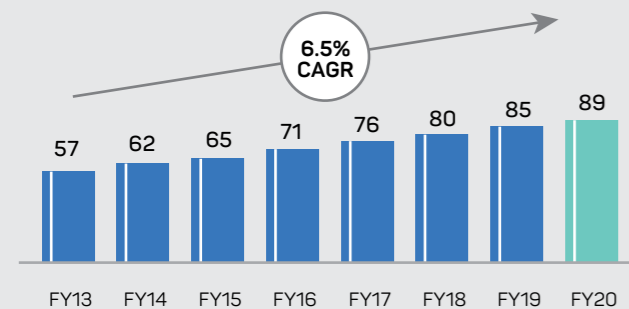
Over the past seven years, a relentless focus on improving cost and operating effectiveness has enabled the Group to invest in a winning customer offer through lower prices, attractive promotions, better and more innovative products, compelling value-added services, and brighter and more modern stores. Our performance has been underpinned by effective risk and capital management.

The stability of the Group's balance sheet, including low levels of structured debt, reflects the consistent execution of our long-term strategy, which has delivered industry-leading earnings growth, alongside sustainable returns from a measured and targeted capital investment programme.

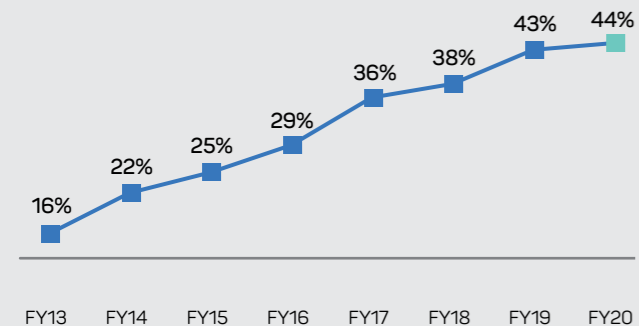
## A solid business with the right plan

The consistent execution of a strong strategic turnaround plan has delivered seven years of growth, despite increasingly difficult economic conditions across the regions in which we operate. Customers are at the heart of our plan. Consumer sovereignty informs everything we do, from how we treat our customers, to the product range we offer, and how we design our stores. Putting the customer first means we work hard to understand their diverse and changing needs and how we can serve them better. The COVID-19 pandemic has tested our team with unprecedented operational challenges; however, we only had to turn to our existing plan, to know how to respond quickly and effectively to the current crisis.

Group comparable turnover – Rbn



Return on capital employed



## An increasingly relevant customer offer

Pick n Pay re-organised its store operations into three segments in FY20 – Value, Core and Select. Customer-led store segmentation has enabled the team to optimise product range, price and promotion and engagement for the customer served.

Range optimisation has delivered a 10% reduction in Pick n Pay's overall product count this year and strengthened the customer offer through greater clarity, relevance and availability. Boxer delivered industry-leading sales growth with a tight range of just 3 000 products, and stores in Pick n Pay's Value segment delivered strong volume growth against a 35% reduction in range.

Own-brand quality and value is increasingly important for customers. Pick n Pay redesigned and relaunched 5 000 own brand products this year. Many of Boxer's own brand products – including maize, baked beans, mayonnaise and washing powder – have reached a sales participation of over 35%.

South African consumers recognised Pick n Pay as the number one supermarket for range in the TNS customer spotlight survey this year.

## Digital innovation

The Group benefits from an outstanding information technology infrastructure. This includes an end-to-end SAP system that enables automated and centralised processing, including the forecast and replenishment of inventory. Our point-of-sale technology enables an advanced suite of value-added services, including money transfers and banking transactions, and ably supports our Smart Shopper loyalty programme, including the redemption of personalised discount vouchers directly through the programme's digital app.

Our strategic partnership with low-cost, digital TymeBank now has 1.2 million customers across South Africa



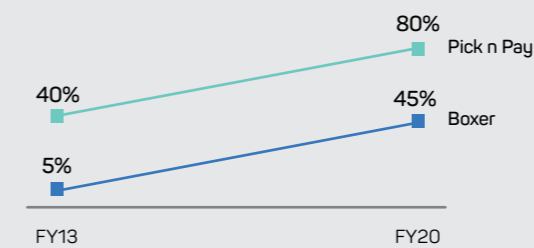
## Our business is increasingly efficient

Greater operating efficiency provides headroom for us to invest in an improved customer experience. We work in partnership with suppliers and service providers to bring value and convenience to our customers. The scale of our business enables us to purchase from our suppliers sufficient volume so they can plan and manage their operations to reduce costs. We procure, transport, store and display our products as efficiently as possible to keep costs to a minimum.

Our focus on centralisation across all areas of the business has increased our business efficiency. The Group operates 14 Pick n Pay and three Boxer distribution centres across South Africa, which cater for groceries, fresh and perishable produce, liquor and clothing. Our two largest distribution centres are Longmeadow in Gauteng and Philippi in the Western Cape, both distributing fresh produce, perishables and groceries. Over the past seven years, Pick n Pay has taken its centralised supply from 40% to close to 80%, with centralisation in Boxer moving from 5% to 45%.

The Group's gross profit margin improved from 19.1% to 19.7% this year, notwithstanding low selling price inflation, anchored by improved operational efficiencies across its procurement and distribution channel.

Group centralisation



## We have a winning team

We employ 55 000 people in our company-owned stores and operations. Our franchise stores extend this to 90 000 people who work under the Pick n Pay and Boxer banners in seven countries. Working at Pick n Pay is more than a job; it is an opportunity to learn, develop new skills, benefit through teamwork and build a career. We are committed to training and empowering our people.

The Group invested R65 million in training and education this year, with over 180 training programmes reaching 11 000 of our employees.

## We are a responsible retailer

We believe that doing good is good business. Customers reward businesses which they believe are at the heart of society and give back to the communities they serve. As customers reward us with their loyalty, we can grow, serve more customers, generate more jobs and help more communities – whether supporting them during times of crisis, helping to develop local suppliers and small businesses, or tackling societal challenges such as food security and climate change. We are particularly proud of our enterprise development and mentorship programmes which drive economic opportunity across our value chain.

The Group invested over R380 million through its enterprise development programme this year, including through preferential procurement from participating small businesses, and mentorship and training initiatives.

## Well positioned for long-term growth

The size of the formal retail market in South Africa is estimated at approximately R600 billion, and with an estimated 15% share, the Group sees significant opportunity for growth. Historically, the grocery retail market has grown 1.0% – 1.5% ahead of GDP growth plus inflation. Growth is not evenly spread across socio-demographic groups in South Africa, and future success will depend on retailers having a dynamic and flexible approach to growth, mindful that the largest, and less affluent, communities of South Africa are seeking more value than ever before. The Group's Project Future, launched in January 2020, is a programme of accelerated change. The programme aims to deliver R1.0 billion in cost savings over two years, with lean and simplified operations, fit for the future.

Pick n Pay's range of formats and broad product offer, combined with Boxer's unbeatable value, positions our Group well to serve all customers in South Africa and beyond.

# OUR STORE FOOTPRINT

The Group, through our Pick n Pay and Boxer brands, is the most inclusive retailer in South Africa, well positioned to serve the needs of customers across all socio-economic backgrounds.

Changing customer demographics creates opportunity for the Group to extend its reach and grow turnover without impacting existing stores. Our expansion programme is focused on growing the business by opening stores that reflect the changing habits and needs of our customers and which will bring new customers and communities into the Pick n Pay family. This includes smaller stores focused on customer demand for convenience, and a growing online platform. Greater operating flexibility, efficiency and cost effectiveness allow the Group to operate successfully in a broad range of locations.

## Number of stores

	3 March 2019	Opened	Closed	Converted closures	Converted openings	1 March 2020
<b>COMPANY-OWNED</b>						
<b>Pick n Pay</b>	<b>749</b>	<b>53</b>	<b>(10)</b>	<b>(1)</b>	<b>3</b>	<b>794</b>
Hypermarkets	20	-	-	-	1	21
Supermarkets	286	10	(1)	(1)	1	295
Clothing	200	32	(7)	-	-	225
Liquor	241	11	(1)	-	1	252
Pharmacy	2	-	(1)	-	-	1
<b>Boxer</b>	<b>270</b>	<b>27</b>	<b>(3)</b>	-	<b>4</b>	<b>298</b>
Supermarkets	166	12	(1)	-	4	181
Build	31	-	(1)	-	-	30
Liquor	55	15	-	-	-	70
Punch	18	-	(1)	-	-	17
<b>Total company-owned</b>	<b>1019</b>	<b>80</b>	<b>(13)</b>	<b>(1)</b>	<b>7</b>	<b>1092</b>
<b>FRANCHISE</b>						
<b>Pick n Pay</b>						
Supermarkets	304	15	(6)	(5)	-	308
Family	287	14	(5)	(5)	-	291
Mini-markets	17	1	(1)	-	-	17
Market	20	9	-	-	-	29
Express	151	20	(1)	-	-	170
Clothing	17	-	(1)	-	-	16
Liquor	226	31	(7)	(1)	-	249
Pharmacy	1	2	(1)	-	-	2
<b>Total franchise</b>	<b>719</b>	<b>77</b>	<b>(16)</b>	<b>(6)</b>	<b>-</b>	<b>774</b>
<b>Total Group stores</b>	<b>1738</b>	<b>157</b>	<b>(29)</b>	<b>(7)</b>	<b>7</b>	<b>1866</b>
<b>TM Supermarkets – associate</b>	<b>57</b>	<b>3</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>59</b>
<b>Total with TM Supermarkets</b>	<b>1795</b>	<b>160</b>	<b>(30)</b>	<b>(7)</b>	<b>7</b>	<b>1925</b>

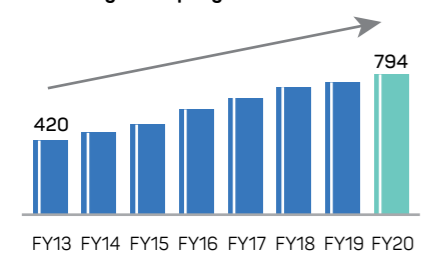
FUTURE EXPANSION OPPORTUNITY



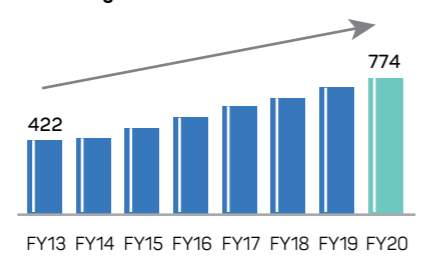
**1 925 stores**  
across all formats and  
**7 countries,**  
including our investment  
in TM Supermarkets  
in Zimbabwe.

Geographic footprint

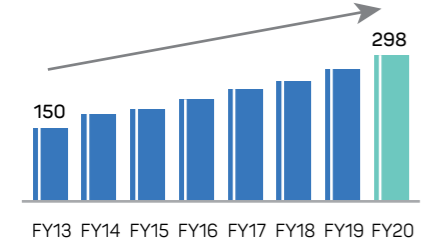
Pick n Pay – company-owned stores



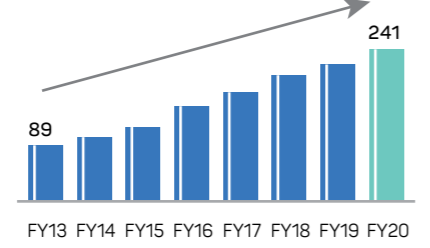
Pick n Pay – franchise stores



Boxer stores



Clothing stores



“ I believe that the key to success in retail is to appeal broadly, to exclude nobody, and to move hand-in-hand with customer needs and aspirations. I believe Pick n Pay, with its rich history of inclusiveness and its deep well of customer loyalty, is uniquely positioned to do this in South Africa. ”

**Richard Brasher**  
Chief Executive Officer

## Number of stores

	3 March 2019	Opened	Closed	1 March 2020
<b>REST OF AFRICA FOOTPRINT – included in total stores</b>	<b>148</b>	<b>8</b>	<b>(2)</b>	<b>154</b>
Pick n Pay company-owned	20	-	-	20
Boxer company-owned	9	-	-	9
Pick n Pay franchise	62	5	(1)	66
TM Supermarkets – associate	57	3	(1)	59
<b>AFRICAN FOOTPRINT – by country</b>	<b>148</b>	<b>8</b>	<b>(2)</b>	<b>154</b>
Botswana	12	-	-	12
Lesotho	3	-	(1)	2
Namibia	36	2	-	38
Eswatini	20	3	-	23
Zambia	20	-	-	20
Zimbabwe	57	3	(1)	59

# OUR STORE FORMATS



Pick n Pay is a multi-format, multi-channel retailer with a strong and diverse portfolio of stores. Pick n Pay operates on an owned and franchise basis and provides a wide range of products and value-added services that includes an online offer.

Pick n Pay is an inclusive brand focused on being the retailer for all – from the most affluent in society to those who are less fortunate and for whom price is of the utmost importance. In FY20, Pick n Pay re-organised its store operations into three segments: Value, Core and Select, enabling the team to optimise product range, promotions and engagement for each customer segment served.

Pick n Pay has a strong growth plan that benefits from flexible formats and a leaner operating model – and the business is focused on bringing its offer to communities where it is not yet well represented, including through small convenience stores.

Pick n Pay's long-term strategic plan remains focused on delivering an exceptional customer offer, including through sustained improvements in range, quality, price, availability and service.

<b>7</b> Countries	<b>8</b> Store formats (including online)
<b>1 568</b> Stores	<b>774</b> Franchise stores
<b>794</b> Company-owned stores	

## Pick n Pay supermarkets

Pick n Pay supermarkets serve a wide range of communities, from lower- and middle-income families to the most affluent households. Our supermarkets offer a wide range of groceries and a targeted range of clothing, general merchandise and value-added services. Fresh produce and butchery offerings are complemented by an in-store bakery, deli and hot food counter. Customers can buy everything they need, from a daily top-up to a larger weekly or monthly bulk shop, and product ranges are tailored to meet customers' needs. Some stores focus on basic necessities and local produce while others boast speciality service counters, wine rooms, flower markets and sushi bars.

Pick n Pay's store segmentation and range optimisation programme in FY20 has strengthened the offer for customers through greater clarity, relevance and availability.

<b>7</b> Countries	<b>603</b> Stores	<b>295</b> Company-owned stores	<b>308</b> Franchise stores	<b>3 000</b> Average m <sup>2</sup>	<b>13</b> Net new stores in FY20
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	<b>295</b> Company-owned stores	<b>308</b> Franchise stores
<b>Value</b>	<b>96</b>	<b>75</b>
<b>Core</b>	<b>127</b>	<b>212</b>
<b>Select</b>	<b>72</b>	<b>21</b>

## Pick n Pay hypermarkets

A Pick n Pay hypermarket is our largest format store, providing customers with an expanded range of groceries, clothing, liquor and general merchandise. Essentially a "one-stop shop", hypermarkets offer fresh produce, a butchery, deli, bakery and hot food counter, plus specialist general merchandise categories not always available in our smaller supermarkets.

Pick n Pay delivered further progress in modernising its hypermarket format in FY20, including the re-opening of our smaller and refurbished Vaal and Steeledale hypermarkets and the conversion of a large supermarket in Witbank to a modern compact hypermarket. 13 of our 21 hypermarkets have been refurbished over the past five years, delivering improved profitability through a stronger fresh offer, more relevant general merchandise, targeted promotional campaigns and competitive pricing, with multi-pack and bulk-buy items. Our Hypermarket division also provides a growing wholesale offer to cater for an expanding customer base of independent traders.



<b>South Africa</b> Country	<b>21</b> Company-owned stores
<b>13 500</b> Average m <sup>2</sup>	<b>1</b> Compact conversion in FY20

## Pick n Pay Clothing

Pick n Pay Clothing provides quality, fashionable clothing and footwear at exceptional prices. Our clothing offer is broad, from baby and children's wear to ladies' and men's fashion, and includes casual wear, sleepwear, active wear and more formal attire. Our standalone clothing stores provide the same quality and value-for-money clothing merchandise as our hypermarkets and supermarkets, but with an extended range.

<b>2</b> Countries	<b>241</b> Standalone stores	<b>225</b> Company-owned stores	<b>16</b> Franchise stores	<b>450</b> Average m <sup>2</sup>	<b>24</b> Net new stores in FY20
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## Pick n Pay Liquor

Our liquor stores are situated close to our supermarkets and hypermarkets but with separate entrances. These stores offer a range of wine, spirits and beer, including innovative local craft products. Pick n Pay Liquor stores provide customers with the added convenience of purchasing liquor at the same time as doing their grocery shopping.

<b>6</b> Countries	<b>501</b> Stores	<b>252</b> Company-owned stores	<b>249</b> Franchise stores	<b>200</b> Average m <sup>2</sup>	<b>34</b> Net new stores in FY20
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## Pick n Pay Express

Pick n Pay's partnership with BP, one of the world's leading international oil and gas companies, provides small 24-hour Pick n Pay Express convenience stores at BP service station forecourts in South Africa.

Pick n Pay Express offers a targeted convenience range to satisfy an immediate top-up shop or a quick meal solution. The range is limited and mainly focused on daily needs. Sites are located in high-traffic-flow areas, including high-density residential areas and public transport intersections.

Pick n Pay's Smart Shopper loyalty customers are able to buy fuel with accumulated Smart Shopper points.

<b>South Africa</b> Country	<b>170</b> Forecourt franchise stores	<b>300</b> Average m <sup>2</sup>	<b>19</b> Net new stores in FY20
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## Pick n Pay Market stores

Pick n Pay's "Spaza-to-Market Store" partnership with South Africa's Department of Economic Development aims to revitalise and modernise market (spaza) stores to drive growth. This partnership provides spaza shop owners with access to Pick n Pay's procurement and distribution channel, business systems, technology, and management advice and mentoring.

<b>South Africa</b> Country	<b>29</b> Partner stores	<b>150</b> Average m <sup>2</sup>	<b>9</b> New stores in FY20
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### Pick n Pay Pharmacy

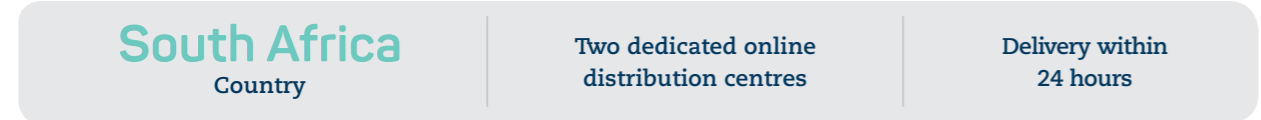
We are committed to giving our customers convenient and affordable basic healthcare by providing a wide range of vitamins, supplements, sports nutrition, self-medication, medical services, clinics and dispensaries.



### Pick n Pay Online

Our online shopping platform at [www.pnp.co.za](http://www.pnp.co.za) is the largest and most developed online grocery business in sub-Saharan Africa. The division is winning customers by offering online convenience, good availability and on-time delivery. The online offer in the Western Cape and Gauteng is supported by two dedicated online picking warehouses.

Pick n Pay online is a small part of the overall Pick n Pay business; however, the growth in demand for online grocery sales has significantly accelerated as a result of the COVID-19 outbreak. The Pick n Pay team has rapidly increased our capacity and reach, including through our liquor delivery partnership with "Bottles", which has been re-engineered during the nationwide lockdown to deliver same-day grocery essentials to customers. We have also rolled-out our "Click and Collect" service across many of our Pick n Pay stores, and many of our franchise stores now encourage customers to email or WhatsApp their orders directly to the store, for collection or delivery.



Boxer is South Africa's leading limited-range discount supermarket.

Boxer offers a tight range of quality products and services at affordable prices. Stores offer essential daily commodities such as maize meal, rice, samp, sugar, oil and beans, as well as perishables, health and beauty products, general merchandise and bulk-buy offers. Butcheries, bakeries and deli sections provide a choice of prepared convenience meals.

Boxer delivered industry-leading sales growth in FY20 with exceptional quality and value, and a tight range of 3 000 products, driving positive volume growth for the Group in this important section of the market.

There are no franchise stores under this brand. While Boxer has reach across all nine provinces in South Africa, its geographical heartland is KwaZulu-Natal and the Eastern Cape. Boxer will continue to grow and expand in areas where the Group knows it can serve the needs of communities through its focused product range, affordable prices and community-rooted staff.

**South Africa and Eswatini**  
Countries

**4**  
Store formats

**298**  
Stores

**4**  
Conversions from Pick n Pay stores in FY20

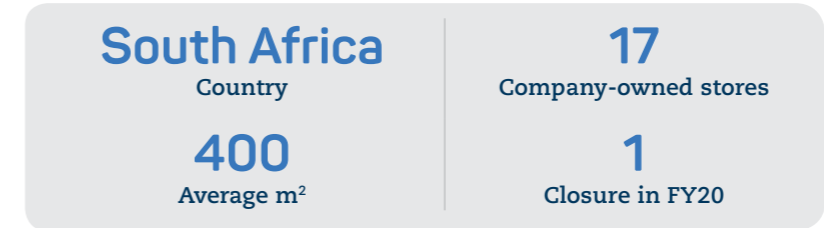
### Boxer Supermarkets

Boxer supermarkets are full-service supermarkets offering a focused range of groceries. The fresh meat and produce offer is complemented by an in-store bakery and hot foods counter. The target markets are middle- to lower-income urban, peri-urban and rural communities of South Africa and Eswatini. All stores are located close to public transportation hubs and have a welcoming market-style atmosphere.



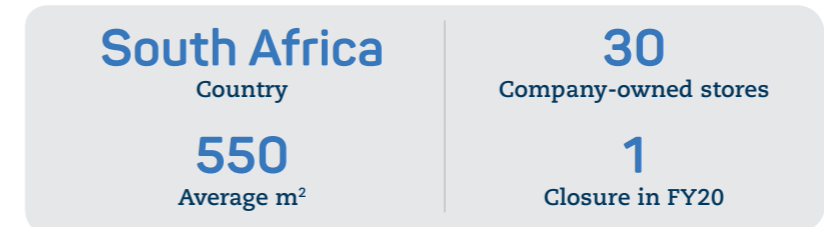
### Boxer Punch

Boxer Punch is a smaller-sized supermarket located in compact sites with considerable customer foot traffic. The store has a lower-cost operating model, enabling lower prices, including on key commodity lines. Boxer Punch stores offer a limited but specific range of convenience products that includes basic commodities, pre-packed frozen and fresh meat, and breads and confectionery.



### Boxer Build

Boxer Build stocks a diversified range of building and hardware supplies to satisfy DIY and home improvement needs at competitive prices. Boxer Build stores offer savings cards and access to short-term credit facilities. Purchase delivery can be arranged at store level.



### Boxer Liquor

Boxer liquor stores are situated close to Boxer supermarkets, but with separate entrances. These liquor stores provide customers with the added convenience of purchasing liquor at the same time as doing their grocery shopping.



### TM Supermarkets

The Group has a 49% investment in its associate TM Supermarkets in Zimbabwe. TM Supermarkets, trading under TM and Pick n Pay, is one of the most trusted retailers in Zimbabwe. The hard work of the TM team over the past few years to build customer and supplier loyalty has paid off under exceptionally difficult trading conditions in Zimbabwe (please refer to page 28 for further information). TM has kept its shelves stocked, and has been rewarded with market share growth. In FY20, TM was recognised as the Retailer of the Year in Zimbabwe and the "Superbrand" of the year, alongside numerous other community-based awards.

With its payoff line, "Real Value Always", customers are offered a wide range of groceries and perishables and a limited range of general merchandise. The fresh offering caters specifically for the communities they serve, at competitive prices. TM Supermarkets draws its customers from all communities and income groups across Zimbabwe, while store formats range from convenient small supermarkets to larger supermarkets.



# CREATING VALUE THROUGH OUR BUSINESS MODEL

Our business model describes how we create long-term sustainable value for our stakeholders – through the effective and balanced use of our capitals – while keeping the customer at the centre of everything we do. Our business model is underpinned by strong corporate and social governance, with our unique values at its core.

## Capitals as inputs into our business model

### Financial

Our financial resources include equity and debt funding, and earnings generated and retained by the Group. We rely on our financial resources to fund our growth plans, enhance the quality of our estate and customer offer, invest in new infrastructure, systems and technologies, upskill and develop our staff, and to advance the growth engines of our long-term strategy.

#### Capital inputs at the beginning of the year included:

- R3.0 billion of shareholders' equity
- R3.1 billion of short-term borrowings
- R1.5 billion of cash balances

#### Constraints and challenges faced during the year:

- Worsening macro- and socio-economic conditions and constrained consumer spending
- Currency weakness and hyperinflation in Rest of Africa

Relevant material issue: "Consumer environment" and "Foreign investment returns" – refer pages 33 and 37

### Manufactured

We use physical infrastructure within our operations that includes our store estate, distribution capacity, and information technology platforms. We rely on this manufactured capital to procure, transport, store and display our products in a range of store formats – enabling us to serve customers across a diverse socio-economic spectrum.

#### Capital inputs at the beginning of the year included:

- 1 795 stores
- 5 support offices
- 14 distribution centres and two online distribution centres
- Valued partnerships with transport logistics providers

#### Constraints and challenges faced during the year:

- Extended periods of electricity load shedding in South Africa and the impact on operations
- Escalating cost of energy, fuel, water and other utility costs

Relevant material issue: "Security of supply"; "Digital security"; "Climate change" – refer pages 35 to 38

### Intellectual

The knowledge, systems and processes contained within the Group, enable us to understand our customers and how we can serve them better. Centralisation, including advanced forecast and replenishment systems, supports greater operational efficiency, alongside our outstanding information technology infrastructure. We have a growing own brand range with products to suit every customer's budget.

#### Capital inputs at the beginning of the year included:

- 3 strong brands: Pick n Pay, Boxer and TM Supermarkets
- Smart Shopper loyalty programme
- Enterprise-wide SAP operating and reporting system
- Growing own brand offer

#### Constraints and challenges faced during the year:

- Increased cybersecurity concerns
- Excess stockholdings in certain product lines

Relevant material issue: "Security of supply" and "Digital security" – refer pages 35 and 36

### Human

Our valued staff across Pick n Pay, Boxer and TM provide critical skills, talent, ambition and diversity that underpin a winning team. We rely on and invest in our human capital to provide our customers with convenient and reliable access to high-quality, safe and competitively priced products and valued-added services, with great service in outstanding stores.

#### Capital inputs at the beginning of the year included:

- 53 600 employees in our company-owned business
- 35 000 employees across our franchise stores

#### Constraints and challenges faced during the year:

- Some labour disruption as the Group transitions towards a more formal, functional outsourced model in its supply chain
- Economic events and conditions outside the control of management which constrain its ability to meet performance targets

Relevant material issue: "Talent management" – refer page 37

### Social and Relationship

We have developed relationships with our stakeholders, governed by our values and the enduring principle that doing good is good business. We rely on these relationships to earn the loyalty of our customers, generate more jobs, contribute to the communities we serve and to develop local suppliers and small businesses.

#### Capital inputs at the beginning of the year included:

- Customer-led long-term strategy
- Meaningful corporate social investment programme
- Strong platforms for stakeholder engagement
- 10 000 local suppliers and service providers, from whom we procure goods and services

#### Constraints and challenges faced during the year:

- Low economic growth and high unemployment impacting the socio-economic welfare of the communities and customers we serve
- Community protests in response to lack of local municipal service delivery led to store closures in our more vulnerable communities

Relevant material issue: "Consumer environment" – refer page 33

### Natural

We utilise environmental resources during production, distribution and the sale of consumer products. We are committed to reducing our consumption of natural and scarce resources in our operations and, with thousands of suppliers and millions of customers, we are extremely mindful of our broad reach and our broad impact.

#### Key environmental impacts last year:

- Carbon footprint – 649 192.4 CO<sub>2</sub>e tonnes
- Water consumed – 1 128 megalitres
- Waste diverted from landfill – 53.5%

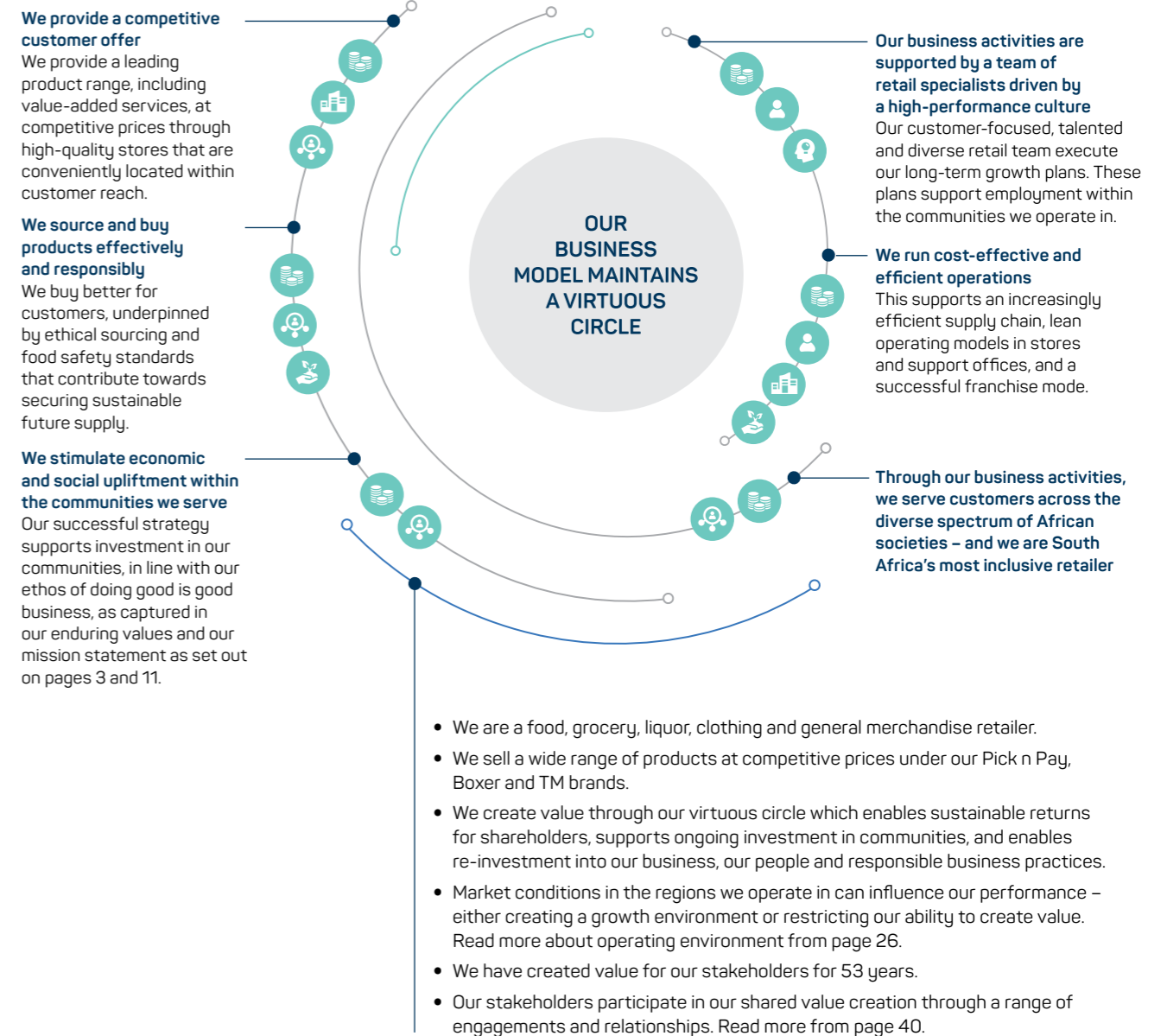
#### Constraints and challenges faced during the year:

- Severe drought in the northern parts of South Africa, and in Zambia and Zimbabwe
- The impact of water scarcity on hydro-electricity in Zambia and Zimbabwe, and sustained and prolonged power outages in these regions

Relevant material issue: "Climate change" – refer page 38

## We rely on the capitals to undertake our primary business activities, supported by our value drivers

Our operating model ensures we utilise our capital inputs across our retail operations in the most effective and efficient manner to optimise our capital outputs and outcomes for all. Our business model maintains a virtuous circle which balances the needs of our stakeholders in a fair and effective manner, while effectively managing the trade-offs between our capitals.



## Key business activities transform the capitals during the year

### Our capital outputs

Our capital outputs include the wide range of products and services that we sell to our customers under our Pick n Pay and Boxer brands, including food, groceries, clothing, general merchandise and other value-added services. As a result of our retail operations, we produce by-products and waste, and we remain committed to reducing our environmental impact.

### Our capital outcomes

Our capital outcomes include a range of internal and external consequences for our stakeholders, which are outlined in more detail on the following pages of this report.

## Actions to enhance positive outcomes, minimise negative outcomes, and manage our capital trade-offs

Our capitals are transformed by our business activities and strategic business decisions. As part of this, we have to prioritise certain resources and stakeholder requirements above others (capital trade-offs). We have a strong and experienced management team that operates within a sound risk management framework that considers the social and environmental impact of our decisions and operations. This ensures that our business can grow, adapt and innovate, without placing stakeholders under undue risk. Read more about our risk management from page 32.

Our capital trade-offs are further informed by our corporate governance framework, which ensures that we align our interests with those of our stakeholders and deliver sustainable value and a leading customer offer. Our ethical value system further guides our everyday decision-making. Read more in our governance section from page 82.

### Financial

#### Actions taken to enhance positive and minimise negative outcomes:

- Group comparable sales growth of 4.7% and 5.1% in South Africa**, with greater clarity and relevance from Pick n Pay's store segmentation and range optimisation initiatives
- Selling price inflation kept to 2.6%**, with ongoing investment in the customer offer
- Gross profit margin improvement from 19.1% to 19.7%**, with optimisation across the supply chain
- Growth in trading expenses contained at 6.3%** – notwithstanding the significant impact of load shedding on operating costs
- Rest of Africa operations** – tight cost control, stronger working capital management and improved operational efficiency unable to mitigate full impact of currency weakness and hyperinflation, with comparable segmental profits down 57.3% year-on-year
- Tax rate up 6.9 percentage points to 31.2%** – driven by losses in jurisdictions outside South Africa, and falling share scheme obligations as a result of the Group's lower share price

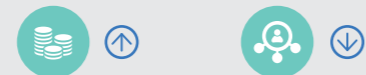
### Manufactured

#### Actions taken to enhance positive and minimise negative outcomes:

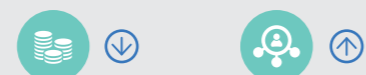
- R1.7 billion of capital investment** – 83% directed to improving our customer experience
- R545 million invested in 160 new stores across all formats**
- R874 million invested in modern store refurbishments**, including the refresh of our flagship On Nicol store in Johannesburg – with an improved layout, lower shelves, wider aisles and more energy-efficient lighting and refrigeration
- Converted four under-performing Pick n Pay stores to Boxer stores**, leveraging the flexibility of the Group's operating model to maximise returns
- Closed 30 under-performing stores this year**, to improve the overall quality of the estate
- Increased the volume of centralised supply in Boxer**, with the move to a larger distribution centre in KwaZulu-Natal
- Appointed new online logistics provider**, and invested in a dedicated online services team

#### Examples of capital trade-offs:

The COVID-19 pandemic created economic and operational upheaval after year-end, with significant volatility in debt and equity markets. The Board elected to preserve cash until the full impact of the crisis on Group earnings could be reasonably known, and deferred its final FY20 dividend decision. This prudent action has preserved the Group's liquidity and financial capital at a difficult time, but has disappointed some shareholders.



We are mindful of political and economic risk in Zimbabwe, particularly in respect of currency illiquidity and rising inflation, and the impact thereof on Group profitability and the value of our investment in TM Supermarkets. However, the TM business is cash generative and self-funding in Zimbabwe, and will continue to invest in the refurbishment of its stores, and in its customer offer. This enhances social and relationship capital without materially jeopardising financial capital.



#### Examples of capital trade-offs:

Investment in growing Boxer's centralised distribution channel adds operating cost and inventory in the short term, but unlocks opportunity for longer-term cost savings and efficiency gains across the distribution channel.



Changing service providers is often difficult, and can have an impact on social and relationship capital; however, it is important to advance business efficiency wherever possible. Pick n Pay's new online logistics provider and dedicated customer services team delivered an improved on-time delivery rate of 98% and an improved customer satisfaction rating of 96%.



### Social and relationship

#### Actions taken to enhance positive and minimise negative outcomes:

- We partnered with nine new entrepreneurs in our Spaza-to-Market store initiative** – regenerating neighbourhood convenience stores
- Pick n Pay's Small Business Programme supports over 200 small businesses**, with 125 of these supplying products and services to Pick n Pay
- Launched our Pick n Pay Small Suppliers Toolkit**, a step-by-step information guide on how to do business in the retail environment
- 150 entrepreneurs receive business advice and mentorship from Pick n Pay**, through our recently launched mentorship app
- Pick n Pay partnered with the SAB Foundation and the National Treasury's Job Fund initiative**, to direct R20 million to developing five small scale farmers, addressing both unemployment and food security in South Africa
- Low prices on fresh produce and Live Well products**, providing our customers with greater access to healthy choices
- Ongoing investment in our loyalty customer** – issued over R4 billion in personalised vouchers to Smart Shoppers this year, with voucher redemptions up 50%

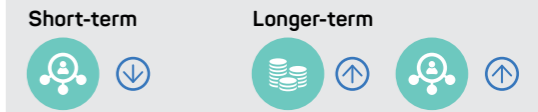
### Human

#### Actions taken to enhance positive and minimise negative outcomes:

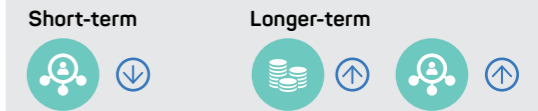
- Employed over 4 000 new employees** and recognised high performance with almost 2 000 promotions
- Restructured Pick n Pay's management team** to align with re-organised store segments (Value, Core and Select)
- Improved performance management** – over 95% of all performance appraisals and goal-setting tasks completed
- Investment of R65 million in training and education** – benefiting 11 000 employees. Investment focused on building a diverse team:
  - 96% of spend on black employees
  - 64% of spend on female employees
- Improved racial diversity in senior management from 74.2% to 76.8%**
- Secured new 3-year labour agreements** with the main labour unions in our Pick n Pay and Boxer supermarkets
- Transitioned our labour model in our distribution centres**, which caused some supply chain labour instability over the key festive season

#### Examples of capital trade-offs:

Pick n Pay re-organised its store operations into three customer-focused segments (Value, Core and Select) and tailored its product offer to meet the needs of customers served. In Value stores, this has led to range reduction, lower stockholdings, improved availability, less waste and stronger volume growth. But it has meant more difficult engagement with suppliers, where key product lines have had to be prioritised above others.

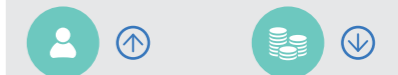


The Group is committed to bringing small local suppliers into our supply chain, in particular in order to expand our fresh produce reach and grow our own brand offer. However, we follow stringent health and safety standards across our supply chain, to protect the well-being of our customers. If small suppliers and entrepreneurs are unable to meet our rigorous health and safety requirements effectively and consistently, we cannot stock their products in our stores.



#### Examples of capital trade-offs:

The Group remains committed to providing our employees with fair remuneration, including a suite of benefits which promotes the well-being of our employees in a difficult economic climate. The Group provided above-inflation increases in salaries and wages this year, with higher increases paid to lower levels of employees. As a result, we enhanced our human capital, but absorbed on average a 6% to 7% increase in salaries and wages.



The Group is transitioning from a supply chain labour model which included partnerships with numerous labour brokers, to a more formal functional outsourced model. The transition caused some labour disruption in our Longmeadow distribution centre over the key festive period; however, it is an important step in driving formal measures of productivity and efficiency across the supply chain.



- Strong performance
- Satisfactory progress
- Disappointing, more to do



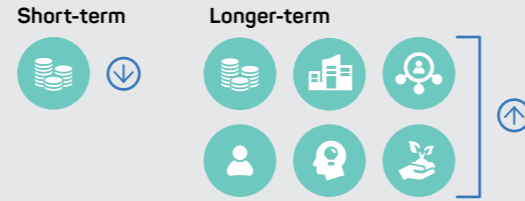
### Intellectual capital

#### Actions taken to enhance positive and minimise negative outcomes:

- Over 1.0 million new TymeBank accounts – taking the low-cost, fully digital banking platform to 1.2 million customers at year-end
- Grew banking transactions at our point of sale by 27% – now accepting cash deposits on behalf of nine South African banks
- Partnered with Hollard to offer a broad range of insurance solutions – 8 000 insurance policies sold
- 150 000 customers now use our Pick n Pay store card – with rigorous processes to ensure a responsible low-cost credit offer
- Pick n Pay Online introduced a “Grocery Genius” service – enabling customers to set up an automatic weekly or monthly delivery
- Pick n Pay redesigned and relaunched over 5 000 own brand products

#### Examples of capital trade-offs:

Investment in our online and digital capabilities, including greater cyber security, reduced our stock of financial capital in the short term; however, in the longer term this investment will enhance all capital stocks through greater operational efficiency and information security.



Due to increased cybersecurity concerns, prepaid electricity purchases and third party bill payments were disabled from the Pick n Pay Online app. This has afforded greater protection for our customers, but has impacted the convenience of our offer.



### Natural capital

#### Actions taken to enhance positive and minimise negative outcomes:

- Sold 2.0 million re-usable shopping bags, 25% more than last year, and recycled 2.7 million plastic bottles in the manufacture thereof
- Introduced nude fruit and vegetable walls and re-usable netted produce bags to reduce unnecessary plastic bag usage
- Organised community clean-ups and, with over 1 000 volunteers, collected almost 2 000 kilograms of waste
- Contributed 1 651 tonnes of edible surplus food to FoodForward SA – for distribution to 800 beneficiary organisations that feed 250 000 people every year
- Diverted 60% of our waste from landfill and recycled a total of 14 212 tonnes of cardboard and paper, 1 500 tonnes of plastic and 13 tonnes of metal
- Generated 7 726.3 MWh of solar energy, reducing our carbon footprint by 8 035.4 tonnes CO<sub>2</sub>e. Pick n Pay's carbon emissions (scope 1 and 2) were up 8.4% year-on-year. Please refer to page 78 for further information.
- Partnered with several collaborative initiatives aimed at advancing our progress and contribution towards a healthier planet, including the 10x20x30 Food Waste Initiative and the South African Plastics Pact

#### Examples of capital trade-offs:

To find more energy-efficient and environmentally friendly ways to do business, we invest in energy-efficient lighting and refrigeration, rainwater harvesting and recycling initiatives across our stores and distribution centres. This reduces our stock of financial capital but supports long-term business sustainability



The Group relied heavily on generators during the final quarter of its financial year, in order to keep its stores, supply chain and support offices fully operational during extended periods of load shedding. The increased use of diesel added to the Group's carbon emissions over the year, but allowed us to continue serving our customers with essential food and groceries.

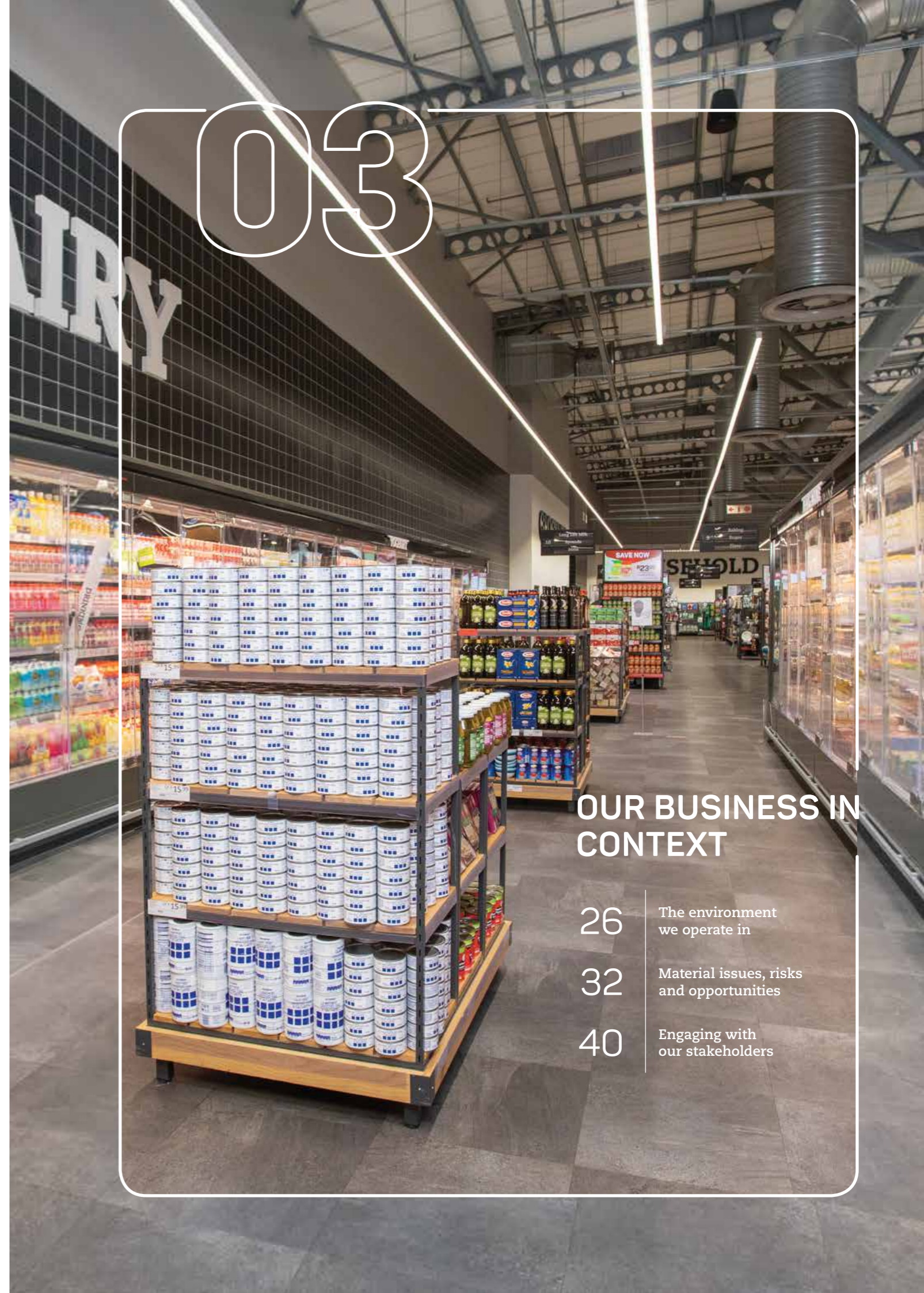


- Strong performance
- Satisfactory progress
- Disappointing, more to do

### Outlook for 2021

Over the coming months, businesses will devote much of their focus to navigating the disruption and uncertainty brought by COVID-19. This will require operational flexibility and dexterity in decision-making. The effectiveness of the Group's operating model has been tested many times over more than five decades, and its sustained value creation under exceedingly challenging economic conditions is testament to the quality of the Group's management team and the strength of its long-term plan.

We are confident that the actions taken during the year, and indeed over the past seven years of our turnaround strategy, have positioned us well for long-term growth, enabling us to match future capability requirements with available capital inputs, notwithstanding exceedingly challenging circumstances. Furthermore, we recognise the growing risks around climate change and the need for responsible, ethical business practices that support the social and economic well-being of communities. We will therefore continue to place a strong focus on being an environmentally-conscious retailer that is responsive to the needs of our customers and the regions within which we operate.



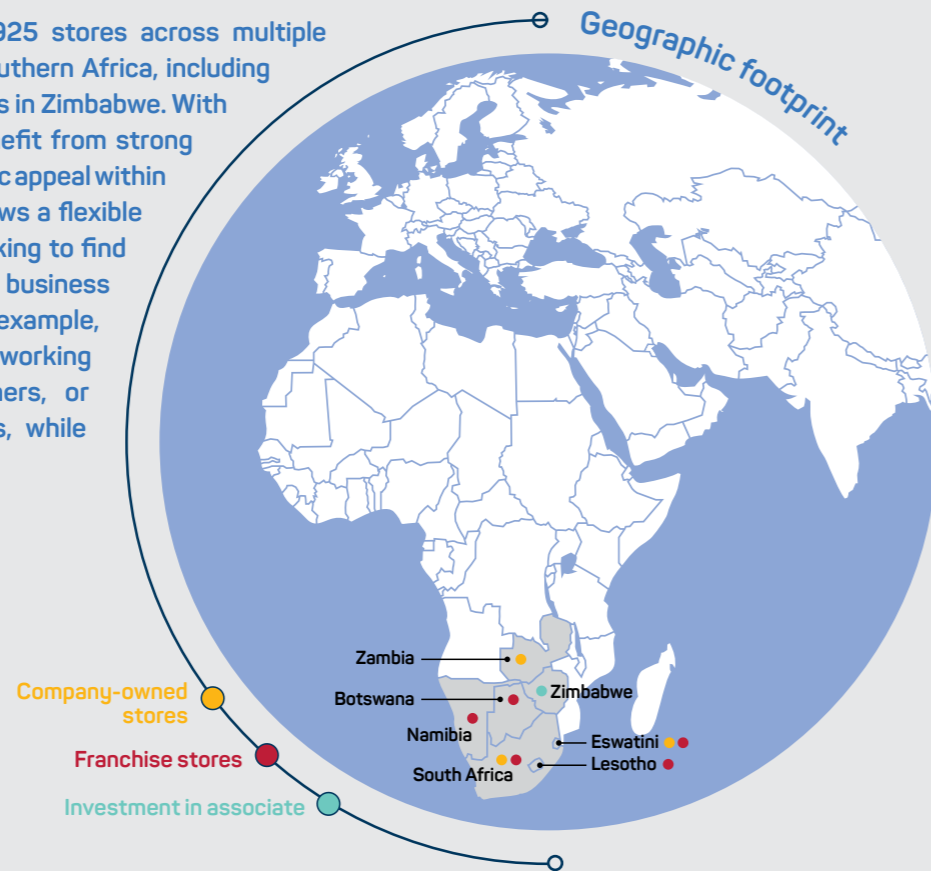
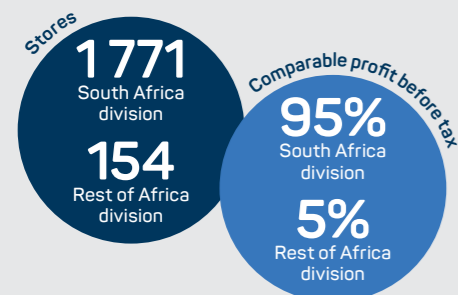
## OUR BUSINESS IN CONTEXT

- 26 The environment we operate in
- 32 Material issues, risks and opportunities
- 40 Engaging with our stakeholders

# THE ENVIRONMENT WE OPERATE IN

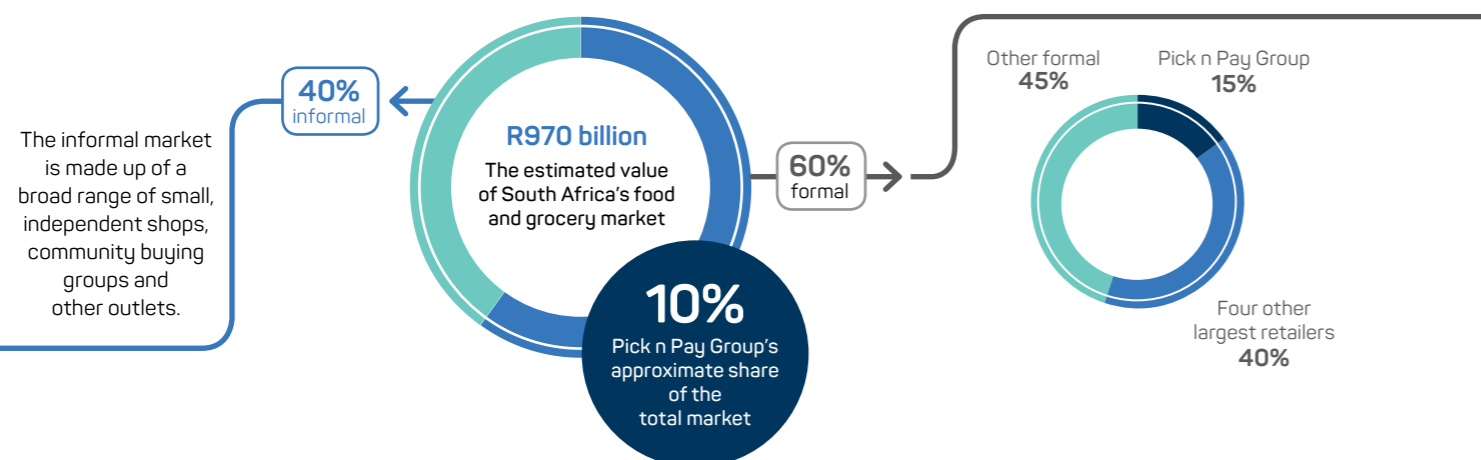
The Pick n Pay Group operates 1 925 stores across multiple formats in seven countries across southern Africa, including a 49% investment in TM Supermarkets in Zimbabwe. With a celebrated 53-year history, we benefit from strong brand loyalty and broad socio-economic appeal within the regions we serve. The Group follows a flexible investment and operating model, seeking to find the most effective and appropriate business model for a particular region; for example, operating company-owned stores, working alongside effective franchise partners, or investing in an established business, while providing management support.

Contribution to Group performance:



## An overview of the South African market

South Africa's retail market is diverse and markedly disparate in income and geography. The food and grocery sector is complex and includes a large informal sector. The total market had an estimated value of R970 billion in our FY20 year, with approximately 60% of the market considered formal and 40% informal. The formal South African food and grocery market is highly competitive. Five large retailers, including the Pick n Pay Group, account for between 50% and 55% of sales. With comparable turnover of R85.6 billion from its South African segment in FY20, it is estimated that the Pick n Pay Group has an almost 10% share of the total market, and around 15% of the formal market.



## South Africa – the year in review

The Group traded in increasingly difficult economic conditions throughout the year, characterised by low growth, high unemployment, rising household costs and constrained consumer spending. The South African economy grew by just 0.2% in 2019, the lowest GDP print in a decade. The negative trajectory dampened investor confidence, with the economy contracting by 1.4% in the fourth quarter of 2019, following a 0.8% contraction in the third quarter.

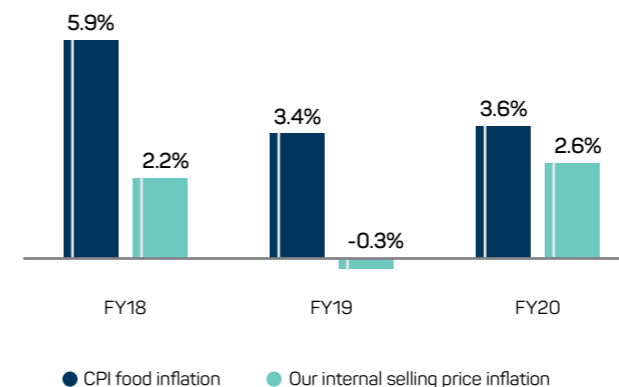
International investor concerns included the ongoing economic policy uncertainty in South Africa, a lack of structural reform and an unreliable national electricity supply – with prolonged periods of load shedding impacting the Group's performance in the final quarter of FY20. The local ZAR currency remained weak against the US dollar, but was largely range-bound over the course of the year, closing at 15.6 ZAR to 1.0 USD at year-end. Internationally, unstable trading relationships between the world's largest economies added to the global economic slowdown, which exacerbated jitters in emerging market equity markets.

Pick n Pay's core South African division delivered strong earnings growth in this difficult trading environment, with comparable profit before tax up 15.2% year-on-year, underpinned by sustained gross profit margin improvement and stronger cost discipline. Our South African Pick n Pay and Boxer teams acted decisively in this difficult consumer environment, guided always by a strong long-term plan, designed to meet customers' changing needs. Pick n Pay re-organised its store operations into three customer segments: Value, Core and Select, which enable the team to deliver a more relevant range, alongside more focused pricing, promotions and engagement for each customer segment served.

Consumer trends continue to evolve, but at the core is the constant need for trusted quality and greater value. The Group has taken deliberate steps to become a more efficient and cost-effective organisation, in order to invest all cost savings and efficiency gains back into its customer offer, including on lower prices on the products that matter most to our customers.

The Group delivered internal selling price inflation of just 2.6% in FY20, well below CPI Food inflation of 3.6%, and alongside thousands of lower prices on food and groceries, Pick n Pay provided even more personalised discounts to its Smart Shopper loyalty customers, and greater value through our newly launched Smart Price promotions.

The Group augmented its strong fresh offer with the upgrade and relaunch of over 1 500 produce, bakery, protein and prepared convenience lines, and refreshed over 5 000 own brand products. Boxer continues to provide incredible value to our customers, offering a limited range at affordable prices, and reaffirming their position as the fastest growing limited-range discount format in South Africa.



### Our growth in South Africa

**5.1%**  
Turnover growth

**15.2%**  
Profit before tax growth

**124**  
Net new stores

### South African retail environment 2019 calendar year

**1.2%**  
Annual retail sales growth

**9.75%**  
Prime interest rate

**3.6%**  
CPI Food

**29.1%**  
Unemployment

**72.8%**  
Household debt to disposable income

**0.2%**  
GDP growth and falling by 2.0% over the first quarter of 2020

## Rest of Africa – the year in review

Our Rest of Africa division contributed R4.7 billion of segmental revenue in FY20, up 2.8% in constant currency terms. Difficult trading conditions remain in Zambia and Zimbabwe, which saw the division's segmental profits before hyperinflation fall 57.3% to R90 million over the year. Our Rest of Africa division now contributes 5% to the Group's comparable profit before tax, down from 12% last year.

Our businesses in Botswana, Namibia, Eswatini and Lesotho remained stable over the course of the year, notwithstanding economic and societal challenges across those southern African regions.

The Group's business in Zambia has been under strain for a number of years, with the region battling the economic impact of a severe and prolonged drought, including the effects on business of an erratic power supply as a result of the country's dependence on hydro-electricity. Alongside these challenges, the persistently low copper price has led to higher levels of unemployment and stalled economic growth. Trading conditions in Zambia deteriorated significantly over FY20, with local currency weakness driving up US-dollar based operating costs and fuelling inflation. Power outages were extremely disruptive, with constrained local manufacturing capacity impacting in-store stock availability. Additional costs of working related to power outages include diesel costs, higher levels of waste of perishable items, and escalating repair and maintenance costs.

The Group's associate in Zimbabwe, TM Supermarkets (TM), has faced a series of challenges over the past 18 months. Zimbabwe has experienced severe currency illiquidity and currency devaluation, which has driven high levels of food and cost inflation, and shortages of fuel and other staple goods. The fair market value of the local Zimbabwean dollar has fallen from 3.3 Zimbabwe dollars to 1.0 US dollar last year, to 30.8 Zimbabwe dollars to 1.0 US dollar at the end of FY20. The financial performance of TM reflects these significant challenges, including the impact of severe power and water

shortages, which have disrupted trade and added further cost to the business. Our share of TM's income fell from R109.0 million last year to R66.3 million this year, impacted by foreign exchange losses on the translation of foreign liabilities of R79.4 million, and including a net monetary gain of R43.2 million on the application of hyperinflation accounting in the region. The Group assessed the fair value of its investment in TM to be R50.4 million, down from R184.4 million last year. TM remains cash generative and self-funding, and will continue to invest in the store estate and customer offer.

### Our growth in the rest of Africa

**2.8%**  
Constant currency revenue growth

**R90 million**  
Segmental profit before hyperinflation

**-57.3%**  
Growth in segmental profit before hyperinflation

**6**  
Net new stores

## Looking ahead through the COVID-19 crisis

The close of the Group's FY20 financial year on 1 March 2020 coincided closely with the beginning of the COVID-19 outbreak in South Africa, with the first confirmed case in the country announced a few days later. President Ramaphosa declared a National State of Disaster on 15 March, and imposed a nationwide lockdown from 27 March 2020. Following years of economic decline, South Africa was officially downgraded to sub-investment grade by international credit agency Moody's on that same day.

It is not yet possible to accurately predict the trajectory and outcome of the COVID-19 outbreak. There is little doubt that the pandemic will have a broad and substantive impact on global and local economies, with far reaching implications for consumer confidence, consumer spending and the future and shape of the grocery retail market. The ultimate size and duration of the economic impact of COVID-19, and specifically the impact of the pandemic on future Group earnings, will depend on:

- the extent and duration of the COVID-19 outbreak globally, and particularly in the southern African regions we serve;
- the speed and effectiveness of the public health response locally and internationally;
- the duration and extent of South Africa's nationwide lockdown, including the government's risk-adjusted response and its movement between risk levels (with the greatest economic impact felt at Level 5 and Level 4);
- the risk of reinfection in any part of the globe, leading to a second wave of disruption and economic damage; and
- the global and local policy response, and its ability to mitigate the financial and economic losses resulting from the measures to suppress the pandemic.

Depending on how each of the above factors could play out, economic forecasts (which are constantly being updated) range from:

- an "optimistic" scenario in which disruption to the economy, albeit significant, lasts for three to four months, but is followed by a rapid growth rebound; and
- a "pessimistic" scenario in which the outbreak and the disruption flowing from it extends into 2021, resulting in a prolonged global and local recession.

Under either scenario, the economic recession in South Africa will deepen significantly, with current annual GDP forecasts ranging from around -5% to -9% in real terms. The Group's earnings are currently impacted as a result of the mitigation measures taken by the government to combat COVID-19. However, the many uncertainties under which we are operating means that it is simply not possible at this stage to estimate or quantify the likely impact over the full FY21 financial year.

In the face of this unprecedented crisis, the Group will remain focused on our long-term plan and will pursue retail growth opportunities across the broad socio-economic spectrum of southern Africa.

The Group has a solid track record of delivering sustainable growth, with increasing returns on investment, in difficult times. Our strategy, while accelerated, is unchanged. We will become a more cost-effective and agile business, in order to provide greater value, relevance, and convenience for customers, in stores with a wider reach. The COVID-19 pandemic has provided our Group with an even deeper understanding of the core range of products on which our customers genuinely depend, in good times and bad. The Group will work closely with suppliers to provide low prices on these essential items, and to ensure we always remain in-stock.

## ESTIMATED IMPACT OF COVID-19

Restrictions on trade and social movement

Short-term fiscal support for consumers and businesses

GDP contraction of at least **7.2%** in South Africa (National Treasury)

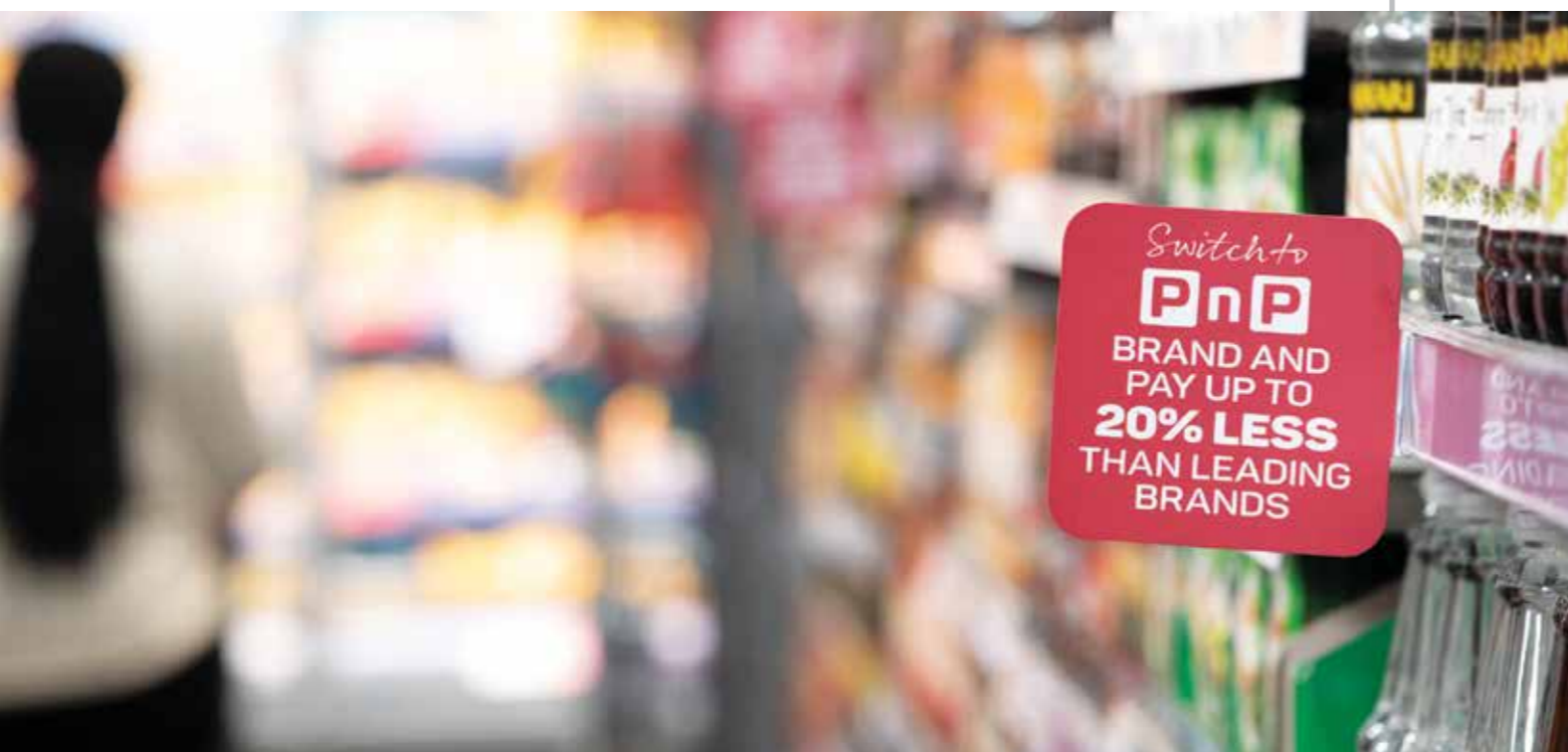
Budget deficit **>10%** in South Africa (National Treasury)

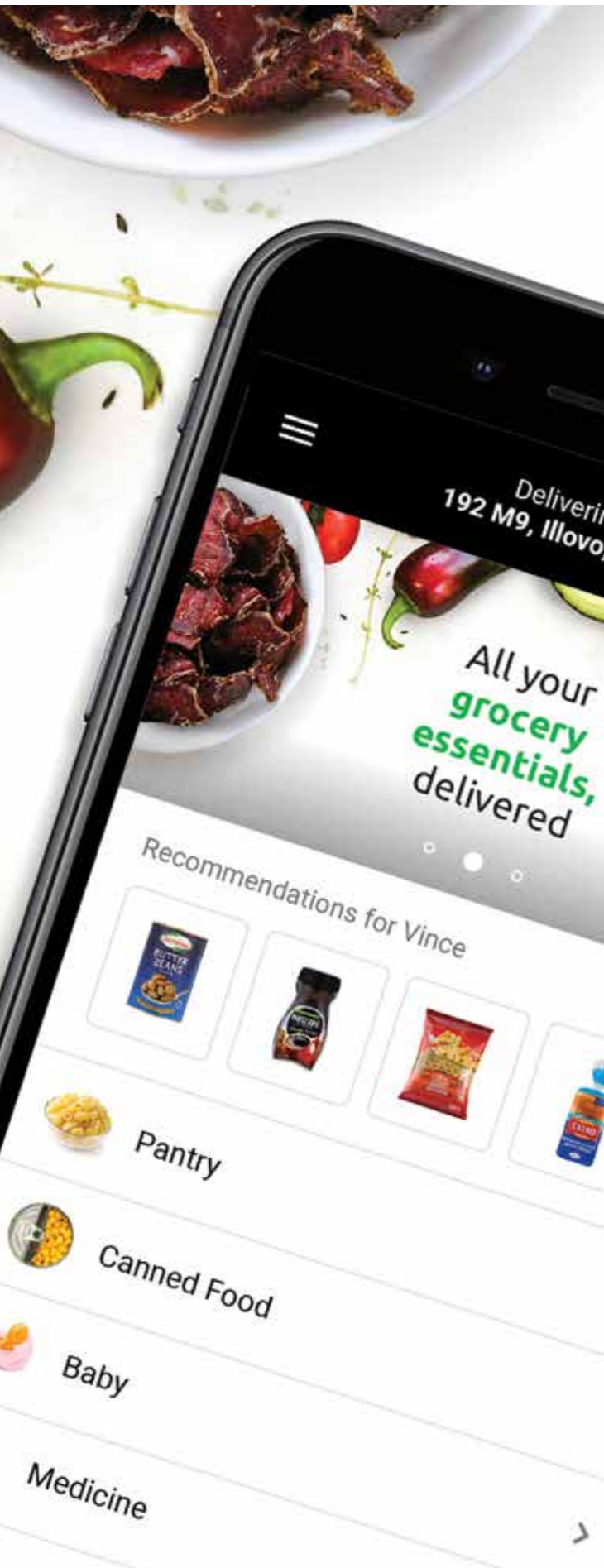
SA government debt to GDP to grow from **61.6%** to **84.6%** by 2021 (IMF)

High and rising unemployment

CPI pressure from higher operating costs and a weaker ZAR

Zimbabwean GDP projected to decline **7.4%** in 2020, and Zambia's to decline by **3.5%** (IMF)





## Capturing growth

Our wide range of company-owned and franchise supermarkets are supplemented by a strong clothing, liquor, general merchandise, health and beauty and value-added services offer. The flexibility of our operating model allows for a best-fit approach to growing our footprint. The Group will expand in the growing lower- and middle-income segments of the market through our smaller Pick n Pay and Boxer formats, and with the valued support of franchise partners. The COVID-19 outbreak has provided a catalyst for a rapid acceleration in online grocery shopping in South Africa, and we intend to build on our position as the largest and most reliable player in the market.

The Group will be focused and measured in our capital allocation. We will expand our store network into areas where the Pick n Pay and Boxer brands are currently under-represented, and will continue to refurbish stores to ensure we optimise our existing footprint and drive higher trading densities. There are many communities across the country that would benefit from the Pick n Pay and Boxer offer, and present an opportunity for expansion, be it in urban, peri-urban or rural areas, across the socio-economic spectrum. With this expansion comes the prospect of higher employment opportunities and corporate social investment for the communities in which we operate.

The Group remains committed to its Rest of Africa division as a key engine of growth. We will continue to search for opportunities to expand our footprint outside South Africa in a manner that can deliver adequate return without putting the Group at undue risk. Expansion will be through a limited-range discount format – with a lower cost, more flexible operating model attuned to the needs of local customers.

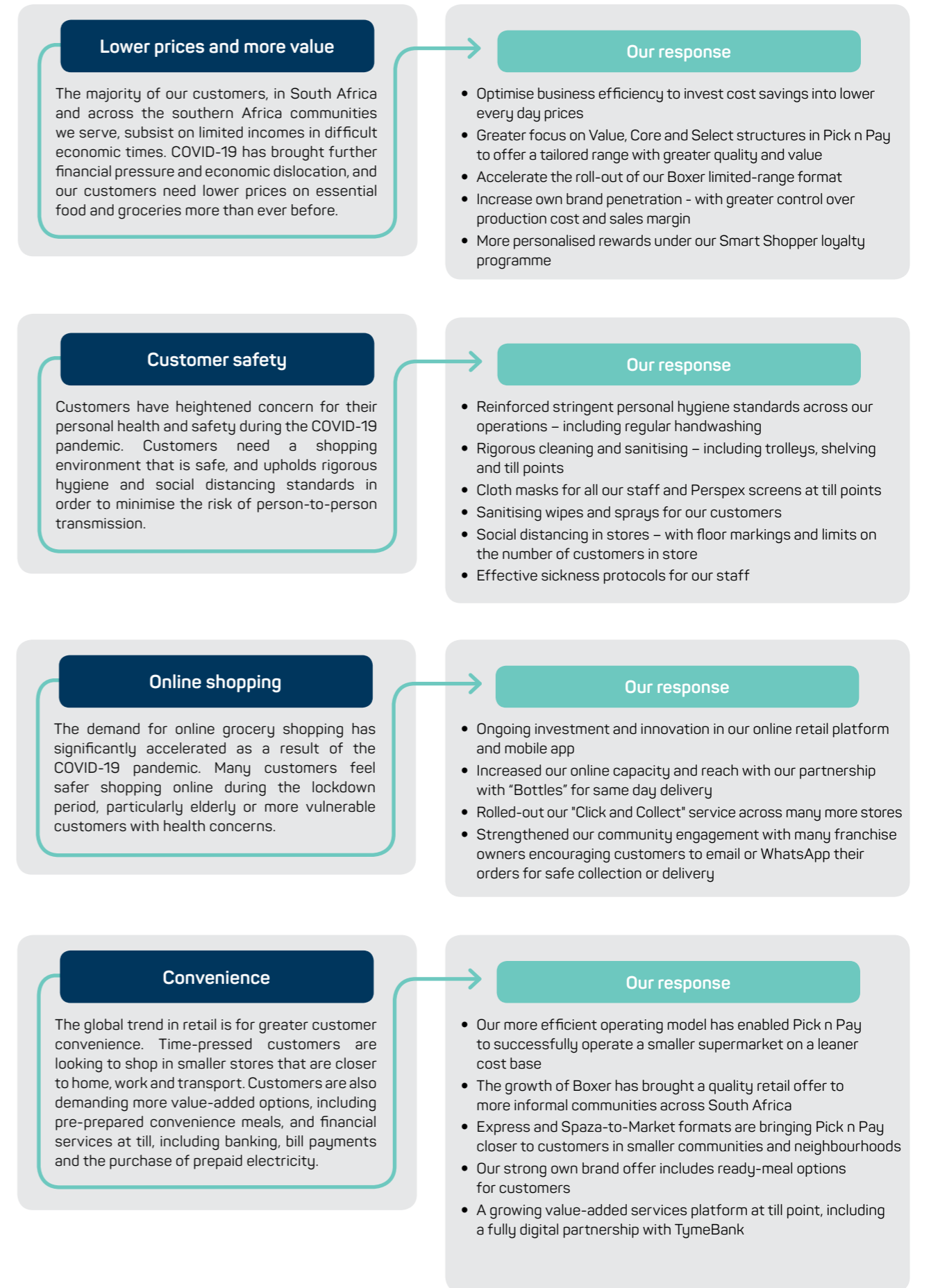


The COVID-19 outbreak has provided a catalyst for a rapid acceleration in online grocery shopping in South Africa, and we intend to build on our position as the largest and most reliable player in the market.



**Richard Brasher**  
Chief Executive Officer

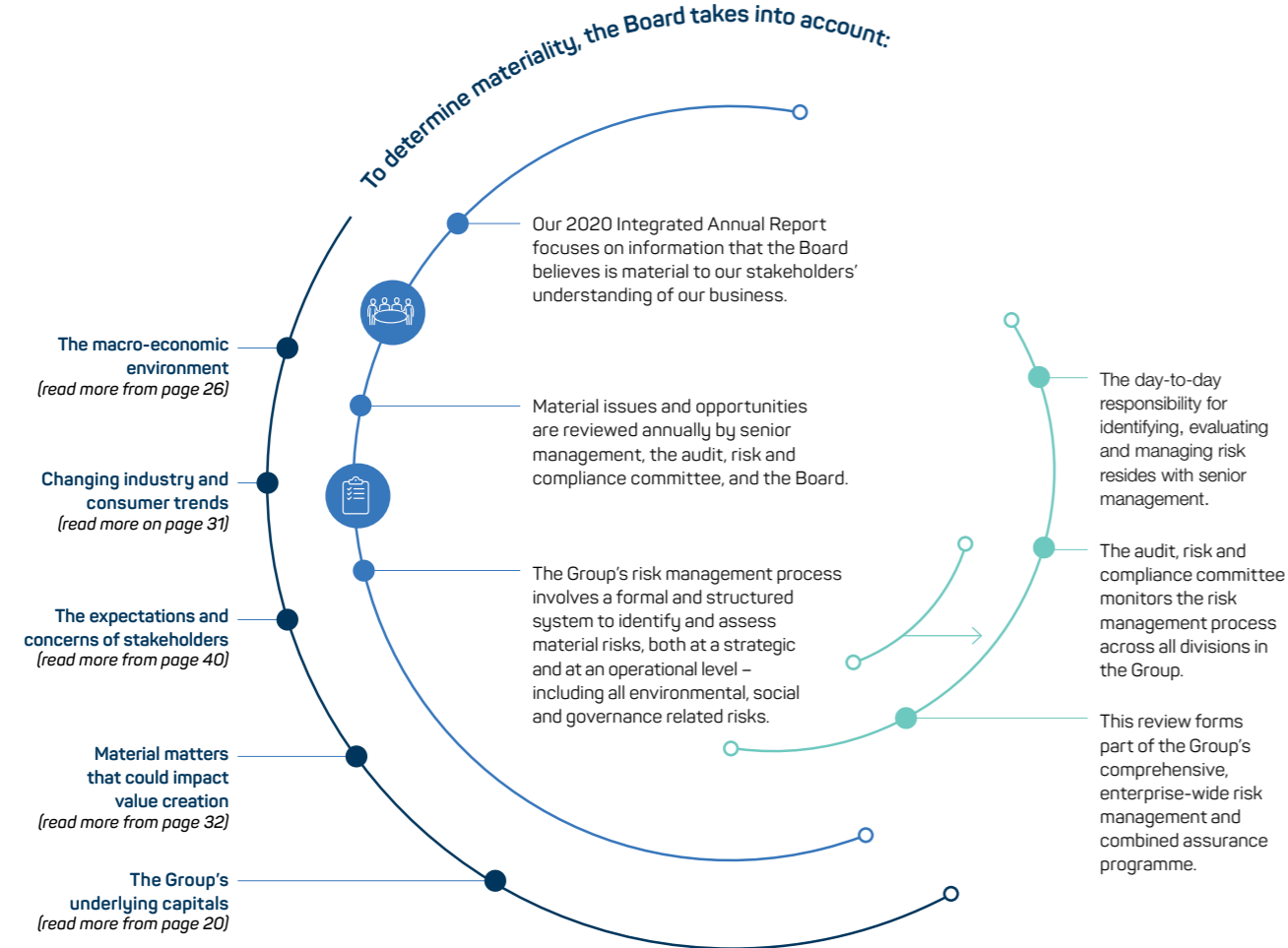
## Our response to current consumer needs and trends



# MATERIAL ISSUES, RISKS AND OPPORTUNITIES

## Our process for determining materiality, material issues, emerging issues, risks and opportunities

Material issues are identified as those items that have the potential to significantly impact the performance and sustainability of the Group.



## Our material issues

As an outcome of the Group's annual materiality review, the Board agreed that all material issues identified in 2019 remained relevant for the 2020 financial year. The Group's most significant issues last year related to the economic climate and overall health of the consumer in South Africa, and across the southern African regions in which we trade.

The Group continued to trade in difficult economic conditions throughout the FY20 year. The COVID-19 outbreak, post the Group's FY20 financial year-end, has turned a difficult situation into an unprecedented one in terms of new economic and operational challenges. The pandemic, and all related trading and social distancing confines, will have a significant impact on the South African economy, our business and on the customers and communities that we serve. As such, the crisis has not only heightened a number of the Group's existing material issues, but has brought a number of new material issues to the fore, which the Group has responded to quickly and effectively.

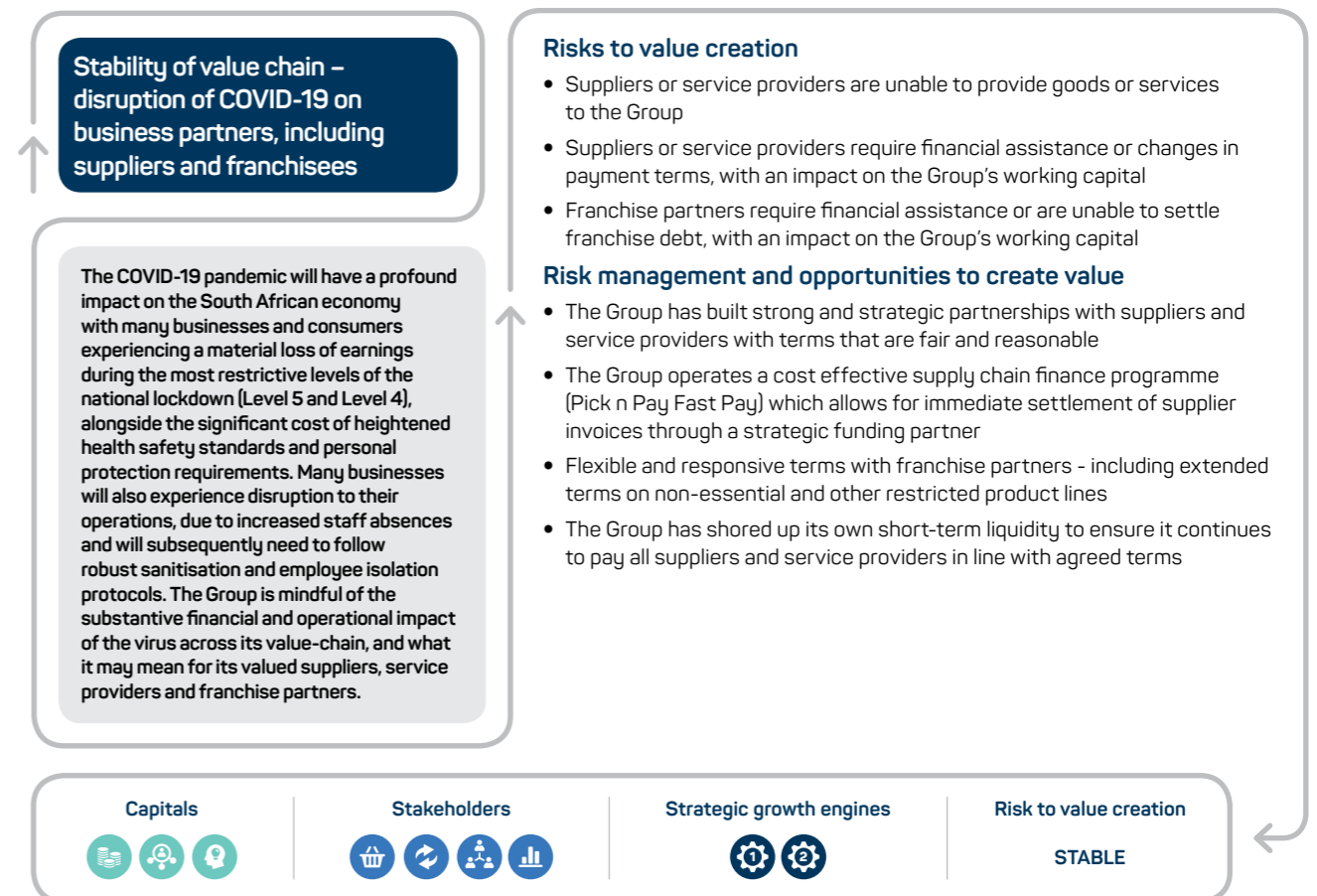
## The Group's Material Issues include:

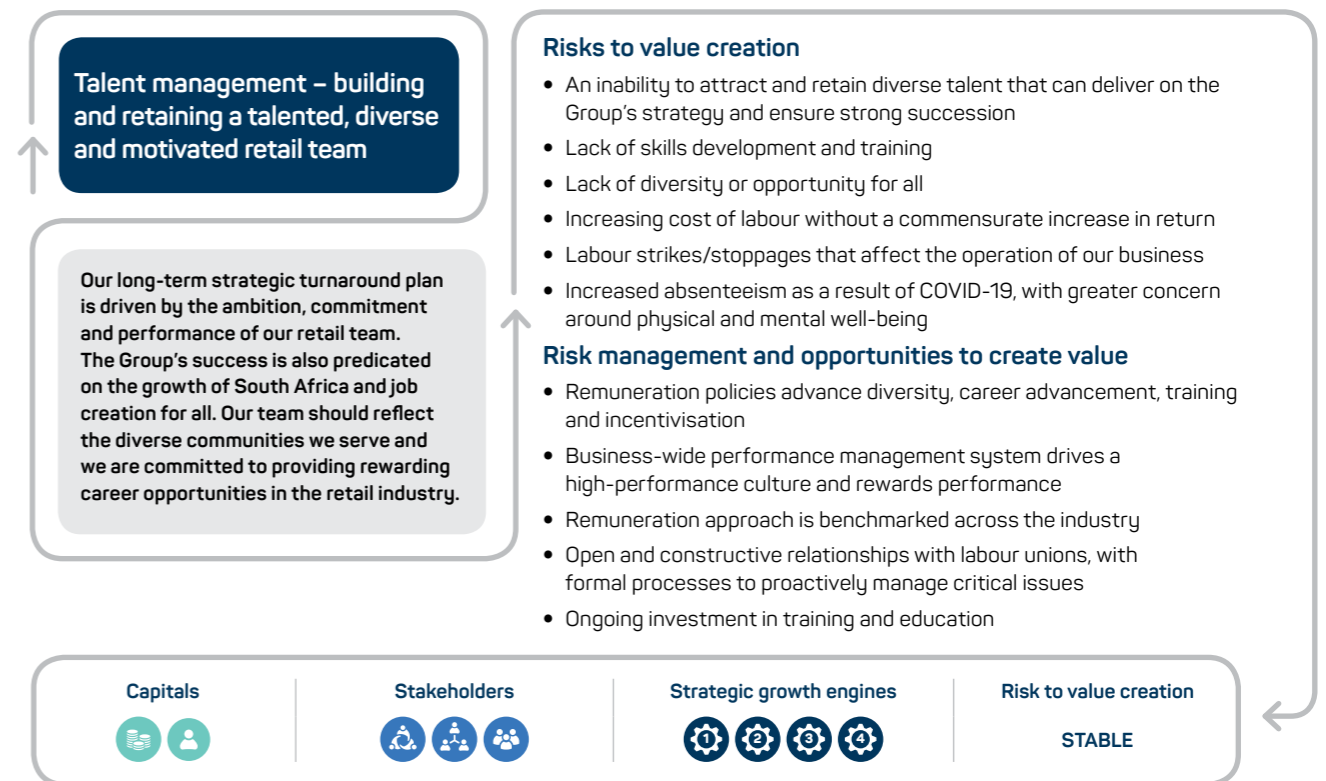
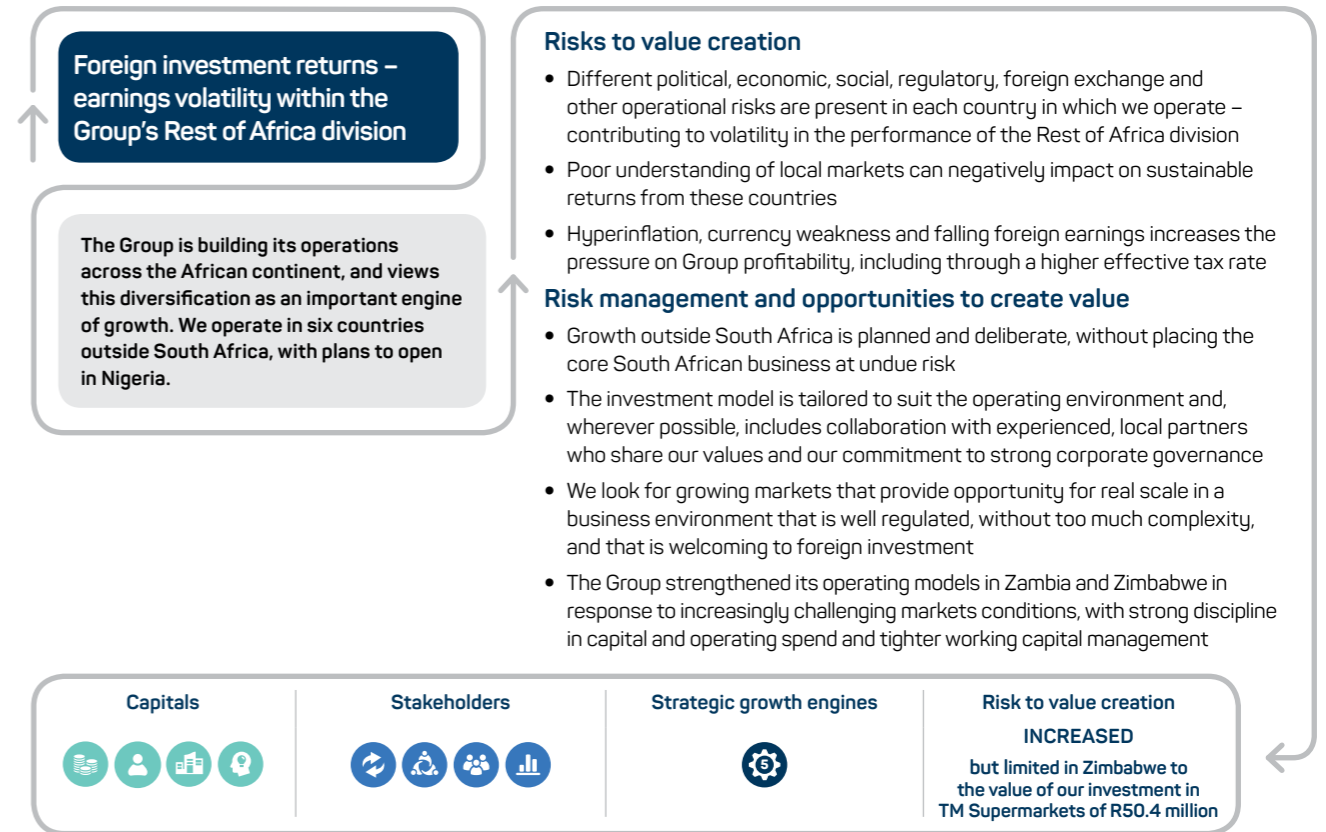
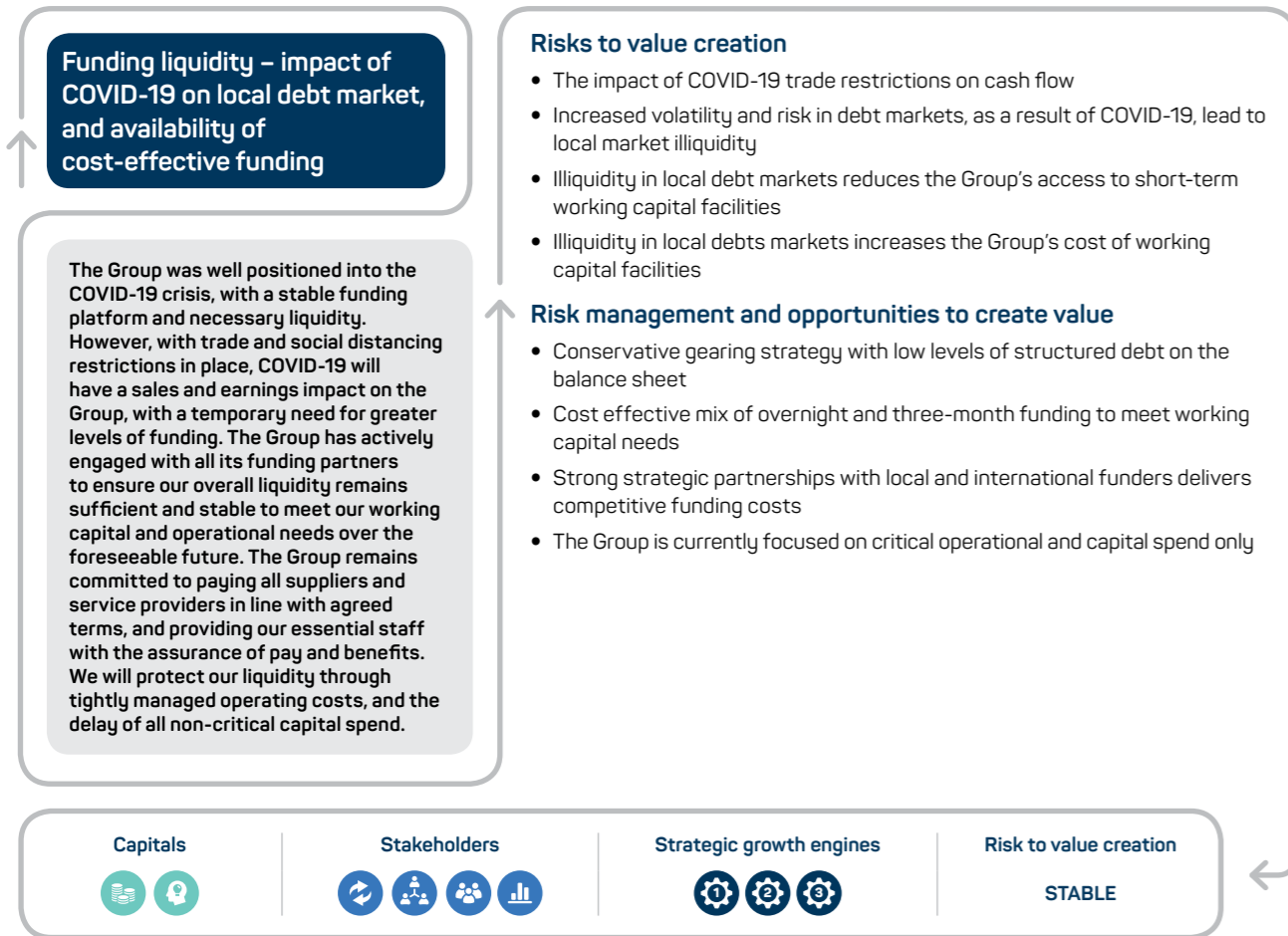
<b>Consumer environment</b>	Increased economic pressure on consumer spend
<b>Regulatory landscape</b>	Trading restrictions under COVID-19 lockdown regulations
<b>Health and safety</b>	Increased health and safety concerns under COVID-19
<b>Security of supply</b>	Particularly of essential food and grocery items
<b>Stability of value chain</b>	Disruption of COVID-19 on business partners, including suppliers and franchisees
<b>Funding liquidity</b>	Impact of COVID-19 on local debt market, and availability of cost-effective funding
<b>Digital security</b>	Safe and secure online retail platform, and secure IT platforms
<b>Foreign investment returns</b>	Earnings volatility within the Group's Rest of Africa division
<b>Talent management</b>	Building and retaining a talented, diverse and motivated retail team
<b>Climate change</b>	Impact of scarce resources and environmental degradation on food and grocery retail
<b>Competitor landscape</b>	The competitiveness of the domestic retail market

The Board appreciates that the strength of its strategy, the identification of material issues, the effectiveness of its risk management, its commitment to social and environmental sustainability and its financial performance are all inseparable elements of long-term value creation. During the year, our Board undertook several discussions related to key issues and topics that could impact our ability to create and protect value for our stakeholders. These discussions are unpacked in more detail on pages 33 to 38 of this report and reflect the issues identified as material by the Group in FY20, and as a result of the COVID-19 crisis.

**We have identified opportunities per material issue to demonstrate how the risks are being mitigated and, where possible, are viewed as growth opportunities for the Group through its strategic long-term plan.**







**Climate change – impact of scarce resources and environmental degradation on food and grocery retail**

Climate change and food security is a concern for our Group and for our all stakeholders, particularly as poverty and hunger are so prevalent across South Africa and the regions we serve. In addition, climate change and changing weather patterns could disrupt the availability of raw materials and energy supply as well as operations along our supply chain. The Group is therefore committed to reducing our impact on the environment and building the resilience of our operations. To help mitigate risks that threaten food systems in the long term, we explore opportunities to contribute to a circular economy, source environmentally sustainable commodities and strive to reduce our climate impact across our business and value chain.

**Risks to value creation**

- Climate change poses a significant threat to:
  - Ecosystems and biodiversity
  - Food availability and food quality
  - Sustainability and prosperity of the agricultural sector
  - Water resources
  - Broad economic and societal well-being

**Risk management and opportunities to create value**

- Pick n Pay was the first South African retailer to sign up to the 10x20x30 Food Waste Initiative, working with suppliers to reduce food waste by 50% by 2030
- Our Chairman, Gareth Ackerman, co-chaired the international Consumer Goods Forum for two years (2016–2017) and remains the chair of the Consumer Goods Council of South Africa. The international forum brings together consumer goods manufacturers and retailers from around the world to address some of the most important opportunities and risks facing our industry globally. This includes matters linked to climate change and its impact on the food retail industry
- We have joined collaborative initiatives to support our contribution towards a healthier planet. These include, among others, The New Plastics Economy Global Commitment and The Roundtable for Sustainable Palm Oil
- Since starting our energy-efficiency journey, we have reduced our energy use per square metre by 37.4% against a 2008 baseline
- We have increased our percentage of waste diverted from landfill from 43% in 2014 to 60.0% in 2020

Capitals



Stakeholders



Strategic growth engines



Risk to value creation

INCREASED

**Competitor landscape – the competitiveness of the domestic retail market**

South Africa's retail space is strongly contested, with established and emerging retailers operating across the formal and informal markets. The South African retail market has an estimated value of R970 billion, with approximately 60% of the market considered formal and 40% informal. The formal South African food and grocery market is highly competitive, with five large retailers, including the Pick n Pay Group, accounting for between 50% and 55% of formal retail sales.

**Risks to value creation**

- The impact of a strategic competitive move against a major product category or store format
- Increased price competitiveness and promotional intensity resulting in uncompetitive pricing
- Opening or refurbishing stores that do not deliver sustainable returns, or cannibalise existing revenues
- Missing out on the best locations for new stores
- Not attracting or retaining the best franchisees

**Risk management and opportunities to create value**

- Pick n Pay's strong brand loyalty gives the Group a unique competitive advantage
- Boxer is building customer advocacy in South Africa's lower-income and more rural areas
- Flexible formats and an increasingly lean operating model enable the Group to respond quickly to changing consumer needs, including through smaller, convenience formats
- Our strong opening and refurbishment programme is focused on sustainable investment returns
- We maintain open and constructive engagement with developers and landlords
- Pick n Pay operates one of the most successful and mutually beneficial franchise models in the retail industry – with regular and open engagement with our franchisees to ensure value creation for all

Capitals



Stakeholders



Strategic growth engines



Risk to value creation

STABLE



# ENGAGING WITH OUR STAKEHOLDERS

Our ability to create sustainable value depends on open and constructive engagement with our stakeholders.

Stakeholders are parties that can affect, or be affected by, our activities, objectives and policies. We identify key stakeholders through ongoing engagement with individuals, groups and organisations. In this section we detail our engagement with these stakeholders, focusing on those that have either a significant interest in the operations of the Group or significant influence over the way we do business and create value.

## Engagement enables us to:

- Identify and act on issues affecting our stakeholders and our business
- Improve our understanding of stakeholders' expectations, aspirations and interests
- Strengthen the transparency and accountability through which we have established valued relationships
- Consider the concerns and interests of stakeholders when determining our material issues and strategic response (read more about our material issues on pages 32 to 38)

The tables that follow outline our key stakeholder groups, how we engage with them, and the value derived through proactive, open and constructive stakeholder engagement.

**CUSTOMERS**

**We are accountable to those we serve. We engage with customers to quickly respond to their changing needs, in order to strengthen the relevance of our offer and drive long-term sustainable volume growth.**

---

**Customers are at the heart of our long-term strategy:**  
Getting "Better for Customers" has been the cornerstone of the Group's strategic progress over the past seven years, and informs all long-term strategic thinking.

**How we engage:**

- Smart Shopper loyalty programme
- Daily engagements in-store
- Dedicated customer director
- Customer care line
- One-on-one meetings, now held online
- Regular customer surveys, forums and panel discussions
- Social media platforms

**How our strategy responds to customers' needs:**

- Operational efficiency – cost savings invested into lower prices and deeper promotions
- Greater relevance – store operations re-organised into Value, Core and Select segments
- Leading product range, with more own brand
- Effective supply chain
- Convenient store locations
- Modern stores through a strong refurbishment programme
- Customer-focused staff training
- South Africa's favourite loyalty programme
- More value-added services, including a competitive financial services offer
- Being a "force for good" in the communities we serve

**What our customers tell us is most important to them:**

- Low prices, good value
- Product quality, traceability, food safety
- Consistently good product availability
- Convenience
- Great stores and service
- Rewards for loyalty
- Community involvement
- Environmental sustainability, including less waste and less plastic

Customers are increasingly concerned about health and wellness, ethics and the environment. This includes a demand for greater transparency about ingredients. In response, Pick n Pay is helping customers make more informed choices and is finding ways to make healthier eating cheaper, easier, and more accessible. For example, we relaunched our Livewell range in FY20 to include easy-to-read labels for smarter, healthier food choices, and introduced nude fruit and vegetable displays in a number of our stores to reduce plastic packaging.

**COMMUNITIES**

**Our success depends on the well-being of the communities we serve. We engage with our local communities to provide meaningful socio-economic support and create opportunities for sustainable economic growth that benefits all. Our community engagement is aligned with stakeholder needs and underpinned by the seven SDGs most relevant to our business (refer to page 52).**

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**Doing good is good business remains a strategic imperative**  
The Group as a "force for good" in the communities it serves is a strategic engine for long-term sustainable growth, recognising that our business will grow hand in hand with our contribution to society.

**How we engage:**

- Our Feed the Nation campaign
- Forums such as township cooperatives, university partnerships and the Pick n Pay School Club
- Individual stores' varied social responsibility programmes
- Small-business development initiatives
- We commit to helping our communities in times of crisis and need
- Collaboration with the Ackerman Pick n Pay Enterprise Development Fund, including community enterprise development and food security initiatives
- Engagement with customers in respect of their environmental concerns, including our work on removing plastic from our business

**How our strategy responds to communities' needs:**

- Job creation
- Economic development and opportunity
- Safety
- Poverty relief, feeding schemes and community outreach programmes
- Investment in schools and other educational initiatives
- Environmental consciousness
- Doing good is good business – and being a "force for good" in our communities is a strategic engine of growth
- Environmentally and socially responsible business practices
- Source from and develop diverse and ethical suppliers
- Job creation through long-term sustainable growth
- Promote healthy and sustainable living

**What our communities tell us is most important to them:**

- Food security – access to quality food at low prices

Pick n Pay is FoodForward SA's largest retail partner. During FY20, we contributed 1 651 tonnes of edible surplus food from our stores to the value of R80 million for distribution to 800 beneficiary organisations that collectively feed 250 000 people every year.

**EMPLOYEES**

**We are committed to building a winning team. We engage with our staff to communicate strategy and responsibilities, identify needs, recognise and reward good performance and hold each team member accountable for their contribution to the success of the Group.**

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**Our team is the key to the successful execution of our long-term strategy**  
Becoming the employer of choice in a highly competitive retail environment is a strategic advantage for the Group. Our remuneration policies are committed to the development and reward of a diverse, high-performance team that delivers on our strategic objectives and creates sustainable value for all stakeholders.

**How we engage:**

- Regular management updates
- Employee surveys
- Monthly internal publications – digital and print
- Internal social media and interactive app
- Skills development and training
- Ongoing constructive engagement with labour unions

**How our strategy responds to employees' needs:**

- Our COVID-19 response, including all rigorous hygiene and sanitisation protocols, has protected the health and safety of our employees
- Our strategy includes a focus on building South Africa's most talented retail business
- Our remuneration policy drives fair and competitive remuneration and the recognition and development of talent. Refer to our remuneration report on pages 94 to 111 for more detail.
- We provide numerous training and development programmes to upskill our staff
- We are building a lean and effective organisational structure for the benefit of all
- We advance employee opportunity and diversity

**What our employees tell us is most important to them:**

- Job security
- Safe working environment
- Competitive remuneration and benefits
- Training and career development
- Fair and reasonable working hours, with certainty of hours and shifts
- Sustainable business performance
- Wellness programmes and work-life balance
- Working for a responsible and ethical corporate citizen

The Group invested R65 million in staff training this year, reaching 11 000 employees with over 80 different training programmes. We promoted 2 000 staff members into more senior roles and rewarded almost 6 400 employees for their long service.

**SUPPLIERS**

**We are supported by a broad network of suppliers and service providers. We engage to source high-quality products at the best price and ensure food safety, sustainable and ethical business practices, innovation and consistent on-shelf availability.**

**Long-term strategy is focused on greater business efficiency, including centralised supply**

The Group has developed a fully centralised, and increasingly effective, procurement and distribution channel over the past seven years – unlocking value across its supply chain and providing greater opportunity for local supplier development.

**How we engage:**

- Fact-based negotiation as part of our Buy Better programme
- Regular meetings in line with merchandise cycle timelines, with increased engagement as a result of COVID-19
- Direct engagement at an executive level
- Dedicated supplier portal
- Regular food safety audits at production facilities
- Ongoing store visits with suppliers
- Joint business planning sessions
- Supplier conferences
- Dedicated enterprise development programme

**What our suppliers tell us is most important to them:**

- Fair pricing and transparent negotiation
- Effective and efficient administration
- Sustainable business partnerships

- Research and development support, transparent agreements, logistical support
- Opportunities for cost reduction
- Transformation and enterprise development
- Resource efficiency (energy, water, waste, logistics)

**How our strategy responds to suppliers' needs:**

- Commitment to fair, efficient and mutually beneficial business relationships
- Building a cost-effective and efficient supply chain
- Product innovation to meet evolving customer needs
- Development of small businesses and diverse and ethical suppliers, including through more own brand products
- Pick n Pay Fast Pay – key banking partners provide competitive funding to participating suppliers for the early settlement of invoices

Pick n Pay's small business development programme now supports over 200 small businesses in South Africa, with 125 of these businesses supplying their products and services to our Pick n Pay supermarkets.

**SHAREHOLDERS**

**We engage with the investment community to provide a comprehensive, consistent and well understood investment case. This aims to ensure that our shareholders can make informed investment decisions and that our share trades at a fair value.**

**Successful execution of long-term strategy delivers sustainable earnings growth**

The Group has followed a strong long-term plan and has consistently communicated its progress to investors against clear objectives. In so doing, the Group has delivered compound annual growth in headline earnings per share of 19% over the past seven years, and has paid out R5 billion in dividends to shareholders.

**How we engage:**

- At least four formal engagements a year: two financial results presentations, one AGM and an investor day/strategic update
- Regular engagement with investors, analysts and fund managers
- Direct engagement on proposed resolutions prior to annual and general meetings
- Dedicated investor relations team and investor website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za)

**What our shareholders tell us is most important to them:**

- Improved and sustainable return on investment
- Understanding our business model, strategic direction and profit drivers

- Access to timely, accurate, transparent and relevant information
- Sufficient free float of shares for trade
- Good corporate governance
- A socially responsible and ethical corporate citizen

**How our strategy responds to shareholders' needs:**

- Generate consistent returns in a sustainable manner
- Operate according to the highest corporate governance principles
- Follow innovative business practices at acceptable levels of risk
- Capital efficiency
- Provide attractive returns on investment

The Group's executive management team expanded its programme of shareholder engagement this year, including regular one-on-one meetings with institutional shareholders and retail analysts, and three investor conferences. As at July 2020, 12 retail analysts cover our stock with investment recommendations split as follows:

Buy/Overweight 4   Hold/Neutral 6   Sell/Underweight 2

**FRANCHISEES**

**Our 774 franchise stores are an integral part of the Group, and the success of the franchise model depends on the success of our franchise partners. We engage to find mutually beneficial and sustainable growth opportunities, build our scale and extend our reach.**

**A flexible and winning estate underpins long-term strategic growth**

The Group has improved its customer reach through smaller, flexible store formats in increasingly convenient community-based locations. Our franchise partners continue to provide the Group with sustainable opportunities for growth, and are often a benchmark for innovation and operational excellence.

**How we engage:**

- Store visits by franchise management team and service area consultants
- Regular meetings with regional operational teams and national franchise representatives
- CSI programmes in the communities in which our franchisees operate
- Franchise conferences

**What our franchisees tell us is most important to them:**

- The opportunity to build a profitable and sustainable business
- Security and sustainability of supply
- Timely delivery of products, competitive pricing, product innovation, marketing support, quality of products and food safety
- Opportunities for cost reduction

- Resource efficiency (energy, water, waste, logistics)
- Transformation and enterprise development

**How our strategy responds to franchisees' needs:**

- Pick n Pay offers one of the most successful and mutually beneficial franchise models in the retail industry
- Operating as a sustainable franchisor of choice for 26 years
- Flexible model, committed to supporting start-up businesses, smaller formats, or those struggling in tough trading environments, including through management and administrative support

The Group opened nine convenience market stores this year under its Spaza-to-Market programme, partnering with small business owners and entrepreneurs to bring high quality food and groceries at great value to emerging-market communities in South Africa.



# 04

## OUR STRATEGY

45

Strategic focus

## STRATEGIC FOCUS

To restore the business to a position of long-term sustainable growth, the Group formulated a strategic, three-stage turnaround plan in 2013. The Group recognised that a sustainable recovery would require a planned, considered and balanced approach over several years, and it continues to avoid short-term thinking that might weaken the business over the longer term.

The Group's long-term strategic plan seeks to achieve three broad objectives:

**Grow sales in line with, or ahead of, the market, by providing great value, service and innovation for customers**

The Group is intent on delivering a first-class grocery, fresh and convenience offer, which gives customers unbeatable prices, value and service. The business is developing a strong multi-platform and multi-channel retail offer in South Africa, including building Boxer into a thriving, national limited-range discounter. In addition, the Group is carefully growing its footprint outside South Africa.

**Achieve high levels of operating efficiency and lower costs to enable maximum re-investment in the customer offer**

The Group will complete the centralisation of its supply chain, with improved efficiencies and lower costs across its distribution channel. The Group further aims to improve the efficiency and cost effectiveness of its store operations and support offices, while minimising increases in rentals, rates, electricity, water and other charges.

**Restore the underlying profit before tax (PBT) margin to a historically sustainable level**

The Group regards a sustained improvement in its underlying profit margin as a lead indicator of progress in achieving a balanced turnaround, characterised by consistent sales growth and greater operating efficiency. The Group's comparable PBT margin has consistently improved over the past seven years, to 2.1% in FY20. The Group targets a comparable PBT margin at or above 3% over the medium term.

### 2013 to 2015:

Looking back on what the Group achieved under Stage 1 of its plan

#### Stage 1: Stabilise the business

Stage 1 focused on stabilising the Group's operations and its financial position, while developing a solid foundation and plan for growth. Critical building blocks included faster progress towards a centralised supply chain, the development of a more efficient "Next Generation" supermarket, and restructuring the Boxer business model to enable it to become South Africa's leading limited-range discounter. The Group's refocused sustainability initiatives across its ESG landscape contributed to the successful completion of Stage 1 in 2015, in particular the Group's sustained efforts to reduce resource consumption and increase resource efficiency across its operations.

### 2016 to 2020:

Positioning the Group for long-term growth

#### Stage 2: Change the trajectory

Throughout Stage 2, the Group has focused on developing a winning customer offer through optimised product ranges, lower prices, more attractive promotions, better and more innovative products, compelling value-added services, and brighter and more modern stores. This has been achieved by reducing costs and increasing productivity across all operations, enabling the Group to invest more in its customer offer, and drive volume growth.

ESG sustainability initiatives remain a cornerstone of the Group's efforts to build a long-term sustainable business, including greater resource efficiency, a reduced carbon and plastic footprint and lower levels of food waste. Initiatives such as the Pick n Pay market store partnership with independent traders seek to differentiate our proposition and advance economic traction in lower income areas. Our development of smaller suppliers, including through our expanding own brand product range, is promoting food security and building economic growth across our value chain.

Stage 2 is organised around seven business acceleration pillars

**1. Better for customers**

Deliver a strong and consistent customer offer that earns customer loyalty across the broad range of communities served, through sustained investment in range, quality, value, innovation and service. Be a responsible retailer, dedicated to the upliftment of our communities, always mindful of the socio-economic needs of our stakeholders and of our impact on the environment.

**2. A flexible and winning estate**

Provide sustainable, long-term capital investment returns, underpinned by stores with greater operating flexibility, resource efficiency and cost effectiveness. Operate successfully in a broader range of locations, including through smaller format stores focused on convenience, and an effective online platform.

**3. Efficient and effective operations**

Achieve greater business efficiency and financial cost discipline – including through more cost-effective store operations, and streamlined support services, that support sustained investment in our customer offer.

**4. Every product, every day**

Develop a cost and resource-efficient, fully centralised procurement and distribution channel to unlock value across the supply chain – including through the development of new suppliers, a simplified logistics network with a reduced carbon footprint, improved on-shelf availability and reduced waste.

**5. A winning team**

Build a skilled, talented and diverse retail business in South Africa and in all the southern African countries where we operate. Become the employer of choice in the retail industry, by providing fair pay and benefits, access to skills training and development, career advancement and recognition for a job well done.

**6. Boxer – a national brand**

Build Boxer into the leading limited-range discounter in southern Africa, through a strong network of community-based stores and an efficient and cost-effective operating model, specifically tailored to meet the value needs of the middle to lower income communities of South Africa and Eswatini.

**7. Rest of Africa – a second engine of growth**

Leverage our established presence in Botswana, Lesotho, Namibia, Eswatini, Zambia and Zimbabwe and actively seek profitable opportunities to grow our footprint in countries outside South Africa that offer political stability, economic growth, ease of business and the prospect of strategic scale.



We have consistently communicated our financial and operational performance against these seven business acceleration pillars, both externally and internally, providing a comparable and transparent scorecard of solid progress over the past seven years.



**Richard Brasher**  
Chief Executive Officer

**A successful turnaround**

Over the past seven years, the Group has changed beyond recognition, altering the trajectory of its performance and prospects.

**Long-term achievements include:**

**Next Generation stores** have transformed the shopping trip for Pick n Pay and Boxer customers and now account for well over half of our estate

**A step-change in our fresh meat and produce offer**, which we believe provides the best combination of quality and value in the market

**A centralised supply chain** delivering exceptional availability, freshness and reliability to corporate and franchise stores

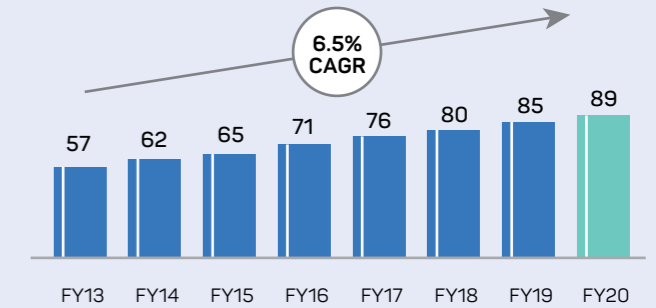
**A transformed and rapidly growing Boxer business** which has become the best limited-range discounter in sub-Saharan Africa

**A modern online and retail services offer** across Pick n Pay and Boxer stores which provides a tangible second engine of growth within the Group

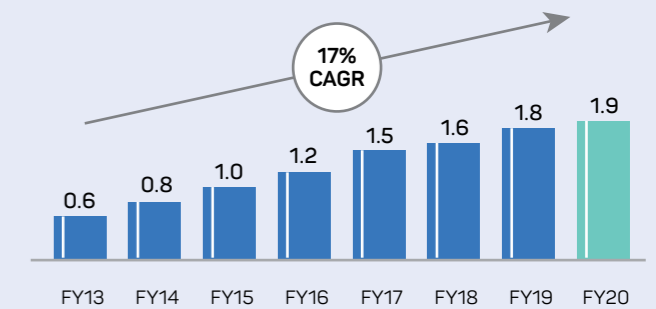
Despite operating in increasingly difficult economies, these and other steps have enabled the Group to deliver substantial improvements in its PBT margin over time, with a clear ambition to deliver more.

**A track record of consistent sales and earnings growth over seven years**

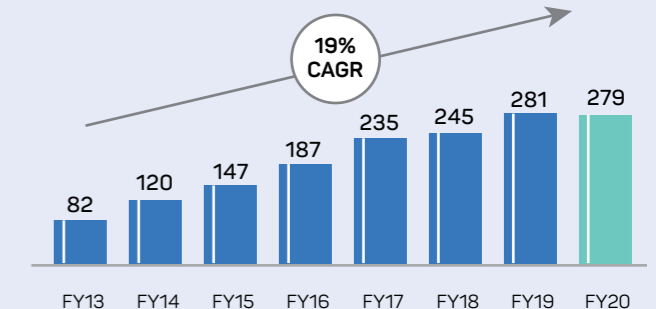
Group comparable turnover – Rbn



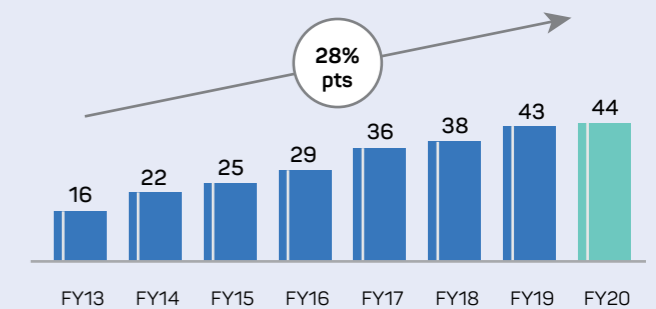
Comparable profit before tax (PBT) – Rbn









Comparable HEPS – cents



Return on capital employed – %



The Group's sustained and consistent execution of a strong long-term strategy over the past seven years has successfully built six clear engines for sustainable long-term growth. These are unpacked in more detail in the table below. We have also identified key performance measures for each of our growth engines that are linked to our remuneration strategy. Please refer to page 100 for more information.

	South Africa's most trusted retailer	Africa's favourite discounter	Bearing down on costs	Value-added customer services	Expansion in Africa	Force for good
	<p>Pick n Pay will strengthen its business and customer offer, while remaining true to its core values of good corporate governance and corporate citizenship.</p> 	<p>Boxer is delivering market-leading turnover growth as it provides exceptional value to customers across South Africa and Eswatini.</p> 	<p>Capital and operational spend must be actively managed, with financial discipline that delivers improved investment returns, and cost inflation that is contained below sales growth.</p> 	<p>We will leverage our substantial store and systems infrastructure to offer customers innovative and low cost, value-added services that increasingly contribute to growth.</p> 	<p>Our dedicated Rest of Africa team is growing our business in developing markets outside South Africa sustainably and without putting our core South African division at risk.</p> 	<p>We are building a better South Africa through a focus on more jobs, entrepreneurs and support for our schools. We believe that doing good is good business – and as such, our business will grow hand in hand with our contribution to society.</p> 
<b>What we achieved in FY20:</b>	<ul style="list-style-type: none"> <li>Pick n Pay operations restructured into three customer-focused divisions: Value, Core and Select</li> <li>130 net new stores across all formats</li> <li>Range optimised and reduced by 10%</li> <li>5 000 new or redesigned own brand products – participation to 22% of sales</li> <li>Online sales up 17%</li> <li>Customer complaints down 24%, compliments up 48%</li> </ul>	<ul style="list-style-type: none"> <li>Boxer supermarkets delivered the Group's strongest sales and volume performance</li> <li>Competitive pricing and strong promotions</li> <li>12 new supermarkets and 15 new liquor stores</li> <li>Market share growth in many staple products including maize, sugar and oil</li> <li>Sales of own brand products up 30%</li> <li>Acceleration of centralised supply to 45%, with move to larger distribution centre in KwaZulu-Natal</li> </ul>	<ul style="list-style-type: none"> <li>Gross profit margin increased from 19.1% to 19.7% underpinned by supply chain efficiency</li> <li>Trading expenses up 6.3%, with store operations reflecting the cost of load shedding</li> <li>Gearing remained low, but up year-on-year, with bank interest rising 26.0% as a result of higher inventory levels</li> <li>Regulated tariffs drive like-for-like electricity costs up 10.5%</li> <li>Energy usage down 37.4% against 2008 baseline</li> </ul>	<ul style="list-style-type: none"> <li>Income from value-added services up 14.2%</li> <li>First retailer in South Africa to offer deposits at till</li> <li>Sold 8 000 insurance policies in partnership with Hollard</li> <li>4.6 million domestic and cross-border money transfers</li> </ul>	<ul style="list-style-type: none"> <li>Deteriorating economic conditions in operations outside South Africa had a negative impact on FY20 earnings:                             <ul style="list-style-type: none"> <li>Revenue up 2.8% in constant currency</li> <li>Segmental profit down 57.3%</li> <li>Currency devaluation and hyperinflation</li> </ul> </li> <li>Range optimisation in Zambia, tailored to local market</li> <li>Market share growth in Zimbabwe</li> <li>Six net new stores</li> </ul>	<ul style="list-style-type: none"> <li>Advanced our People n Planet initiatives – refer page 52</li> <li>Donated 1 651 tonnes of food with a value of R80 million to FoodForward SA</li> <li>Directed 60% of waste from landfill</li> <li>International recognition as South Africa's best performing retailer with an A-rating in the 2019 CDP Climate assessment</li> <li>Over 200 suppliers in our enterprise development programme and over 3 000 schools in our schools club</li> </ul>
<b>Future objectives include:</b>	<ul style="list-style-type: none"> <li>Keeping our customers and staff safe during the COVID-19 pandemic</li> <li>Greater personalisation in our customer offer – across Value, Core and Select</li> <li>Tighter ranges – focused on the core range of products on which customers genuinely depend</li> <li>Accelerate own brand penetration to improve gross profit margins and provide greater value and innovation</li> <li>Accelerate our online and financial services offer</li> <li>Grow our clothing and liquor businesses</li> </ul>	<ul style="list-style-type: none"> <li>Keeping our customers and staff safe during the COVID-19 pandemic</li> <li>The accelerated expansion of our Boxer business</li> <li>Keen pricing and deep promotions in tough economic times</li> <li>More own brand products to develop emerging-market entrepreneurs and provide lower prices</li> <li>Greater centralisation of supply – with a new distribution centre to open in Polokwane in 2020</li> <li>Sustained social investment through the many charities and communities we support</li> </ul>	<ul style="list-style-type: none"> <li>Improved optimisation of Pick n Pay supply chain</li> <li>Increased centralisation of Boxer supply chain</li> <li>Sustainable gross profit margin uplift, with less waste and shrink</li> <li>Substantive reduction in store and support office costs, including employee costs, and cost of occupancy</li> <li>Tighter range and lower stock holdings</li> <li>Lower levels of debt and lower funding costs</li> <li>Further reductions: plastic, electricity, water, fuel, carbon footprint</li> </ul>	<ul style="list-style-type: none"> <li>Expand our excellent retail service offer</li> <li>Respond to the accelerated need for online retail by extending our reach into under-served communities, including through innovative logistics partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Development of a low-cost, limited-range discount format</li> <li>Greater personalisation and relevance across customer segment served</li> <li>Tighter ranges, lower stock holdings</li> <li>Greater efficiency and cost effectiveness</li> <li>Improved management of currency risk</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with government, scientific bodies and community groups to advance our measures to slow the spread of COVID-19</li> <li>Expand the reach of our Feed the Nation campaign</li> <li>New suppliers through our supplier development programme</li> <li>Fair and equitable remuneration – committed to pay parity across gender and race groups</li> <li>Productive and efficient job creation through new stores</li> <li>Ongoing social investment to address economic dislocation in South Africa, with a specific focus on feeding projects and educational needs</li> </ul>

## 2021 onwards:

### Positioning the Group for long-term growth

Food and grocery retail is undergoing major change across the globe. Customers are demanding higher quality and traceability in the products they buy, a seamless offer across online and physical stores, greater convenience in the location and size of stores, and a broad range of services which enable them to fulfil many of their needs under one roof. Above all, customers continue to demand better value from their retailers.

This is both an international trend and an immutable reality in the South African market, where the vast majority of customers subsist on very limited incomes in a challenging economy. The financial and economic dislocation resulting from the COVID-19 outbreak will heighten the need for retailers to respond by offering even greater value.

**As contemplated through our six growth engines, the future priorities for the Group are to:**

- Further reduce our costs in order to deliver the better value that customers were demanding before COVID-19, a demand which will be heightened during and after the crisis
- Become even more customer focused around our Value, Core and Select structures in Pick n Pay, with an optimised range and offer at each level of the market. One consequence of the COVID-19 crisis and the customer response to it, is a deeper understanding of the core range of products on which customers genuinely depend on in good times and bad
- Continue to expand our Boxer business, benefiting more customers in more communities to become the premier limited-range discounter in every region of the country
- Accelerate own brand penetration across Pick n Pay and Boxer – to provide more unbeatable value and innovation for customers, together with better control of production and margin for the Group
- Expand our high-quality and great value clothing offer
- Build rapidly on our excellent online and retail service offer. The COVID-19 outbreak has provided a catalyst for a rapid acceleration in online grocery shopping in South Africa, and we intend to build on our position as the largest and most reliable player in the market
- Rolling out a limited-range discount format for sustainable growth outside South Africa. We believe that the potential for growth in the rest of Africa can be fulfilled through a more flexible, lower-cost model attuned to the needs of local customers

#### A programme for action

To accelerate progress towards delivering the objectives detailed above, the Group launched an internal change programme, Project Future, in January this year. Two objectives are core to this programme:

- **A reduction of R1 billion over two years in the costs of the Pick n Pay business.** This will be delivered by identifying opportunities for cost reductions across the Company, including by reducing waste across our supply chain and

store operations, increasing labour productivity and efficiency, and being more effective in our use of resources including property, energy and water. Labour costs are the single biggest cost in our organisation and efficiency initiatives kicked off with a voluntary severance programme in March 2020, open to all colleagues in Pick n Pay.

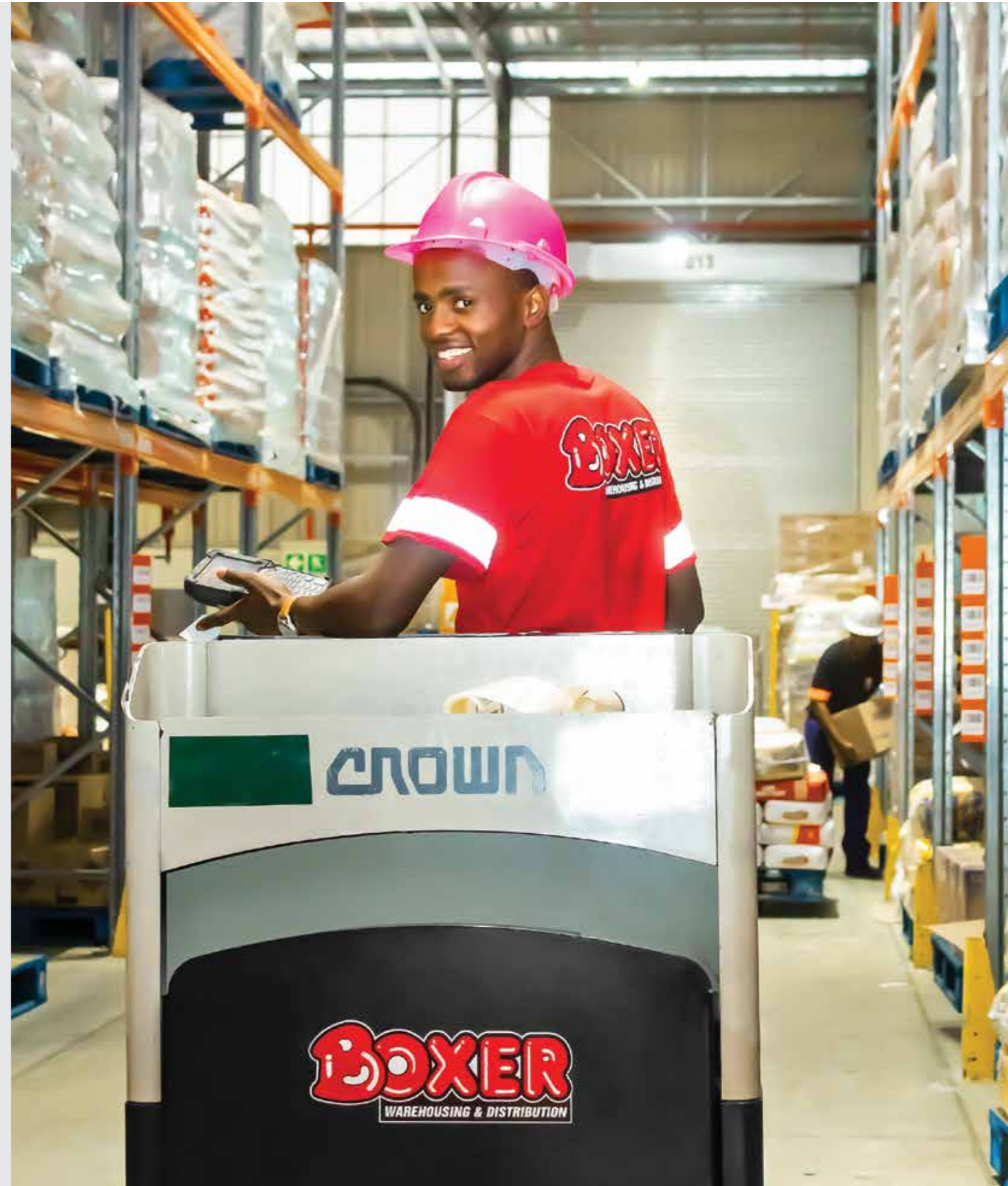
- **A simpler and more effective organisation.** The Group is modernising its ways of working, including the structure and organisation of our head office teams, our meeting and decision-making processes, and our use of information and other technologies. The COVID-19 outbreak is accelerating our use of modern communication platforms, including the ability to implement remote working, and is providing greater insight into what infrastructure is required to run our business effectively, even in these difficult times.

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

Our greater strength and dexterity reflects the progress we have made throughout the execution of our long-term plan, and the substantive steps we have already taken to reach Stage 3, and succeed as a sustainable retail business over the long term. The following markers are reflective of a future fit business:

- A track record of consistent sales and profit growth over a number of years
- Strong customer loyalty and advocacy
- A resource-efficient business that is a positive force for good in the countries in which it trades
- An operating model that benchmarks internationally
- An employer of choice that delivers opportunity for all, with gender and race diversity that adequately reflects the communities it serves
- Collaborative and enduring relations with a strong and diverse supplier base
- A continuing growth strategy, including in under-served communities
- Ongoing innovation in store and in the customer offer, including through healthier products with greater traceability
- Values which reflect corporate accountability, transparency and care

There is more to do on our journey, and the Group is well positioned to deliver on the expectations of customers, colleagues, shareholders and other stakeholders – not just in the current crisis, but in the better years to come.



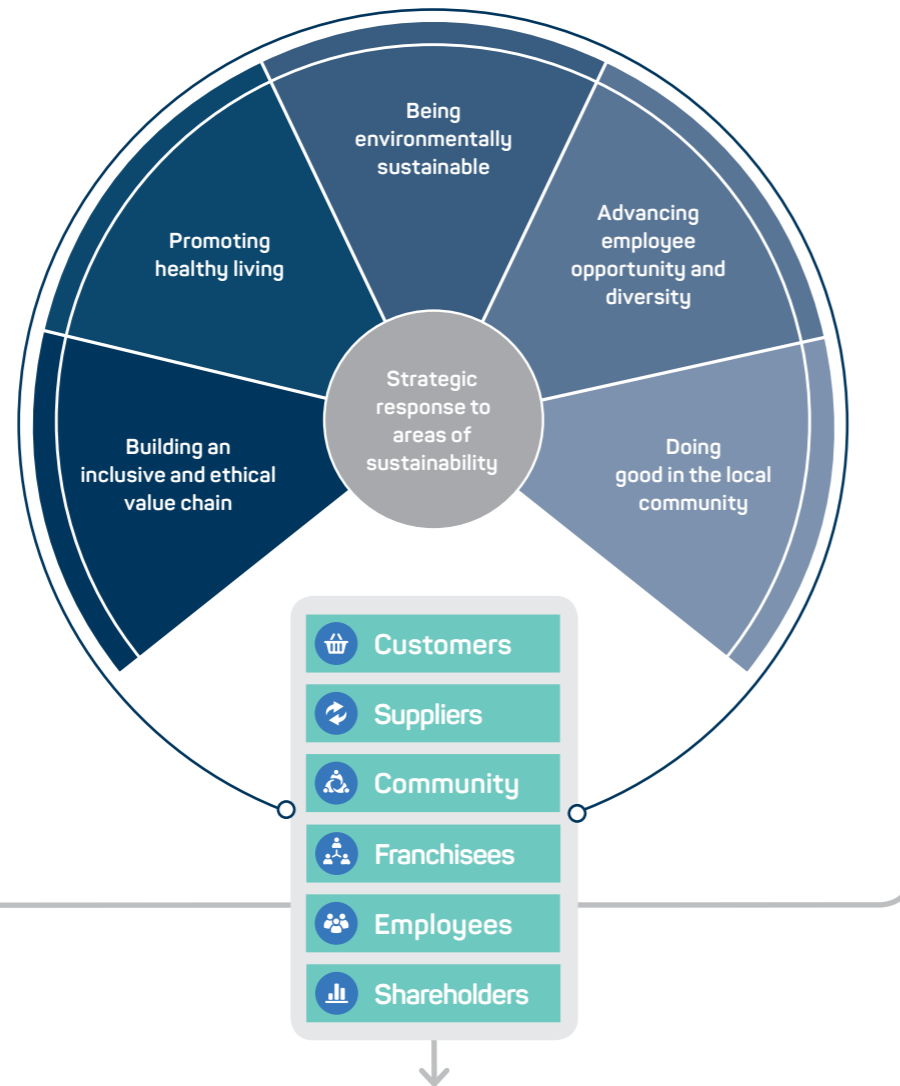
## Sustainability as a strategic imperative



### Working together for a sustainable future

We launched our People n Planet initiative in 2019. This is the umbrella under which all our sustainable development programmes fall. In short, People n Planet is our commitment to partner with our employees, customers, suppliers and many other stakeholders to increase the positive impact we have on every life we touch and to reduce the negative impact we have on the environment. It is our promise to take bigger steps and leave smaller footprints.

People n Planet isn't just a part of our business – it is our business. It is a journey we have been on since the late 1980s. Our sustainability strategy is linked inextricably to our business strategy. What we do aligns with seven of the 17 United Nations Sustainable Development Goals most relevant to our business.



#### The seven United Nations Sustainable Development Goals identified as most relevant to the Group



#### Future 2020 to 2030: Innovating in support of People n Planet

- Further aligning our efforts with the global SDGs
- Finding our space within the expanding circular economy by, among others, creating greater demand for recycled plastic while simultaneously providing customers with an affordable and durable alternative to plastic shopping bags. This keeps plastics in the economy and out of the environment.
- Applying shared value thinking to value-chain challenges by leveraging the resources and innovation of the Group to create new solutions to some of society's most pressing issues.
- Applying biomimicry principles to improve product and packaging design. This means creating nature-inspired solutions for a healthier planet.
- Exploring partnerships for Collective Impact<sup>1</sup>

<sup>1</sup> Collective Impact (CI) is the commitment of a group of stakeholders from different sectors to a common agenda for solving a specific social problem, using a structured form of collaboration.

Our sustainable living strategy takes a value chain perspective, recognising the contributions and interactions of stakeholders upstream and downstream of our retail operations.



### Partnering for a better tomorrow



#### Sustainability governance and management

Our sustainable living strategy sets out the ambition of the Group, defining focus areas and specific key performance indicators.

Business units and departments integrate their responses into business plans and report to the Board.

Sustainability performance is overseen by the sustainability steering committee and the social and ethics committee, a subcommittee of the Board. Internally, direct responsibility for the sustainable living strategy is held by the Transformation director. The executive sustainability steering committee meets on a quarterly basis, ensuring frequent review of performance indicators, and allowing a more systematic and multi-faceted response to ESG issues that intersect across our value chain. These are operationalised by the operational sustainability steering committee and the sustainability team.

All employees are responsible for contributing towards achieving our sustainability objectives. This sense of ownership is encouraged by ongoing opportunities for training and awareness initiatives.

We comply with all relevant codes and regulations, including codes of good governance, such as King IV. In recognition of our environmental, social and corporate governance practices we have retained our listing on the FTSE/JSE Responsible Investment Index Series. The Group remains committed to supporting and upholding the Ten Principles of the United Nations Global Compact.

#### We are committed to achieving our 2025 targets\*

- |  |  |  |
|--|--|--|
| <p><b>30%</b></p> <ul style="list-style-type: none"> <li>• average recycled content in packaging</li> <li>• reduced packaging weight, 2018 baseline</li> <li>• increase in re-usable bags sales</li> </ul> | <p><b>50%</b></p> <ul style="list-style-type: none"> <li>• reduction in our food waste, 2015 baseline</li> </ul> | <p><b>100%</b></p> <ul style="list-style-type: none"> <li>• packaging re-usable or recyclable</li> <li>• paper and cardboard packaging responsibly sourced</li> <li>• packaging with on-pack recycling logo by 2023</li> </ul> |
|--|--|--|

\* Reporting boundary – 794 Pick n Pay company-owned stores. Refer to page 4.

## OUR PERFORMANCE

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# A MESSAGE FROM OUR CEO

In all our actions, the safety and well-being of our colleagues and customers has been our top priority.

We are a united team of tens of thousands of colleagues who are clear on the Company's purpose and values.

Our vision is to have a business which is fully attuned to the needs and aspirations of our customers.

This Integrated Annual Report is being published at a time of unprecedented uncertainty and disruption due to the COVID-19 global pandemic. At the time of writing, the level of infection is receding in some countries. However, scientific experts warn that the pandemic has not yet reached its peak in South Africa, and that the worst is likely still to come.

## Our actions in response to the COVID-19 outbreak

I am exceptionally proud of the role that the Pick n Pay Group is playing in this crisis. From the outset of the crisis, my colleagues across the business have embraced our responsibility to help feed the nation as an essential service provider. In all our actions, the safety and well-being of our colleagues and customers has been our top priority.

As we document elsewhere in this Integrated Annual Report, we were thorough and swift in implementing new health and hygiene measures across our stores and operations. We were quick to adopt the new imperative of social distancing, and guided our

colleagues and our customers on practicing it effectively inside and outside our stores. We supplied our staff with cloth facemasks before the government required us to do so. We are supporting our staff who have contracted the virus, and have thorough and effective protocols to ensure that their close contacts are traced, and our premises are thoroughly cleaned when each case is identified.

Our Pick n Pay and Boxer teams are working tirelessly with our suppliers and partners to ensure that – amid all the disruption – our stores remain well-stocked with the food and groceries which our customers need. True to our values, we have, along with our charity partners, provided millions of meals to the most vulnerable in our communities across the country, through our Feed the Nation campaign.

Our customers and communities can rely on us to continue to play our full part however challenging the weeks and months ahead may be. We are a united team of tens of thousands of colleagues who are clear on the Company's purpose and values, and know that millions of people are relying on us at this time more than they have ever done before.

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Even in these most difficult times, our confidence in our ability to deliver for our customers derives from our confidence that we have improved our business immeasurably over the past seven years.

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Richard Brasher  
Chief Executive Officer

## A successful turnaround

Even in these most difficult times, our confidence in our ability to deliver for our customers derives from our confidence that we have improved our business immeasurably over the past seven years. We review elsewhere in this Integrated Annual Report the progress we have made on our key performance metrics. Looking beyond the numbers, we know that our stores are more modern and our products are more relevant. We offer exceptional value at a time when the search for value unites all customers, regardless of income. Our fresh offer provides an unbeatable combination of quality and value, and is essential in ensuring that more and more communities have genuine access to healthy and affordable food. Our centralised supply chain – built painstakingly over a number of years – gives us speed and resilience in getting products from the farm or factory to customers in our stores. We have built an exceptional business in Boxer, which has a loyal and growing customer base in search of the best of modern retailing, and is rapidly emerging as the best limited-range discounter in sub-Saharan Africa.

These are significant achievements, realised in an economic climate which – even before the COVID-19 pandemic – has been relentlessly difficult. Over the past year, the Company delivered a robust performance in the face of challenging economic conditions, characterised by low growth, high unemployment, rising household costs and constrained consumer spending in all the regions in which we operate. External factors in Zambia and Zimbabwe in particular had a material impact on our result. However, their impact should not obscure what was a resilient and commendable performance by the Group's core South African business. I want to thank all colleagues in Pick n Pay and Boxer, across our franchise and corporate divisions, for their hard work and dedication which made this performance possible.

Although the business will inevitably dedicate much of its focus in the coming months to navigating the further challenges of the COVID-19 pandemic, it is very important that we also devote skill and energy to making further progress in delivering our long-term plan for the Company.

## Ensuring value for customers, greater efficiency and cost control

Our vision is to have a business which is fully attuned to the needs and aspirations of our customers. In an economy that is likely to remain very difficult, the vast majority of customers will place low prices at the top of their list of priorities. This means we must find new ways to increase our efficiency and reduce our costs.

The quest for exceptional value is the highest customer priority, but it is not the only one. Food and grocery retail is changing radically around the world as customers change and demand new things. In a more informed and connected world, customers are demanding higher quality and traceability in the products they buy. There are also great changes in the way that customers want to

access our products and services. They are seeking a seamless experience across online and physical stores, greater convenience in the location and size of stores, and a broad range of services which enable them to fulfil many of their needs under one roof.

Although it is too early to draw firm conclusions, the COVID-19 pandemic is likely to accelerate these trends. For example, many more customers have used our online and "Click and Collect" channels in recent weeks, as they seek to limit visits to our stores during the lockdown. A good proportion are likely to continue to shop across platforms after the crisis. The restrictions on eating out of the home provide a great opportunity for retailers to fill the gap by expanding their focus on home dining solutions and convenience meals. The demand for even better value creates a bigger opportunity for our expanding private label offer. Customers are currently shopping around less, and are consequently demanding even more that the products they want must be in stock in their chosen store. This underlines the value of our centralised supply chain in keeping our stores replenished accurately.

The priorities in our long-term plan are clear. We must further reduce our costs so that we can deliver the better value that customers will demand during and after the COVID-19 crisis. We must become even more customer-focused around our Select, Core and Value structures in Pick n Pay, with an optimised range and offer at each level of the market. One consequence of the COVID-19 crisis and the customer response to it is a deeper understanding of the core range of products on which customers genuinely depend on in good times and bad.

We must continue to expand our Boxer business, benefiting more customers in more communities to become the premier limited-range discounter in every region of the country. We must accelerate our own brand offer across Pick n Pay and Boxer – to provide more unbeatable value and innovation for customers. We must build rapidly on our excellent online and retail service offers to cater for what we believe will be a growing demand in the post-COVID-19 world. Looking beyond our core market in South Africa, we believe the longer-term potential for growth in the rest of Africa can be fulfilled through a flexible, lower-cost model tailored to the needs of local customers.

## A programme for action

To accelerate progress on these objectives, the Group launched an internal change programme, Project Future, in January this year. At the heart of this programme, we are seeking to reduce our costs by R1 billion over two years. This will enable us to give the greater value that our customers are seeking. To achieve it, we are cutting out waste in our operations and offices, increasing efficiency in our operations, and being more effective in our use of resources, including property, energy and water. We are committed to reducing other costs before we reduce the number of our people. However, the focus on greater efficiency must include the cost of employing people, which is the single biggest expense in the Group. As a result, Pick n Pay launched a voluntary severance programme in March 2020, open to all colleagues in Pick n Pay. This enabled

## A message from our CEO (continued)

colleagues to choose to leave the business on a voluntary basis, with a more generous package than would be the case with any statutory retrenchment programme.

We are also determined to be a simpler and more effective organisation. We are modernising our ways of working, including the structure and organisation of our head office teams, our meeting and decision-making processes, and our use of information and other technologies. As with many other organisations and individuals around the world, the COVID-19 outbreak is rapidly teaching us about the power of modern communications and remote working, and about what is really required to run a business effectively, even in the most difficult of times.

### Looking forward

In summary, I am proud of our role as an essential service for millions of customers in the current crisis. I see our work during COVID-19 as a modern expression of our core value of customer sovereignty, and our belief that doing good is good business. I want to thank all my colleagues in our Pick n Pay and Boxer teams, particularly those on the front line, who have worked with urgency and determination to put rigorous health and hygiene measures in place to protect staff and customers, and to keep our shelves stocked at a time when our customers need us the most.

Like everyone, I am impatient for the world after the pandemic. We will lament the fact that so many fell victim to this virus, in particular colleagues and customers who were part of the broad Pick n Pay family. We will be determined to put right much of the damage inflicted by the pandemic on the economy and society. To play our part, we must work hard now and in the future to build an even better and stronger business.

On a personal note, I explained at our annual results presentation that, prior to the COVID-19 pandemic, my intention had been to step down in 2020. I have led the business for seven years, and believe the Company is fundamentally better now than when I arrived. It is a strong platform from which a new leader could begin the next chapter of Pick n Pay's illustrious story.

However, in the face of the COVID-19 threat, I quickly decided that my retirement must be put on hold. Our Group – including the tens of thousands of colleagues in our stores who are serving customers each day – deserves stable leadership, continuity, and the benefit of experience through this crisis. So, instead of stepping down, I find myself stepping up.

Together with my team, I have rolled up my sleeves for the biggest challenge any of us has experienced in our careers. I have always enjoyed challenges, and want to be on the pitch to face this one. We are approaching it with strength and energy. As well as being there for our customers, we will use the time to make our business fit for the world after COVID-19.

Despite the uncertainties, I am certain we will succeed. We can look forward to better days. When we reach those better days, I want us to look back with pride. We will remember not just the size of the challenge, but how we stepped up, gave our very best, and won through in the end.

**Richard Brasher**  
Chief Executive Officer

1 July 2020



# OUR CFO'S FINANCIAL REVIEW

Competitive pricing and strong promotions delivers greater value for customers.

The Group once again demonstrated tight gross profit management, unlocking further value across the supply chain, notwithstanding sustained investment in the customer offer.

Strong free cash flow and low gearing – providing stable liquidity into COVID-19 crisis.

Key financial indicators	52 weeks to 1 March 2020	53 weeks to 3 March 2019*	Pro forma 52 weeks to 24 February 2019*	Pro forma % change
Turnover – comparable#	<b>R89.2 billion</b>	R87.2 billion	<b>R85.2 billion</b>	<b>4.7</b>
Gross profit margin	<b>19.7%</b>	19.1%	<b>19.1%</b>	
Comparable profit before tax and capital items (Comparable PBT)**	<b>R1 870.7 million</b>	R1 883.0 million	<b>R1 756.4 million</b>	<b>6.5</b>
Comparable PBT margin	<b>2.1%</b>	2.1%	<b>2.0%</b>	
Comparable PBT – South Africa	<b>R1 780.6 million</b>	R1 658.8 million	<b>R1 545.2 million</b>	<b>15.2</b>
Comparable PBT margin – South Africa	<b>2.1%</b>	2.0%	<b>1.9%</b>	
Reported Headline Earnings per Share (HEPS)^	<b>287.89 cents</b>	300.58 cents	<b>280.60 cents</b>	<b>2.6</b>
Reported diluted HEPS (DHEPS)^	<b>286.39 cents</b>	296.83 cents	<b>277.11 cents</b>	<b>3.3</b>
Comparable HEPS^	<b>278.81 cents</b>	300.58 cents	<b>280.60 cents</b>	<b>(0.6)</b>
Comparable DHEPS^	<b>277.36 cents</b>	296.83 cents	<b>277.11 cents</b>	<b>0.1</b>

\* The financial information presented for the prior period is on a restated basis, with the full retrospective adoption of IFRS 16 Leases (IFRS 16). Please refer to note 32 of the Group's FY20 audited annual financial statements for further information.

# Cellular airtime and data are now transacted on an agency basis only, following a strategic change in the Group's arrangements with its airtime and data providers this year. Relevant sales and related purchases previously recognised on a gross basis within turnover and cost of sales are now recognised on a net basis within other income. Comparable Turnover information is provided, with relevant airtime and data sales excluded, to allow for an accurate assessment of year-on-year performance. Refer to page 73 for further information.

\*\* Comparable Profit before Tax and Capital Items (Comparable PBT) excludes a net monetary hyperinflation gain recognised in the current year in respect of the Group's investment in its associate, TM Supermarkets in Zimbabwe, under the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies (IAS 29). Comparable PBT excludes the impact of hyperinflation accounting. Refer to page 74 for further information.

^ Reported Headline Earnings (HEPS) and Diluted Headline Earnings per share (DHEPS) include a net monetary hyperinflation gain recognised in the current year in respect of the Group's investment in its associate, TM Supermarkets in Zimbabwe, under the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies (IAS 29). Comparable Headline Earnings and Diluted Headline Earnings per share exclude the impact of hyperinflation accounting. Refer to page 74 for further information.

“The Group's result was anchored by a resilient performance from the core South African business, which lifted its Comparable Profit before Tax by 15.2% this year, enabling the Group to deliver Comparable Headline Earnings in line with last year.”



Lerena Olivier  
Chief Finance Officer

## Result overview

### South African operations deliver in a challenging economy

The Group traded in difficult economic conditions throughout the year, with low growth, high unemployment, rising household costs and constrained consumer spending in all regions.

Group Comparable Turnover growth of 4.7% (South Africa: 5.1%) was delivered against a strong base in the previous year, and reflects the impact of deteriorating economic conditions over the course of the year, including a final quarter significantly disrupted by load shedding in South Africa, and some supply chain labour disruption in our Longmeadow distribution centre in Gauteng. Viewed over a two-year period, the Group delivered comparable compound annual sales growth of 6%, ahead of the South African retail market.

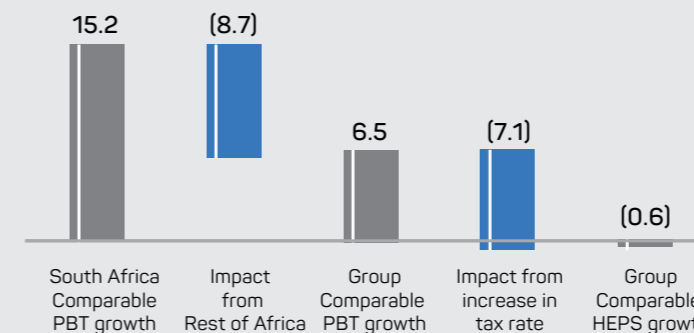
The Group lifted its gross profit margin from 19.1% to 19.7%, supported by greater efficiency across its supply chain, and restricted the growth in trading expenses to 6.3% year-on-year, and just 2.9% in the second half of the year.

Operations in Zambia and Zimbabwe had a significant impact on the Group's FY20 result, reducing Group earnings by 8.7 percentage points year-on-year. However, the Group's result was anchored by a resilient performance from the core South African business, which lifted its Comparable Profit before Tax by 15.2% this year, enabling the Group to deliver Comparable Headline Earnings in line with last year.

Group earnings have also been impacted by the increase in the Group's effective tax rate from 24.3% last year to 31.2% this year. The increase is driven by losses in certain jurisdictions outside South Africa, hyperinflation in Zimbabwe and reduced share scheme obligations as a result of the Group's lower share price over the year, and the reversal of all related deferred tax assets.

Comparable Headline Earnings per Share, which excludes the impact of hyperinflation accounting in Zimbabwe, at 278.81 cents per share is in line with last year on a comparable 52-week basis.

### Growth in Comparable Headline Earnings per Share – %



Compound annual sales growth of **6%** over two years, ahead of the South African retail market

Internal inflation kept to **2.6%** against CPI: Food of **3.6%**

**128\*** new net stores added **3.2%** to turnover growth

Greater supply chain efficiency lifts gross profit margin from **19.1%** to **19.7%**

Growth in trading expenses restricted to **2.9%** in the second half of the year

South African profits up **15.2%** protecting the Group from challenges in Zambia and Zimbabwe

\* Excluding TM Supermarkets

## Review of financial performance

The review of the Group's comparable financial performance for the 52 weeks ended 1 March 2020 focuses on the key elements of the statement of comprehensive income, statement of financial position, statement of changes in equity, and statement of cash flows that management considers most relevant to the Group's performance over the year, and its financial position at year-end. The review should be considered together with the Group's FY20 audited annual financial statements, available on our website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za), and the five-year review of financial performance set out on pages 76 to 78.

Please note the following technical accounting elements in the presentation of these financial results:

**Financial calendar** – the FY20 financial year is a 52-week period, and its results are not directly comparable with those of the 53 weeks of FY19. Unless specifically stated otherwise, the result commentary that follows is on a comparable 52-week basis. Refer to page 73 for further information.

**COVID-19 pandemic** – COVID-19 did not impact the Group's financial performance over FY20. However, it is a significant post-balance sheet event. The Group has considered the impact that the pandemic, and the measures taken to date by government to defeat it, may have on our financial liquidity and reported financial position, including the value of inventory on hand, the recoverability of receivables, the adequacy of provisions, the availability of debt funding and the Group's ability to meet its working capital obligations. Please refer to note 31 of the Group's FY20 audited annual financial statements for further information.

### Turnover

Group Comparable Turnover increased by 4.7% in FY20 to R89.2 billion, with like-for-like turnover growth of 1.5%. Net new stores added 3.2% to sales growth, with notable growth in new Boxer supermarkets and Pick n Pay clothing stores. The Group restricted its selling price inflation to 2.6% year-on-year, with inflation increasing moderately from 2.2% in the first half of the year to 2.8% in the second half. Our core South Africa division delivered Comparable Turnover growth of 5.1%, with like-for-like turnover growth of 1.9%.

Group Comparable Turnover growth slowed to 3.5% in the second half of the year from the 6.0% delivered in H1 FY20. South African turnover growth slowed from 6.5% in the first half of the year to 3.8% in the second half. This reflects the base effect of a strong performance in the second half of last year alongside increasingly difficult trading conditions, including low consumer confidence and spending, and load shedding in the final quarter. Sales were also impacted by supply chain labour disruption at our Longmeadow distribution centre in Gauteng in December 2019. This had a significant impact on stock availability and sales growth in the region over the festive season. The Group continues to work with its labour partners to improve ways of working.

The Group is particularly pleased with the progress and performance of our Boxer business, together with our Pick n Pay Value stores serving lower- and middle-income customers. Exceptional quality and value are driving positive volume growth for the Group in this important section of the market. Our clothing and liquor businesses once again delivered strong growth over the year, and we remain confident of the sustainable growth potential of these ancillary and complimentary formats to our core grocery offer.

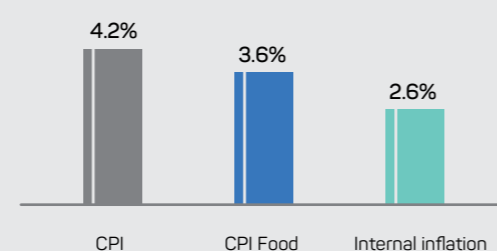
Trading conditions in Zambia remained challenging over the year, with the weaker Zambian kwacha and negative revenue growth weighing on Group turnover growth. On a constant currency basis, Group Comparable Turnover grew 5.0% year-on-year.

### Gross profit

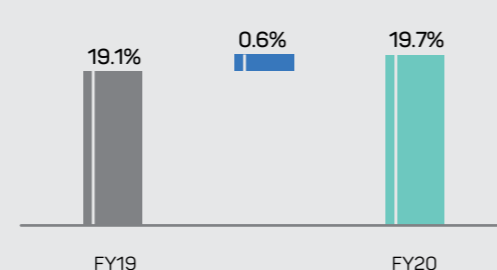
Gross profit increased 6.5% to R17.6 billion, with gross profit margin improving by 0.6 percentage points from 19.1% to 19.7% of turnover. The Group once again demonstrated tight gross profit margin management, unlocking further value across its supply chain, notwithstanding sustained price investment, and the margin impact of supply chain labour disruption in the last quarter of the year.

The Group's gross profit margin improvement reflects in particular a strong performance from the Group's Boxer business, which now takes 45% of its volume through its centralised distribution network, driving greater levels of supply chain productivity and efficiency. In addition, with centralised supply now close to 80% in Pick n Pay, the team has focused on optimising its supply chain systems and infrastructure. Pick n Pay delivered a 10% reduction in fresh waste and an 11% reduction in shrink this year, harnessing the benefits of its range rationalisation and store segmentation initiatives.

Price inflation versus CPI and CPI Food



Group gross profit margin (%)



### Other income

Other income increased 6.5% to R1.6 billion.

**Franchise fee income** – increased 2.2% year-on-year, to R398.3 million. The growth in franchise fee income was impacted by the Group's new agency agreement for cellular airtime and data sales. Franchise fee income excluding the impact of the agency agreement was up 3.6%.

**Commissions and other income** – increased 6.1% to R1.0 billion, and includes commission and incentive income not directly related to the sale of inventory, such as advertising income from the Group's Fresh Living magazine, and the provision of data analytics support to suppliers. This broad revenue category includes income from value-added services, which increased 14.2% year-on-year, with growth across all categories of value-added services, including commissions from third-party bill payments, travel and event ticketing, sale of prepaid electricity and financial services.

### Trading expenses

Trading expenses grew 6.3% year-on-year to R16.0 billion, with like-for-like expense growth contained at 4.0%. The trading expense margin grew from 17.5% to 17.9% of turnover, as operating costs continue to grow ahead of turnover. However, the Group responded effectively to an escalating trend in costs in the second half of the year by restricting the growth in trading expenses in these six months to just 2.9%.

**Employee costs** – increased 3.7% to R7.4 billion, and 1.4% on a like-for-like basis. This reflects the positive impact of the reversal of a portion of share incentive costs in the second half of the year, offset by retirement and other gratuity payments, including bonuses to lower levels of management. Ignoring this net benefit of R100 million, employee costs grew 5.3% year-on-year, and 2.9% like-for-like, representing important progress on the 12.5% increase reported in the first half of the year.

**Occupancy costs** – grew 9.5% to R2.3 billion, and 8.2% on a like-for-like basis, driven largely by increases in rates, insurance and security costs. The Group remains committed to reducing its cash cost of occupancy, and continues to engage with landlords to secure fair rental and escalation terms which sustain mutual growth.

**Operations costs** – increased 10.8% (7.1% like-for-like) to R3.8 billion. The increase in store operating costs largely reflects the impact of load shedding on the business (for example: the cost of running diesel generators, and higher levels of repairs and maintenance for equipment damaged by power disruptions and surges). In addition, higher regulated electricity tariffs drove electricity costs up 15.0% year-on-year (10.5% like-for-like), despite more efficient electricity use in our stores for the tenth consecutive year.

**Merchandising and administration costs** – increased 4.4% (1.8% like-for-like) to R2.5 billion, with ongoing discipline in advertising costs, professional fees and other administrative costs.

### Net interest

Net interest paid, including implied interest charges under IFRS 16, increased 2.5% year-on-year to R1.3 billion. The Group's implied IFRS 16 net interest charge remained flat year-on-year at R1.2 billion, reflecting annual stability in our broad lease portfolio. The cost of the Group's net funding increased 26.0% year-on-year, from R90.5 million to R114.0 million, reflecting increased borrowings over the second half of the year, driven by higher inventory levels. The Group's cost of borrowings is actively managed through an optimum mix of overnight and three-month capital market funding.

### Rest of Africa segment

The Group's Rest of Africa segment contributed R4.7 billion of segmental revenue, down 1.7% on the 52 weeks of last year. Removing the impact of currency weakness, segmental revenue was up 2.8% in constant currency terms.

The performance of the Rest of Africa segment reflects difficult trading conditions across southern Africa, particularly in Zambia and Zimbabwe.

**Zambia** – the difficult economic conditions in Zambia have impacted our business over a number of years. Trading conditions deteriorated further in FY20, and local currency weakness drove up US dollar-based operating costs, fuelling higher levels of inflation. The retail sector in Zambia remains highly competitive, and Pick n Pay responded with tight cost control, stronger working capital management and improved operational efficiency, delivering lower prices and a better shopping experience for customers.

**Zimbabwe** – over the past 18 months, the Group's associate in Zimbabwe, TM Supermarkets (TM), has grappled with severe currency shortages, currency devaluation, high levels of inflation, shortages of fuel and other staple goods, and shortages of power and water. Our share of associate's income fell from R109.0 million last year to R66.3 million this year, impacted by foreign exchange losses on the translation of foreign liabilities, and including a net monetary gain of R43.2 million on the application of hyperinflation accounting in the region. The Group assessed the fair value of its investment in TM, and as a result of severe currency illiquidity and currency devaluation in the region, has impaired the value of its investment by a further R173.6 million to a carrying value of R50.4 million. TM is able to remit funds to South Africa as liquidity becomes available in the region, reducing its amount owed to Pick n Pay from R132.9 million at the beginning of the year to R40.1 million at year-end.

The Rest of Africa segment delivered a Comparable Profit before Tax, before capital items and the impact of hyperinflation in Zimbabwe, of R90.1 million, down 57.3% year-on-year.

Rest of Africa segment	FY20	FY19	% change
Segmental revenue	R4 666.1m	R4 745.9m	(1.7)
Comparable segmental profit before tax	R90.1m	R211.2m	(57.3)
Number of stores	154	148	

### Capital items

The Group incurred net capital losses of R177.9 million in FY20, against net capital profits of R25.4 million last year. The capital loss is driven by the Group's R173.6 million impairment of its investment in associate in Zimbabwe due to hyperinflation, alongside losses on the sale of store assets in respect of store closures and the conversion of company-owned stores to franchise stores. The Group recognised R26.5 million of capital profits on the termination of leases this year, under the provision of IFRS 16 (FY19: R19.7 million). Capital items are added back in the calculation of headline earnings.

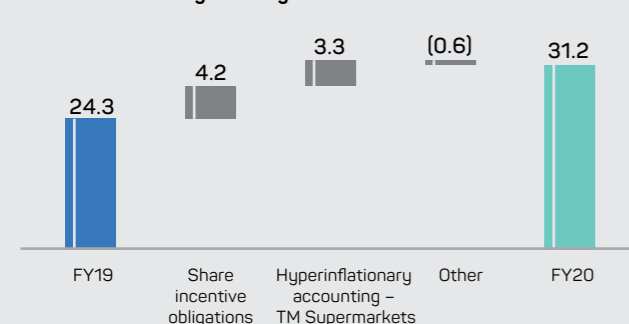
### Comparable Profit before Tax before Capital Items (which excludes hyperinflation gains)

The Group's Comparable PBT was up 6.5% year-on-year to R1.9 billion, with Comparable PBT margin improving from 2.0% last year to 2.1% of turnover. Comparable PBT from our South African segment increased 15.2% year-on-year, with an improvement in its Comparable PBT margin from 1.9% to 2.1% of turnover. Ignoring the once-off benefit of the reversal of share incentive costs during the second half of the year, Comparable PBT from our South African segment increased 8.8% year-on-year.

### Tax

The Group's effective tax rate, excluding the impact of hyperinflation and related impairments, increased from 24.3% last year to 27.9% this year. The significant increase has been driven by losses incurred in operations outside of South Africa, and the reversal of related deferred tax assets. In addition, pessimistic investor sentiment across the South African equities market and its impact on the Group share price over the year reduced the deferred tax asset recognised in respect of the Group's share incentive obligations. Hyperinflation accounting, and all related impairments, further increased the effective tax rate to 31.2%.

Effective tax rate: year-on-year movement - %



### Earnings per share

**Earnings per share (EPS)** - decreased by 11.7% to 250.90 cents, reflecting the impact of the Group's capital losses this period, largely due to hyperinflation in Zimbabwe, against capital profits in the prior year.

**Headline earnings per share (HEPS)** - increased by 2.6% to 287.89 cents, reflecting the impact of the Group's share of hyperinflation gains in TM Supermarkets in Zimbabwe. All related impairment losses and other capital items were added back in the calculation of HEPS.

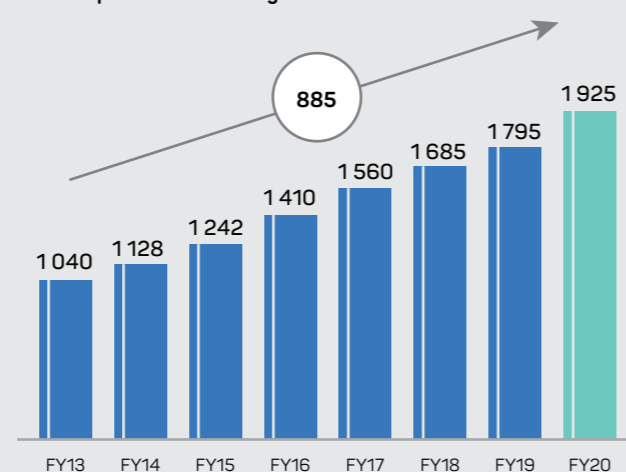
**Comparable Headline Earnings per Share (Comparable HEPS)** - is in line with last year at 278.81 cents per share, excluding the impact of hyperinflation accounting in Zimbabwe. Comparable DHEPS is also flat year-on-year at 277.36 cents.

### Review of financial position

The strength of the Group's balance sheet reflects the successful execution of a clear long-term strategy over the past seven years - a strategy which has delivered consistent and sustainable profit growth under increasingly challenging economic conditions. The Group has grown its store estate, particularly in the lower- to middle-income communities of South Africa; centralised its supply chain and advanced its systems infrastructure through a programme of measured and considered capital investment.

The Group's net asset value was impacted by the impairment of its investment in TM to a fair value of R50.4 million this year (2019: R184.4 million) driven by the translation of our investment in TM at a rate of 30.8 Zimbabwe dollars to 1.0 US dollar (FY19: 3.3 Zimbabwe dollars to 1.0 US dollar).

Stores opened over seven years



### Working capital

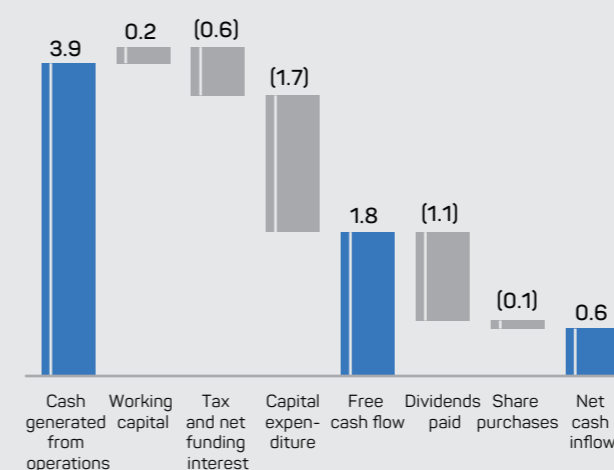
The Group generated cash from working capital of R249.9 million over the year (52 weeks), compared to an outflow of R708.5 million last year (53 weeks), with positive benefits from the financial calendar cut-off in FY20. The working capital position at 3 March 2019 last year reflected the impact of month-end supplier payments in line with the Group's normal trade terms, annual provisional tax payments and a substantive increase in rental and other prepayments.

Group inventory balances increased by R826.4 million, or 14.5% year-on-year, to R6.5 billion. The investment in inventory reflects the addition of 73 net new company-owned stores, greater levels of centralisation by Boxer, and strategic investment buys at period-end to take advantage of competitive prices for customers. On a comparable 52-week basis, excluding the impact of new stores and cost inflation, like-for-like inventory values were up 4.3% on last year.

The Group did not sustain its positive FY19 momentum on reducing stock levels, and this had an impact on cash balances. Removing old and slow moving stock from the business remains a key focus area in unlocking value within working capital.

Trade and other receivables remain well-controlled. On a comparable 52-week basis, and excluding the impact of financial calendar cut-off, franchise and other trade debt (current and non-current) is in line with last year, notwithstanding the addition of 55 net new franchise stores over the year and a growing wholesale offer. The Group is satisfied with the overall quality of its debtors' book, with an impairment allowance of 2.7%.

### Cash generation and utilisation - Rbn



The Group generated R1.8 billion in free cash flow in FY20, in line with last year, after investing R1.7 billion in its store opening and refurbishment programme.

The Group paid out R1.1 billion to shareholders over the course of the year, and invested R87.6 million in funding its share incentive scheme obligations for the benefit of its employees.

### Net funding

The Group has maintained a low level of gearing for a number of years. The Group has no long-term funding, and is geared through cost-effective short-term borrowings only, mainly funding the business through internally generated cash flow and an effective working capital cycle.

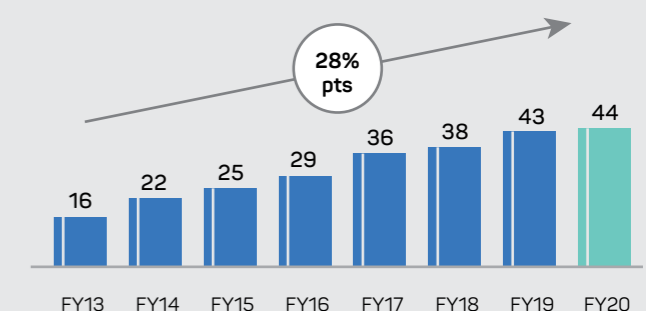
	1 March 2020 Rm	3 March 2019 Rm
Cash balances	1 947.3	1 503.2
Cost-effective overnight borrowings	(2 050.0)	(1 800.0)
<b>Cash and cash equivalents</b>	<b>(102.7)</b>	<b>(296.8)</b>
One to three-month borrowings	(935.0)	(1 325.0)
<b>Net funding position</b>	<b>(1 037.7)</b>	<b>(1 621.8)</b>
<b>Unutilised and available facilities</b>	<b>R6.0bn</b>	<b>R4.3bn</b>

The Group's improved net funding position at 1 March 2020 reflects the positive impact of financial calendar cut-off, with a greater level of supplier payments reflected last year, in line with the Group's normal trade terms. The Group's average level of short-term borrowings increased over the second half of this year, driven by higher inventory levels, with net funding interest up 26.0% year-on-year. The Group's liquidity position remained strong, with R6.0 billion of unutilised and available facilities at period-end.

### Capital investment

The Group invested R1.7 billion in capital improvements in FY20. The Group commits the majority of its capital spend to customer-facing initiatives which generate sustainable long-term returns. Over the year, R545 million was invested in new stores, R874 million on refurbishments, and R298 million on supply chain capability and IT infrastructure. The Group will continue to invest in expanding and modernising its estate, 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 44%, against a weighted average cost of capital of 12% (excluding any impact from IFRS 16).

Return on capital employed - %



## Looking ahead

Trading conditions for South African grocery retailers were already difficult before the COVID-19 outbreak. However, COVID-19 has turned a difficult economic situation into an unprecedented one in terms of new challenges.

The COVID-19 crisis has been negative for the Group to date, with sales and earnings growth reflecting the impact of stringent economic and social restrictions under Levels 5 and 4 of the South African government's Risk Adjusted Strategy. It is impossible to predict with any certainty the trajectory and outcome of the COVID-19 outbreak, including the measures that government will need to sustain to slow the spread of the disease, and the resulting impact on the economy, consumer spending, and the broader implications for grocery retail.

Independent economic forecasts are wide-ranging. More optimistic scenarios anticipate that the disruption to the South African economy, albeit significant, will last for approximately three to four months, and be followed by a rapid growth rebound. More pessimistic forecasts assume that the outbreak and resultant economic disruption will extend into 2021, resulting in a prolonged global and local recession. Under either scenario, the economic recession in South Africa would deepen significantly, with current annual GDP forecasts ranging from around -5% to -9% in real terms.

It is not possible, in the face of so many uncertainties, for the Group to forecast the earnings impact of COVID-19 over the FY21 financial year; however, the crisis is likely to put pressure on earnings growth and profit margins for the following reasons:

- An inability under Levels 5 and 4 to trade in some key categories, including liquor, tobacco and most clothing and general merchandise lines. These categories make up approximately 20% of our revenues, and have relatively high margins compared with basic food and grocery lines
- A general reduction in overall consumer and trading activity as a result of social distancing regulations, and the broader impact of deteriorating economic conditions on consumer confidence and consumer spending
- Additional costs on the business, arising for example from extra hygiene and social distancing measures which are essential in protecting colleagues and customers, and the cost of providing appreciation bonuses to front-line colleagues for their work during the nationwide lockdown

The Group has consistently followed a prudent gearing strategy, financing its growth and refurbishment initiatives through internally generated cash flow, and focusing its capital investment on lower-risk domestic opportunities, with potential for long-term sustainable returns. The Group has no long-term structured debt, and has actively managed its working capital needs through short-term cost-effective facilities. In so doing, the Group has developed strong strategic partnerships with local and international banks and institutional funders in the capital market.

This approach positioned the Group well for the COVID-19 crisis, providing it with a stable funding platform and necessary liquidity. The Group has constructively engaged with all its strategic funders, and has drawn-down 65% of its available facilities to protect itself against possible liquidity pressure in financial markets. Short-term cash resources raised as a result are prudently invested in low-risk call deposit funds. Furthermore, we are in the advanced stages of terming out a portion of our uncommitted short-term facilities, into six-month and 12-month, fully committed lines, while ensuring our cost of funding remains competitive. Our net gearing remains low and our overall liquidity remains sufficient and stable to meet our working capital and operational needs over the foreseeable future. The Group remains committed to paying all suppliers and service providers in line with agreed terms, and providing our staff with the assurance of pay and benefits. We will protect our liquidity through tightly managed operating costs, and the delay of all non-critical capital spend.

## Shareholder distribution

In light of the current economic upheaval from the COVID-19 pandemic, the Board decided that it would be prudent not to declare a dividend at this time but rather to preserve cash. It is anticipated that a formal dividend declaration will be considered and communicated once the full impact of the COVID-19 pandemic on the Group's operations can reasonably be known and assessed. But for the pandemic, the Board would have declared a final dividend of 173.06 cents per share, maintaining the Group's dividend cover of 1.3 times Comparable HEPS on a 52-week basis. Further communication in this regard will follow at the time of the Group's FY21 interim results publication.

## Appreciation

It was my great privilege to take over the CFO reins from Bakar Jakoet this year. Bakar built a formidable finance team over his eight-year tenure, ensuring that I benefit from incredible depth in skill and experience, and that I am surrounded by a diverse group of individuals who are committed to the highest levels of financial intelligence, discipline, reporting and corporate governance.

It has not been an easy year for my team, as we navigated the successful implementation of IFRS 16 Leases, and the application of hyperinflation in Zimbabwe, while providing invaluable strategic, professional and administrative support to our Group, particularly through the unprecedented circumstances of the COVID-19 pandemic.

I thank my team for their incredible achievements this year, and for their continued hard work and dedication, even during the most difficult of times. I extend my thanks to our Pick n Pay and Boxer teams, specifically those on the front line, who have worked with urgency and determination to put rigorous health and hygiene measures in place to protect staff and customers, and to keep our shelves stocked at a time when our customers need us the most.

**Lerena Olivier**  
Chief Finance Officer  
1 July 2020



# SUMMARY OF FY20 ANNUAL FINANCIAL RESULT

The following summarised financial information has been extracted by management from both the Group's audited annual financial statements and unaudited appendices, including pro forma information to the annual financial statements, for the 52-week period ended 1 March 2020. The Group's audited annual financial statements, including the appendix containing unaudited pro forma information, are available on our website: [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za) and should be referred to for a full appreciation of the financial affairs of the Group in terms of International Financial Reporting Standards.

## Summary of financial performance

	52 weeks to 1 March 2020 Rm	% of turnover	% change	Restated Pro forma 52 weeks to 24 February 2019 Rm	% of turnover
<b>Turnover</b>	<b>89 281.5</b>			<b>86 271.2</b>	
Comparable turnover	89 186.5		4.7	85 190.8	
Turnover from cellular airtime sales recognised on a principal basis	95.0			1 080.4	
<b>Gross profit</b>	<b>17 601.7</b>	19.7	6.5	<b>16 519.7</b>	19.1
Other income	1 570.2	1.8	6.5	1 474.8	1.7
Franchise fee income	398.3	0.4	2.2	389.9	0.5
Operating lease income	140.7	0.2	24.8	112.7	0.1
Commissions and other income	1 031.2	1.2	6.1	972.2	1.1
Trading expenses	(16 023.9)	17.9	6.3	(15 078.6)	17.5
Employee costs	(7 368.2)	8.3	3.7	(7 102.0)	8.2
Occupancy	(2 271.5)	2.5	9.5	(2 073.8)	2.4
Operations	(3 836.0)	4.3	10.8	(3 462.6)	4.0
Merchandising and administration	(2 548.2)	2.9	4.4	(2 440.2)	2.8
<b>Trading profit</b>	<b>3 148.0</b>	3.5	8.0	<b>2 915.9</b>	3.4
Net interest paid	(1 300.4)	1.5	2.5	(1 268.5)	1.5
Net interest costs incurred on net funding	(114.0)	0.1	26.0	(90.5)	0.1
Net IFRS 16 interest costs	(1 186.4)	1.3	0.7	(1 178.0)	1.4
Share of associate's earnings excluding net monetary gain	23.1			109.0	0.1
<b>Profit before tax before capital items and before net monetary gain</b>	<b>1 870.7</b>	2.1	6.5	<b>1 756.4</b>	2.0
Share of associate's net monetary gain as a result of hyperinflation	43.2			-	
<b>Profit before tax before capital items</b>	<b>1 913.9</b>			<b>1 756.4</b>	
(Loss)/profit on capital items	(177.9)			25.4	
(Loss)/profit on sale of property, plant and equipment	(18.8)			11.0	
Impairment loss on property, plant and equipment	(8.2)			-	
Impairment loss on intangible assets	(3.8)			(5.3)	
Profit on termination of leases	26.5			19.7	
Impairment loss on investment in associate	(173.6)			-	
<b>Profit before tax</b>	<b>1 736.0</b>	1.9	(2.6)	<b>1 781.8</b>	2.1
Tax	(541.3)	0.6	25.3	(432.1)	0.5
<b>Profit for the period</b>	<b>1 194.7</b>	1.3	(11.5)	<b>1 349.7</b>	1.6
<b>South Africa operating segment</b>	<b>Rm</b>			<b>Rm</b>	
Comparable turnover	85 533.3		5.1	81 371.5	
Profit before tax before capital items	1 780.6		15.2	1 545.2	
<b>Rest of Africa operating segment</b>	<b>Rm</b>			<b>Rm</b>	
Total segmental revenue	4 666.1		(1.7)	4 745.9	
Profit before tax before capital items and before net monetary gain	90.1		(57.3)	211.2	
<b>Earnings per share</b>	<b>Cents</b>			<b>Cents</b>	
Basic earnings per share	250.90		(11.7)	284.07	
Diluted earnings per share	249.60		(11.0)	280.53	
Headline earnings per share	287.89		2.6	280.60	
Diluted headline earnings per share	286.39		3.3	277.11	
<b>Comparable earnings per share</b>	<b>Cents</b>			<b>Cents</b>	
Headline earnings per share	278.81		(0.6)	280.60	
Diluted headline earnings per share	277.36		0.1	277.11	

### Turnover

Group turnover growth of 4.7% against a strong prior year base, with a 2-year CAGR of 6%, ahead of the SA retail market.

### Gross profit

Sustained cost savings and efficiency gains across the supply chain, including reductions in waste and shrink, positive for gross profit margin.

### Franchise fee income

Comparable franchise fee income up 3.6%, excluding the impact of new cellular airtime and data agency agreement.

### Commissions and other income

Includes an increasingly important contribution from value-added services income, up 14.2% year-on-year.

### Employee costs

Employee costs were tightly managed, and reflect the positive impact of the reversal of share incentive costs during the year, offset by retirement and other gratuity payments. Ignoring this R100m net benefit, employee costs were up 5.3% year-on-year, and 2.9% on a like-for-like basis.

### Net finance costs

Group funding costs, excluding implied IFRS 16 interest charges, grew 26.0% year-on-year, driven by increased borrowings over the second half of the year, as a result of higher inventory levels.

### Comparable profit before tax

Growth in comparable PBT of 6.5% is below the remuneration committee's primary performance target for the year of 8.0% (refer to page 105) - reflecting challenges in Zambia and Zimbabwe. Comparable PBT from the South African segment is up 15.2%, with the comparable PBT margin in the region improving from 1.9% to 2.1%.

### Impairment loss on investment in TM

Currency illiquidity and currency devaluation in Zimbabwe has resulted in an impairment loss of R173.6 million.

### Tax

The Group's tax effective tax rate increased from 24.3% last year to 31.2% this year, driven by operating losses outside South Africa, a reduction in the Group's employee share scheme obligation as a result of the Group's lower share price, and the reversal of all related deferred tax assets. The tax rate is likely to remain over 30% until the performance of the Rest of Africa division improves.

### South Africa operating segment

A robust performance from the Group's core South Africa division, in a difficult consumer environment, protected the Group from significant challenges in Zambia and Zimbabwe including currency weakness and hyperinflation.

### Comparable earnings per share

Comparable headline and diluted headline earnings per share exclude the impact of hyperinflation in Zimbabwe.

## Summary of financial position

	As at 1 March 2020 Rm	Restated* As at 3 March 2019 Rm	Restated* As at 25 February 2018 Rm
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	865.4	909.8	944.1
Property, plant and equipment	6 622.4	6 189.3	6 054.4
Right-of-use assets	9 880.6	10 102.9	9 765.6
Net investment in lease receivables	2 129.9	1 860.8	1 778.8
Deferred tax assets	753.1	785.4	590.1
Investment in associate	50.4	184.4	365.6
Loans	86.6	102.0	79.3
Retirement scheme assets	68.7	72.2	97.6
Investment in insurance cell captive	54.9	35.2	25.7
Operating lease assets	13.0	12.8	10.2
Trade and other receivables	93.6	82.3	105.4
	<b>20 618.6</b>	<b>20 337.1</b>	<b>19 816.8</b>
<b>Current assets</b>			
Inventory	6 519.8	5 693.4	5 940.3
Trade and other receivables	4 168.5	4 301.4	3 525.5
Cash and cash equivalents	1 947.3	1 503.2	1 129.1
Net investment in lease receivables	221.0	248.9	231.6
Right-of-return assets	20.7	20.6	19.6
Derivative financial instruments	9.4	3.1	-
	<b>12 886.7</b>	<b>11 770.6</b>	<b>10 846.1</b>
<b>Non-current asset held for sale</b>	-	-	217.2
<b>Total assets</b>	<b>33 505.3</b>	<b>32 107.7</b>	<b>30 880.1</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	6.0	6.0	6.0
Treasury shares	(961.7)	(993.7)	(863.4)
Retained earnings	4 303.2	4 331.9	3 841.1
Other reserves	5.3	(6.0)	-
Foreign currency translation reserve	(342.7)	(303.2)	(43.6)
<b>Total equity</b>	<b>3 010.1</b>	<b>3 035.0</b>	<b>2 940.1</b>
<b>Non-current liabilities</b>			
Lease liabilities	14 188.5	13 635.1	13 100.1
Deferred tax liabilities	3.1	14.2	13.7
Borrowings	-	-	79.5
	<b>14 191.6</b>	<b>13 649.3</b>	<b>13 193.3</b>
<b>Current liabilities</b>			
Trade and other payables	11 255.2	10 346.3	10 473.5
Lease liabilities	1 716.7	1 676.8	1 520.4
Deferred revenue	298.8	256.2	281.3
Overnight borrowings	2 050.0	1 800.0	1 800.0
Borrowings	935.0	1 325.0	449.3
Current tax liabilities	47.9	19.1	213.7
Derivative financial instruments	-	-	8.5
	<b>16 303.6</b>	<b>15 423.4</b>	<b>14 746.7</b>
<b>Total equity and liabilities</b>	<b>33 505.3</b>	<b>32 107.7</b>	<b>30 880.1</b>

## Property, plant and equipment

The increase in assets reflects ongoing investment in new stores, refurbishments and distribution capacity.

## Investment in associate

The Group impaired its investment in TM Supermarkets to a fair value of R50.4 million this year, driven by the translation of our investment at a rate of 30.8 Zimbabwe dollars to 1.0 US dollar (FY19: 3.3 Zimbabwe dollars to 1.0 US dollar).

## Inventory

On a comparable 52-week basis, ignoring the impact of new stores and inflation, like-for-like inventory is up 4.3% year-on-year.

## Trade and other receivables

Franchise trade debt remains well managed, and is in line with last year, notwithstanding the addition of 55 new franchise stores and a growing wholesale offer.

## Total equity

The Group delivered a return on capital employed of 44%, against a weighted average cost of capital of 12% (excluding IFRS 16 lease liabilities).

## Lease liabilities

The Group implemented IFRS 16 Leases on a fully retrospective basis this year. The total lease liability of R15.9 billion (non-current and current) is up 3.8% year-on-year, with implied interest charges up 0.7%, reflecting annual stability in the Group's broad lease portfolio.

## Short-term borrowings

The Group maintains low gearing, through cost-effective, short-term debt only - largely funding the business through internally generated cash flow and an effective working capital cycle.

## Summary of changes in equity

	Share capital Rm	Treasury shares Rm	Retained earnings Rm	Other reserves Rm	Foreign currency translation reserve Rm	Total equity Rm
<b>At 25 February 2018 as published</b>	6.0	(863.4)	4 951.7	-	(70.7)	4 023.6
Adoption of IFRS 16 Leases*	-	-	(1 110.6)	-	27.1	(1 083.5)
<b>At 25 February 2018 restated*</b>	6.0	(863.4)	3 841.1	-	(43.6)	2 940.1
Adoption of IFRS 9 Financial Instruments**	-	-	(30.2)	-	-	(30.2)
<b>Total comprehensive income for the period</b>	-	-	1 423.2	3.1	(259.6)	1 166.7
Profit for the period*	-	-	1 444.6	-	-	1 444.6
Foreign currency translations*	-	-	-	-	(259.6)	(259.6)
Movement in cash flow hedge	-	-	-	3.1	-	3.1
Remeasurement in retirement scheme assets	-	-	(21.4)	-	-	(21.4)
<b>Other reserve movements</b>	-	-	-	(9.1)	-	(9.1)
<b>Transactions with owners</b>	-	(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 awards	-	180.9	(180.6)	-	-	0.3
Share-based payments expense	-	-	216.4	-	-	216.4
<b>At 3 March 2019 restated</b>	<b>6.0</b>	<b>(993.7)</b>	<b>4 331.9</b>	<b>(6.0)</b>	<b>(303.2)</b>	<b>3 035.0</b>
<b>Total comprehensive income for the period</b>	-	-	1 190.2	6.3	(39.5)	1 157.0
Profit for the period	-	-	1 194.7	-	-	1 194.7
Foreign currency translations	-	-	-	-	(39.5)	(39.5)
Movement in cash flow hedge	-	-	-	6.3	-	6.3
Remeasurement in retirement scheme assets	-	-	(4.5)	-	-	(4.5)
<b>Other reserve movements</b>	-	-	-	5.0	-	5.0
<b>Transactions with owners</b>	-	32.0	(1 218.9)	-	-	(1 186.9)
Dividends paid	-	-	(1 125.7)	-	-	(1 125.7)
Share purchases	-	(87.6)	-	-	-	(87.6)
Net effect of settlement of employee share awards	-	119.6	(118.9)	-	-	0.7
Share-based payments expense	-	-	25.7	-	-	25.7
<b>At 1 March 2020</b>	<b>6.0</b>	<b>(961.7)</b>	<b>4 303.2</b>	<b>5.3</b>	<b>(342.7)</b>	<b>3 010.1</b>

\* Prior period amounts restated for the adoption of IFRS 16 Leases, refer to the audited FY20 annual financial statements.

\*\* The Group adopted IFRS 9 during the prior period using a modified retrospective approach. Refer to the audited FY19 annual financial statements.

## Foreign currency translations

The movement in the foreign currency translation reserve of R39.5 million relates to the translation of foreign assets and liabilities into ZAR, and includes a R26.7 million charge related to the reduction in the carrying value of our TM investment in Zimbabwe as a result of currency weakness in the region.

## Dividends paid

The R1.1 billion in dividends paid reflects the final FY19 dividend and the FY20 interim dividend. The Group has deferred its decision on the final FY20 dividend until later in the year, once the impact of the COVID-19 pandemic on Group earnings and liquidity can be more reasonably known.

## Share purchases

The Group invested R87.6 million in funding its employee share incentive schemes this year.

\* Prior period amounts restated for the adoption of IFRS 16 Leases, refer to the audited FY20 annual financial statements.

## Summary of cash flow

	Audited 52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
<b>Cash flows from operating activities</b>		
Trading profit	3 148.0	3 054.9
<b>Adjusted for non-cash items</b>	<b>2 967.5</b>	<b>3 001.0</b>
Depreciation on property, plant and equipment	1 132.9	1 026.1
Depreciation on right-of-use assets	1 646.9	1 561.5
Amortisation on intangible assets	151.0	175.4
Share-based payments expense	25.7	216.4
Movements in operating lease assets	(0.2)	(2.6)
Movements in retirement scheme assets	(2.7)	(4.5)
Fair value and foreign exchange adjustments	13.9	28.7
<b>Cash generated before movements in working capital</b>	<b>6 115.5</b>	<b>6 055.9</b>
<b>Movements in working capital</b>	<b>249.9</b>	<b>(708.5)</b>
Movements in trade and other payables and deferred revenue	951.5	(152.3)
Movements in inventory and right-of-return assets	(821.2)	238.6
Movements in trade and other receivables	119.6	(794.8)
<b>Cash generated from trading activities</b>	<b>6 365.4</b>	<b>5 347.4</b>
Other interest received	275.6	258.8
Other interest paid	(389.6)	(349.3)
Interest received on net investment in lease receivables	183.3	155.6
Interest paid on lease liabilities	(1 312.1)	(1 278.6)
<b>Cash generated from operations</b>	<b>5 122.6</b>	<b>4 133.9</b>
Dividends paid	(1 125.7)	(938.0)
Tax paid	(487.1)	(817.3)
<b>Cash generated from operating activities</b>	<b>3 509.8</b>	<b>2 378.6</b>
<b>Cash flows from investing activities</b>		
Investment in intangible assets	(91.5)	(137.9)
Investment in property, plant and equipment	(1 653.7)	(1 312.5)
Proceeds on sale of non-current asset held for sale	-	217.2
Purchase of operations	(22.8)	(10.5)
Proceeds on disposal of intangible assets	0.3	0.3
Proceeds on disposal of property, plant and equipment	61.2	168.2
Principal net investment in lease receipts	220.0	231.8
Lease incentives	121.0	36.7
Loans repaid/(advanced)	15.4	(22.7)
<b>Cash utilised in investing activities</b>	<b>(1 350.1)</b>	<b>(829.4)</b>
<b>Cash flows from financing activities</b>		
Principal lease liability payments	(1 487.4)	(1 668.5)
Borrowings raised	12 760.0	4 700.0
Repayment of borrowings	(13 150.0)	(3 903.8)
Share purchases	(87.6)	(311.2)
Proceeds from employees on settlement of share awards	0.7	0.3
<b>Cash utilised in financing activities</b>	<b>(1 964.3)</b>	<b>(1 183.2)</b>
<b>Net increase in cash and cash equivalents</b>	<b>195.4</b>	<b>366.0</b>
Net cash and cash equivalents at beginning of period	(296.8)	(670.9)
Foreign currency translations	(1.3)	8.1
<b>Net cash and cash equivalents at end of period</b>	<b>(102.7)</b>	<b>(296.8)</b>
<b>Consisting of :</b>		
Cash and cash equivalents	1 947.3	1 503.2
Overnight borrowings	(2 050.0)	(1 800.0)

\* Prior period amounts restated for the adoption of IFRS 16 Leases, refer to the audited FY20 annual financial statements.

#### Share-based payment expense

The Group's share-based payment expense has reduced from R216.4 million last year to R25.7 million this year. A portion of share incentive costs have been reversed on the forfeit of executive share incentives this year due to performance conditions not being met (refer to page 105) and on the retirement of certain executives. The reversal has been offset by retirement and other gratuity payments, including bonuses to lower levels of management. The net benefit within employee costs is R100.0 million.

#### Cash generated before movements in working capital

The Group generated R6.1 billion from operations this year, in line with last year. The Group remains highly cash generative, generating R1.8 billion in free cash flow this year, before the payment of dividends to shareholders and share buy-backs.

#### Movements in working capital

The Group generated R249.9 million from working capital for the 52-weeks ended 1 March 2020, compared with a R708.5 million cash outflow over the 53 weeks of FY19. The year-end positions are not directly comparable, with the 53-week calendar last year reflecting the full impact of the Group's month-end payment calendar.

#### Tax paid

The difference in the tax paid year-on-year reflects the timing of the Group's financial calendar cut-off, with provisional tax and other payments made over period-end last year.

### Basis of preparation: Prior period 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, a 53rd week of trading was included in the prior period.

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

The prior period 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 prior period 52-week financial information may not fairly represent the Group's financial position, changes in equity, results of operations and cash flows.

The prior period 52-week financial information has been extracted from the 52-week financial information included in the 2019 Group annual financial statements, which has been restated for the Group's adoption of IFRS 16. Refer to the Group's "Implementation of IFRS 16: Leases" SENS announcement which was published on 25 September 2019, available on the Group's website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za), for more information on the IFRS 16 restatement impact on the prior period 52-week financial information and the prior period 53rd week.

### Comparable turnover growth

Revenue earned on the sale of cellular airtime and data include both those earned on a principal basis and those earned on an agency basis. Revenue earned on a principal basis is recognised as turnover, with related purchases recognised as cost of sales. Revenue earned on an agency basis is recognised, net of related purchase costs, within other income. Historically the Group transacted as both a principal and an agent when selling airtime and data.

After a strategic change in our arrangements with cellular airtime and data providers this year, the Group now only transacts on an agency basis in accordance with IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). Airtime and data sales and related purchases previously recognised on a principal or gross basis within turnover and cost of sales, are now recognised on an agency or net basis within other income. As a result of this strategic change, all future revenue earned on the sale of airtime and data and related purchase costs are now recognised on a net basis within other income.

In order to provide stakeholders with a comparable assessment of year-on-year turnover performance, the Group has eliminated the impact of the change over from principal to agent and has presented a comparable turnover number, with the impact presented below.

	52 weeks to 1 March 2020 Rm	Pro forma 52 weeks to 24 February 2019 Rm
Comparable turnover	89 186.5	85 190.8
Turnover from airtime sales recognised on a principal basis	95.0	1 080.4
Reported turnover	89 281.5	86 271.2

### Comparable year-on-year earnings performance, excluding the impact of hyperinflation accounting

During the period under review, Zimbabwe was classified as a hyperinflationary economy. The equity accounted earnings of the Group's investment in associate operating in Zimbabwe was therefore accounted for under IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29), with the impact presented below.

	52 weeks to 1 March 2020 Rm	52 weeks to 24 February 2019 Rm
Share of associate's earnings excluding net monetary gain	23.1	109.0
Share of associate's net monetary gain as a result of hyperinflation accounting	43.2	-
<b>Reported share of associate's earnings</b>	<b>66.3</b>	109.0
Impairment loss on investment in associate	(173.6)	-
<b>Impact of associate on profit before tax</b>	<b>(107.3)</b>	109.0

Profit before tax and headline earnings reported under IAS 29 includes a hyperinflation accounting net monetary gain. In management's view, this impact of hyperinflation accounting does not provide stakeholders with an accurate assessment of the Group's comparable year-on-year earnings performance. As a result, the Group has presented its earnings for the current period on a comparable basis, excluding the Group's share of associate's net monetary gain of R43.2 million (with no impact on tax). The table below presents the key changes to items presented.

	As reported Rm	Remove Impact of IAS 29 Rm	Comparable Rm
<b>52 weeks to 1 March 2020</b>			
Rest of Africa profit before tax before capital items	133.3	(43.2)	90.1
Group profit before tax before capital items	1 913.9	(43.2)	1 870.7
Group headline earnings	1 370.8	(43.2)	1 327.6
	cents	cents	cents
Headline earnings per share	287.89	(9.08)	278.81
Diluted headline earnings per share	286.39	(9.03)	277.36



# FIVE-YEAR REVIEW

		2020	2019	2018	2017	2016
<b>Performance measures<sup>#</sup></b>						
Comparable turnover growth	%	4.7	7.1	5.1	7.0	8.2
Gross profit margin	%	19.7	19.1	19.0	18.9	18.8
Other trading income margin	%	1.8	1.7	1.8	1.7	1.6
Trading expenses margin	%	17.9	17.5	17.4	17.4	17.8
Comparable PBT growth	%	6.5*	11.1	1.9**	26.2	23.9 <sup>^</sup>
Comparable PBT margin	%	2.1*	2.0	2.0	2.0	1.7 <sup>^</sup>
Profit before tax growth	%	(2.6)	4.4	13.3	37.6	9.1
EBITDA (before capital items) growth	%	5.4	17.5	13.2	21.1	13.0
Headline earnings growth	%	2.8	14.7	2.7**	42.6	13.4
Headline earnings per share (HEPS)	cents	287.9	280.6	245.5	234.8	165.8
HEPS growth	%	2.6	14.3	4.6**	41.6	13.3
Comparable HEPS	cents	278.8*	280.6	245.5	234.8	187.3 <sup>^</sup>
Comparable HEPS growth	%	(0.6)	14.3	4.6	25.4	28.0
Return on capital employed (ROCE)	%	43.9	43.7	38.8	36.5	28.9
Net asset value per share	cents	776.2	786.7	738.1	698.3	668.4
WACC	%	12.0	12.4	12.0	13.1	12.2
<b>Consolidated statement of comprehensive income<sup>#</sup></b>						
Turnover	Rm	89 281.5	86 271.2	80 523.5	76 596.3	71 613.2
Comparable turnover	Rm	89 186.5	85 190.8	79 616.4	75 753.7	70 825.4
Other trading income	Rm	1 570.2	1 474.8	1 451.1	1 301.0	1 180.5
Trading expenses	Rm	16 023.9	15 078.6	14 022.8	13 346.9	12 749.7
Profit before tax	Rm	1 736.0	1 781.8	1 707.1**	1 506.1	1 094.2
Comparable PBT	Rm	1 870.7*	1 756.4	1 581.2	1 552.3	1 229.7 <sup>^</sup>
Comparable profit for the period	Rm	1 151.5*	1 349.7	1 252.8	1 100.9	889.2
Profit for the period	Rm	1 194.7	1 349.7	1 252.8	1 100.9	786.3
EBITDA (before capital items)	Rm	6 102.0	5 787.9	4 925.7	4 352.8	3 594.1
Headline earnings	Rm	1 370.8	1 333.2	1 162.8**	1 132.2	793.8
Comparable headline earnings	Rm	1 327.6*	1 333.2	1 162.8	1 132.2	896.7 <sup>^</sup>
<b>Consolidated statement of financial position<sup>#</sup></b>						
Assets	Rm	33 505.3	32 107.7	30 880.1	27 488.5	24 520.2
Ordinary shareholders' equity	Rm	3 010.1	3 035.0	2 940.1	2 798.3	2 739.3
Liabilities	Rm	30 495.2	29 072.7	27 940.0	24 690.3	21 780.9

<sup>#</sup> 2016 to 2019 amounts restated for the adoption of IFRS 16 Leases.

\* Comparable PBT and comparable profit for the period, for the 2020 financial year excludes the net hyperinflationary gain recognised in respect of the Group's investment in associate.

\*\* Reflects the impact of the voluntary severance programme (VSP) undertaken in the 2018 financial year.

<sup>^</sup> Comparable PBT and comparable profit for the period, for the 2016 financial year excludes the R102.9 million impact of foreign exchange losses incurred on United States Dollar based leases.

		2020	2019	2018	2017	2016
<b>Stock exchange (JSE Limited) performance</b>						
Number of shares in issue	millions	493.5	493.5	488.5	488.5	488.5
Weighted average number of shares in issue	millions	476.2	475.1	473.7	482.2	478.9
Total market capitalisation	Rbn	27.3	34.1	36.3	34.0	27.4
Market capitalisation net of treasury shares	Rbn	26.4	32.9	35.3	32.9	26.9
Price:earnings ratio <sup>#</sup>	times	19.8	24.6	30.3	29.7	30.0
Dividend per share	cents	@	231.1	188.8	176.3	149.4
Interim dividend per share	cents	42.8	39.1	33.4	29.9	24.2
Final dividend per share	cents	@	192.0	155.4	146.4	125.2
Comparable dividend cover	times	@@	1.3	1.3	1.3	1.3
Dividend yield	%	@	3.3	2.5	2.5	2.7
Volume of shares traded	millions	275.8	362.8	360.1	345.7	281.6
Percentage of shares traded	%	55.9	73.5	73.7	70.8	57.6
Market price per share						
– close at year-end	cents	5 524	6 913	7 428	6 969	5 614
– high for the year	cents	7 412	8 209	7 606	8 424	7 000
– low for the year	cents	5 155	6 228	5 460	5 525	4 850

<sup>#</sup> 2016 to 2019 amounts restated for the adoption of IFRS 16 Leases.

@ In light of the current economic upheaval from the COVID-19 pandemic, the Board has decided that it would be prudent not to declare a dividend at this time but rather to preserve cash. Refer to the CFO's financial review on page 66 for more information.

@@ The dividend cover has been recalibrated to include the impact of the adoption of IFRS 16. Under normal circumstances, the Group maintains a dividend cover of 1.3 times Comparable Headline Earnings per Share, on a 52-week basis, to ensure that sufficient capital is retained for future expansion. The Group has not yet formally declared a final dividend for the 2020 financial period, electing to preserve cash in light of the current economic upheaval from the COVID-19 pandemic.

## DEFINITIONS

<i>Exceptional items</i>	Exceptional items are determined by the remuneration committee, and are non-recurring items of an exceptional size and nature.
<i>Comparable turnover</i>	Excludes turnover earned from the sale of cellular airtime and data on a principal basis. Refer to page 73.
<i>Comparable profit before tax (PBT)</i>	Profit for the period, before tax, capital items, and exceptional items.
<i>EBITDA</i>	Comparable profit for the period, before net interest, tax, depreciation, amortisation and capital items.
<i>Headline earnings</i>	Net profit for the period adjusted for the after tax effect of certain capital items.
<i>Headline earnings per share (HEPS)</i>	Headline earnings divided by the weighted average number of shares in issue for the period.
<i>Comparable headline earnings</i>	Headline earnings before exceptional items and its related tax effect.
<i>Comparable HEPS</i>	HEPS before exceptional items and its related tax effect.
<i>Return on capital employed (ROCE)</i>	Comparable headline earnings divided by average shareholders' equity plus secured borrowings (excluding lease liabilities).
<i>Net asset value per share</i>	Total value of net assets at period-end, adjusted for directors' valuations of property, divided by the number of shares in issue at period-end, held outside the Group.
<i>Weighted average cost of capital (WACC)</i>	WACC is the average after tax cost of the Group's debt funding, which includes non-current borrowings and current liabilities (excluding lease liabilities) and the Group's equity funding, with each source of funding included on a proportional basis.
<i>Market capitalisation</i>	The price per share at period-end multiplied by the number of shares in issue at period-end.
<i>Price earnings ratio</i>	The price per share at period-end divided by comparable headline earnings per share.
<i>Comparable dividend cover</i>	Comparable headline earnings per share divided by the dividends per share which relate to those earnings.
<i>Dividends per share</i>	The interim dividend declared during the current financial period and the final dividend declared after period-end, in respect of the current financial year.

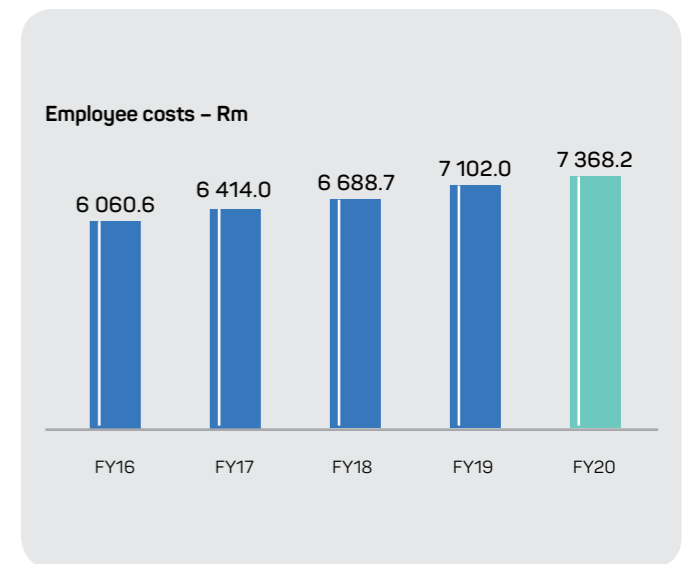
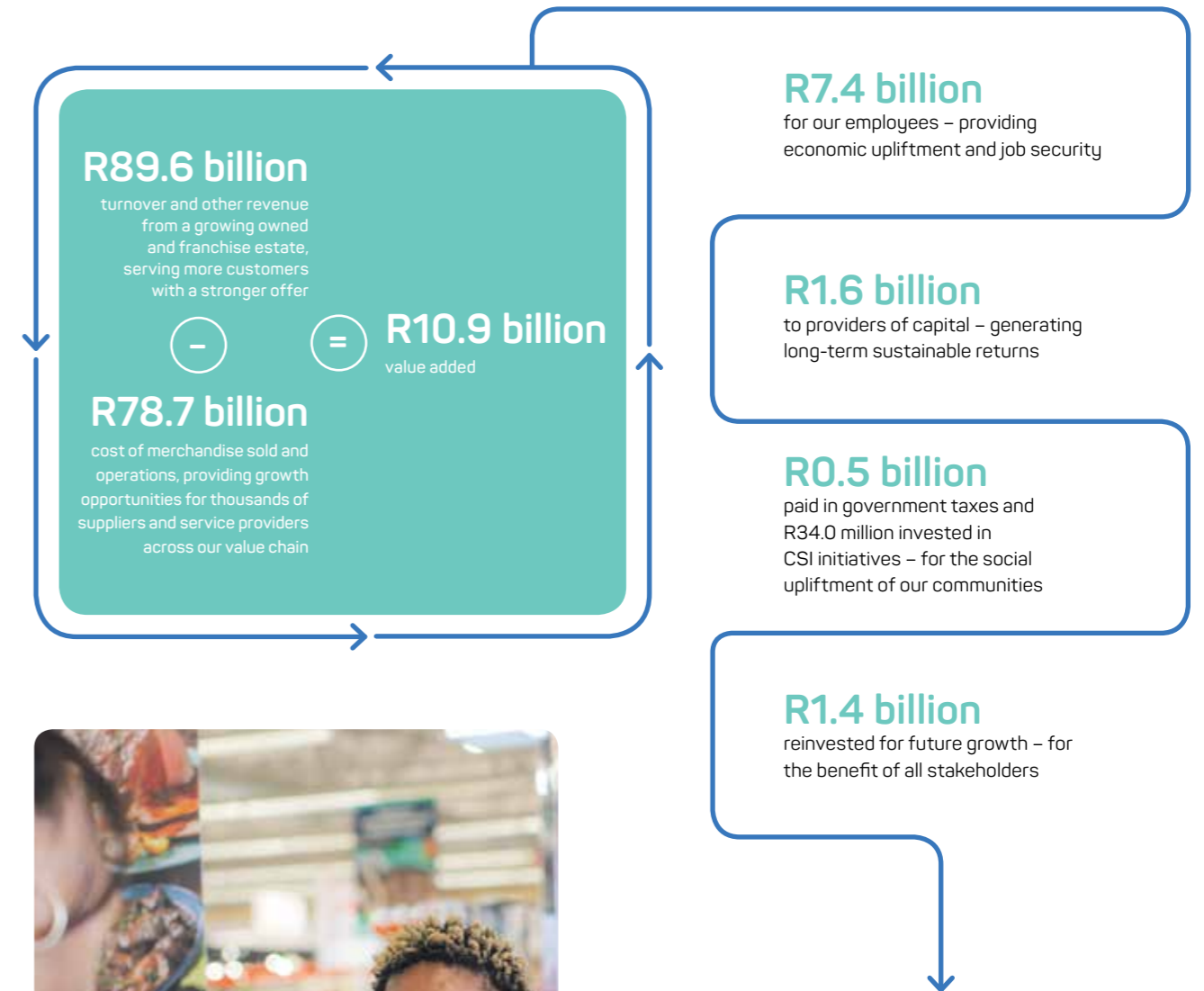


		2020	2019	2018	2017	2016
<b>HUMAN MEASURES*</b>						
<b>Developed a skilled workforce</b>						
Number of employees	000's	54.9	53.6	51.9	54.4	52.9
Permanent employee turnover	%	17.0	17.4	24.9	19.9	16.1
<b>Employment Equity**</b>						
Top management	%	48.5	44.0	40.9	35.0	36.0
Senior management	%	76.8	74.2	71.3	63.0	66.0
Professionally qualified middle management	%	93.8	93.5	92.8	87.0	88.0
Skilled technical and junior management	%	98.2	98.0	97.8	97.0	96.0
Semi-skilled and discretionary decision-making	%	99.8	99.8	99.8	99.8	99.7
Unskilled and defined decision-making	%	99.8	99.7	99.7	99.6	99.5
<b>SOCIAL AND ENVIRONMENTAL MEASURES*</b>						
Carbon footprint (scope 1 and 2)#	CO <sub>2</sub> e tonnes	703 437.9	649 192.4	657 387.2	671 052.6	656 765.1
Energy usage per square metre reduction (2008 baseline)	%	37.4%	36.9	37.0	34.1	31.4
CO <sub>2</sub> e emissions per square metre reduction (2013 baseline)	%	1.9	3.7	2.5	3.5	0.6
Waste diverted from landfill	%	60.0	53.5	54.3	48.4	46.0
Water used	megalitres	1 117	1 128	1 161	1 332	1 249
Total CSI spend	Rm	34.0	34.1	30.5	38.7	41.5
Schools in Pick n Pay Schools club		3 025	3 025	3 025	3 025	3 025
BBBEE Level		Level 7	Level 8	Level 8	Level 8	Level 4
<b>OPERATIONAL STATISTICS</b>						
<b>Total number of stores</b>						
<b>Group – excluding associate</b>						
Pick n Pay – owned		794	749	722	661	596
Pick n Pay – franchise		774	719	660	614	549
Boxer – owned		298	270	246	229	208
<b>Associate</b>						
TM Supermarkets		59	57	57	56	57
<b>Total square metres</b>						
Owned	m <sup>2</sup> – millions	1.8	1.8	1.8	1.7	1.6
Franchise	m <sup>2</sup> – millions	0.8	0.8	0.7	0.7	0.7

\* Information relates to Pick n Pay owned stores only, refer to page 4 for more information on the reporting boundaries of this report.  
 \*\* These measures represent the participation of employment equity candidates, as governed by the Employment Equity Act, No 55 of 1998, in the presented categories.  
 # The carbon factor of South Africa's national electricity provider (Eskom) increased from 0.95 kg CO<sub>2</sub>e per kWh last year to 1.04 CO<sub>2</sub>e per kWh this year. This drove up Pick n Pay's total carbon emissions this year, notwithstanding a decline in our year-on-year electricity usage. At the same time, our increased carbon footprint reflects our increased use of diesel generators as a result of load shedding during the final quarter of our FY20 financial year.

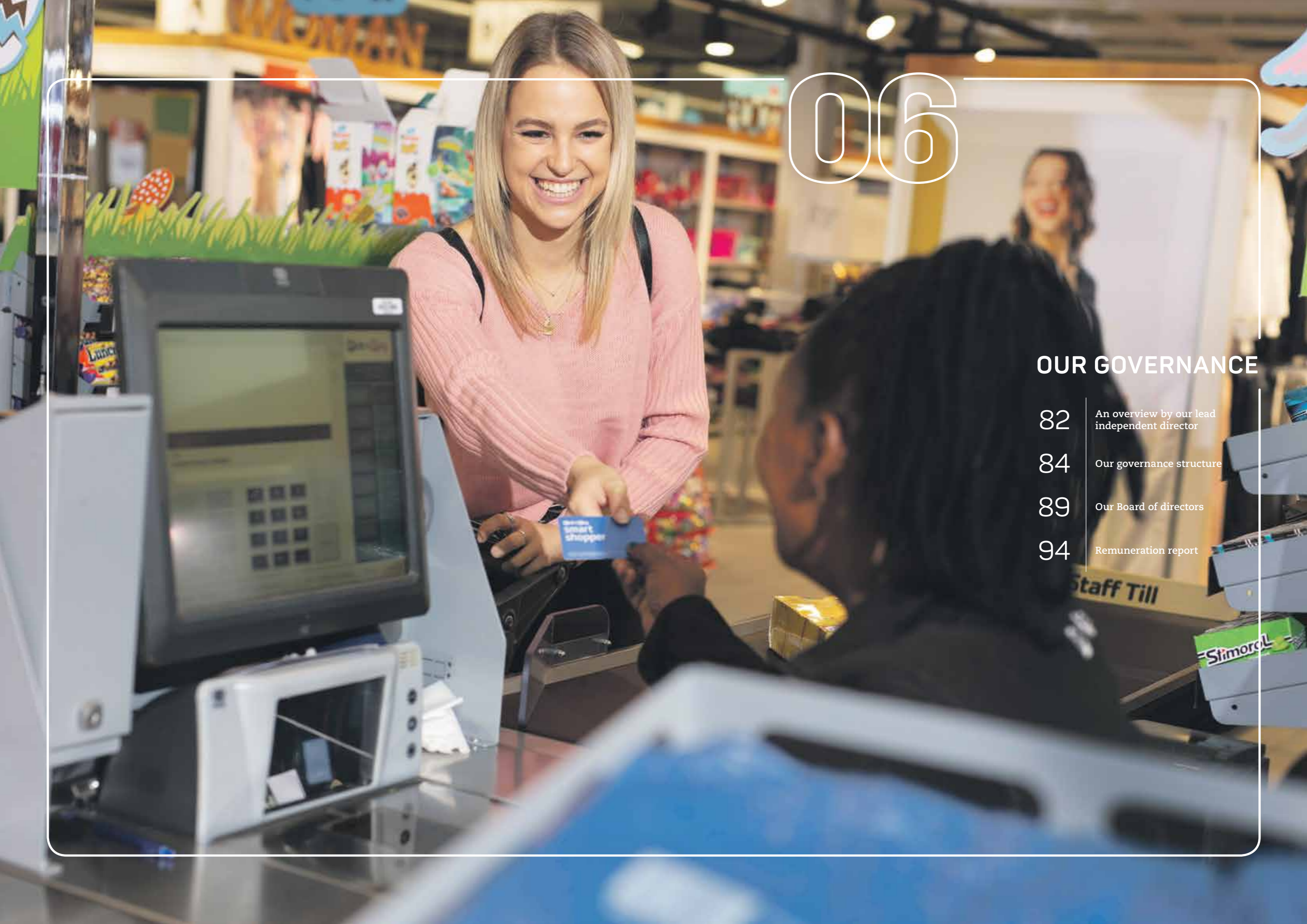
# VALUE-ADDED STATEMENT

We have created financial value of R10.9 billion during the financial period. The value-added statement illustrates how we have distributed this value to our stakeholders.



OUR GOVERNANCE

- 82 An overview by our lead independent director
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# AN OVERVIEW BY OUR LEAD INDEPENDENT DIRECTOR

The Board ultimately endorses and accepts responsibility for achieving the values that underpin good governance, as advocated by the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV). These include integrity, competence, fairness, responsibility, transparency and accountability.

## Our approach to corporate governance

The Group's commitment to the highest standards of corporate governance has contributed to its sustainable value creation over 53 years. The Board provides effective and ethical leadership and is committed to a governance framework that is built on the principles of honesty, integrity and accountability.

Our ethical value system has built strong relationships with stakeholders who recognise and support the Group as a responsible corporate citizen, with the confidence that we will do what is right. The Board endorses the corporate governance principles encapsulated in King IV, including the concept of integrated thinking, which underpins corporate citizenship, stakeholder inclusivity, sustainable development and integrated reporting. The Board commits to stakeholders that it will operate in accordance with our values of integrity, competence, fairness, responsibility, transparency and accountability, as captured by our enduring values set out on page 3.

The Board is elected by shareholders and accepts overall accountability for the Group's performance, and in ensuring that the business is adequately positioned to create sustainable value over the long term for all stakeholders, taking into account the material issues, risks and opportunities of the Group. Sustainable value creation is measured across the triple context of the Group's economic, social and environmental performance against the objectives set out in our long-term strategy, and with reference to the effective management of our capitals and the balanced and appropriate management of stakeholder needs.

## Impact of COVID-19

Subsequent to the conclusion of the FY20 financial period, efforts to curb the spread of the COVID-19 global pandemic led to significant impacts on people and economies. On 15 March 2020, a National State of Disaster was declared in South Africa, with a nationwide lockdown imposed from 27 March 2020. Countries in which the Group operates in the rest of Africa implemented similar measures. As an essential service provider, the Group is proud to support consumers with vital access to essential consumer goods during the lockdown, notwithstanding the constrained operating circumstances. The regulatory environment in which businesses operated evolved continually as governments grappled with the best means of enforcing social distancing to protect against the spread of the pandemic. The advantage of the Group's established corporate governance policies became increasingly clear in the context of the lockdown as the business implemented the various regulatory measures governing operations while ensuring that our customers had access to quality products at fair prices in a safe store environment.

## Appointment of Jeff van Rooyen as lead independent director

The Chairman, Gareth Ackerman, announced at the 2019 annual general meeting (AGM) that Hugh Herman would step down as lead independent director at the end of the 2020 financial period. With effect from 2 March 2020, the non-executive directors appointed Jeff van Rooyen as the lead independent director, to assist with the co-ordination and liaison between the non-executive directors and the controlling shareholder where there may be concerns or perceived conflicts of interest. The Board is confident that Jeff van Rooyen will strive to meet the consistently high standards set by Hugh. The Board extends its deep gratitude to Hugh for his valuable contribution in the role of lead independent director and is happy to confirm that Hugh's valued experience and expertise as an independent non-executive director will continue to be available to the Board and the committees on which he serves with distinction.



The Board is satisfied that it has fulfilled its responsibilities in accordance with its corporate governance charter, King IV, the JSE Listings Requirements, the Companies Act and applicable statutory and regulatory requirements for the financial period ended 1 March 2020.



Jeff Van Rooyen  
Lead independent director

## Our corporate governance philosophy and practices are aligned with the four governance outcomes advocated by King IV, namely:

### Ethical culture

An ethical culture builds support structures that underpin our core purpose, values and strategy.

- To ensure that we maintain an ethical culture, governance structures are regularly reviewed to align with best practice and reflect regulatory changes.
- The Board conducted its annual review of the Group's Code of Ethics, which outlines the key behaviours and actions expected by employees, suppliers and business partners. A Group-wide ethics communications campaign is underway, with different illustrations of ethical behaviour being communicated to employees every month.
- The anti-bribery and corruption policy, which is set out in the Group's Code of Ethics, was reviewed and updated.
- The corporate governance charter was reviewed and updated.
- The Group adopted a malus and claw-back policy, entitling the Board to claw back performance-based elements of an employee's remuneration should that employee be involved in a material misstatement of the financial statements.

### Effective control

The Group's governance and compliance framework is built on the principles of accountability, transparency, ethical management and fairness.

- Areas of governance are delegated to the Group's various committees. Read more from page 84.
- The Board's delegation of authority within its governance framework contributes to role clarity and the effective exercise of responsibilities across the Group's various committees and within the broader business. Read more from page 84.
- The Group's corporate governance structure is regularly reviewed to ensure that the Board exercises effective and ethical leadership, conducts its affairs as a good corporate citizen and takes appropriate decisions to ensure the sustainability of operations. The Group's charter was expanded to provide detailed responsibilities for the Chief Finance Officer (CFO) and Chief Information Systems Officer (CISO) roles, and the mandates of the Chairman and executive directors were reviewed.
- The Board annually conducts an evaluation of its contribution to the Group as a whole, as well as the individual performance of each director. Read more from page 86.

### Legitimacy

The Board retains overall responsibility for the concept of integrated thinking encapsulated in King IV, which underpins corporate citizenship, stakeholder inclusivity, sustainable development and integrated reporting.

- The Board ensures that the reports issued by the Group enable stakeholders to make informed assessments of its performance, and its longer-term prospects.
- As part of its succession planning strategy and to enable a seamless transition in key leadership roles, the Board, in collaboration with the nominations committee:
  - Oversaw the selection process for the recently appointed CFO of the Group, Lerena Olivier, following the retirement of Bakar Jakoet;
  - Reviewed and worked on the succession planning for the Chief Executive Officer (CEO); and
  - Took steps to boost the resilience and diversity of the Board with the appointment of Aboubakar Jakoet as non-executive director with effect from 18 May 2020, and Mariam Cassim and Haroon Bhorat as independent non-executive directors with effect from 6 September 2019. In addition, Annamarie van der Merwe will join the Board as an independent non-executive director on 4 August 2020, at which time Alex Mathole will step off the Board. We are confident that our new non-executive directors will provide retail experience coupled with fresh perspectives and relevant strategic input to contribute to the Group's value-creation through diverse experiences.
- The Board is aware of the King IV principle of having an arms-length relationship with the Company Secretary and has created an environment in which the Company Secretary is able to ensure full adherence to Board procedures and relevant regulations. The Company Secretary is not involved in an executive capacity on the boards of the various companies in the Group.

### Good performance

There are well-entrenched structures within the Group to ensure that proper assurance and oversight are given to strategic and operational performance.

- The Board undertook a number of discussions during the year related to strategy, performance, governance and risk management.
- Recognising that decisive steps were required to improve operating efficiencies, a voluntary severance programme (VSP) was adopted following vigorous debate regarding the socio-economic circumstances leading to, and resulting from, such a programme. It was concluded that the VSP would improve efficiency and productivity of staff by removing roles and functions that were no longer required due to improved working methods, while the reduced labour costs would enable the Group to further expand and create new jobs.
- The details of other material issues under discussion by the Board, as well as the decisions and actions arising, are set out in more detail in this overview.

# OUR GOVERNANCE STRUCTURE

The Board is confident that the Group's governance framework, supported by its Board committees and related administrative structures and compliance processes, contributes to sustainable value creation by driving:

- Accountability to stakeholders
- Sound leadership and effective decision-making
- Strong risk management and risk mitigation
- Comprehensive and transparent integrated reporting
- Remuneration policies that aim to build a winning team through the development and retention of top talent and through incentivisation in line with the Group's strategic objectives

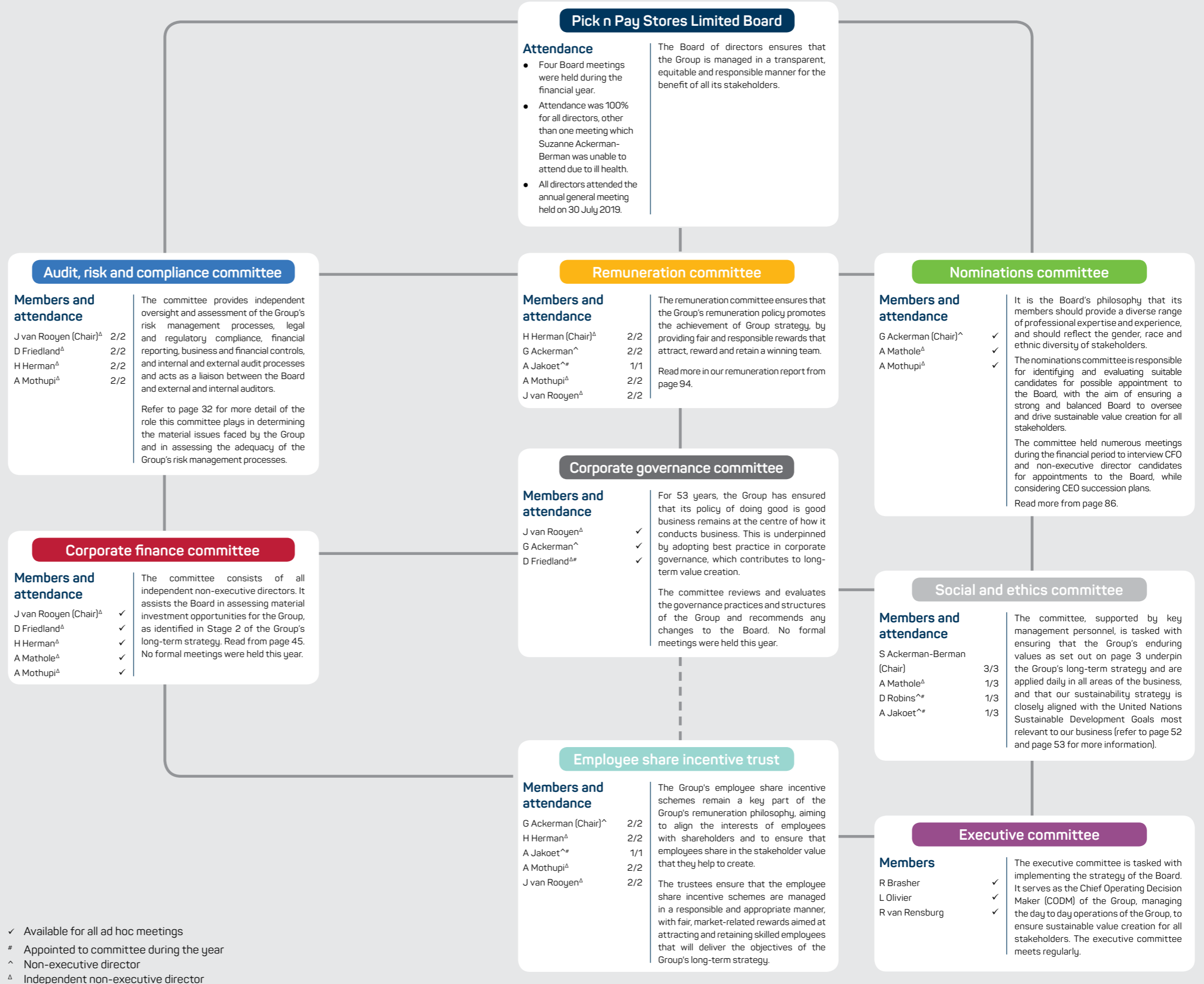
The Group's governance framework is regularly reviewed to ensure that the Board exercises effective and ethical leadership, conducts its affairs as a good corporate citizen and takes appropriate decisions to ensure the long-term sustainability of the business.

## Board committees

The Board is supported by the executive, audit, risk and compliance, remuneration, nominations, corporate finance, corporate governance, and social and ethics committees. The Board's delegation of authority to these committees contributes to role clarity and the effective exercise of authority and responsibilities within the broader Group.

The role and responsibilities of each committee are set out in the Board's corporate governance charter, available on our website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za). The charter is reviewed annually to ensure that the committee mandates remain current and effective and that the requirements of King IV are met. Each committee considers its effectiveness by way of a review of its activities against the approved terms of reference in line with their delegated powers and authority.

“ Together with the Board, all committees are satisfied that they have carried out their responsibilities during the period. ”



✓ Available for all ad hoc meetings  
 # Appointed to committee during the year  
 ^ Non-executive director  
 Δ Independent non-executive director

### Board composition

Our directors are strong-minded individuals of integrity, who are successful and experienced professionals in their respective fields. The Group has actively sought to appoint business people to its Board, looking for individuals who play an active role in business, are in a position to offer retail, commercial, financial, accounting, legal and regulatory knowledge to the Board, and add value through wisdom, and practical business acumen.



The non-executive directors are diverse in their academic qualifications, business experience, gender and race, resulting in a balanced Board.

Gareth Ackerman and David Robins are not considered independent owing to their relationship with the controlling shareholder. Aboubakar (Bakar) Jakoet is not considered independent as he was an executive director until his retirement as CFO. As our Chairman is not considered independent, Jeff van Rooyen was appointed as lead independent director. Read more under "Controlling shareholder representation on the Board" overleaf.

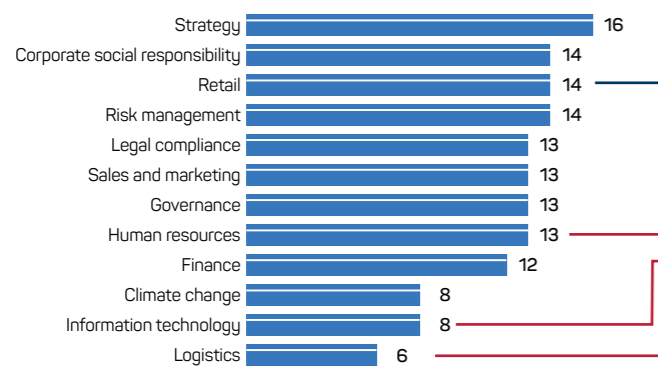
The executive committee (refer to page 85 for further information) performs the Chief Operating Decision Maker (CODM) role within the Group. The CODM comprises Richard Brasher (CEO), Lerena Olivier (CFO) and Richard van Rensburg (CISO). They are tasked with the day-to-day executive management of the Group. Suzanne Ackerman-Berman and Jonathan Ackerman perform valuable ancillary executive roles alongside the executive committee, focused on corporate social investment, transformation and customer relations.

The Board is satisfied that during the FY20 financial year its balanced composition reflects an appropriate mix of knowledge, skills, experience, diversity and independence.

The Board is pleased to announce that:

- Aboubakar Jakoet joined the Board as a non-executive director with effect from 6 September 2019;
- Mariam Cassim and Haroon Borhat joined the Board as independent non-executive directors with effect from 18 May 2020; and
- Annamarie van der Merwe will join the Board on 4 August 2020, at which time Alex Mathole will step off the Board.

### Our directors' sector experience\*



**A competitive advantage for the Board**  
The Board has broad local and international retail experience. We see this as a strong competitive advantage and a unique strength.

**Board development focus areas for the 2021 financial period:**

- ESG reporting
- Risk management of pandemics
- Security of supply with challenges in the manufacturing sector arising from global efforts to contain the spread of the coronavirus COVID-19 pandemic
- The effectiveness of information technology particularly in the support of office staff working from home during the pandemic

These focus areas are multi-faceted aspects of our business that could have a broad impact on our operational performance and our ability to create sustainable value over the longer term. The Board will continue to build its proficiency in these areas, supported by a skilled management team. The Board believes it has sufficient expertise in specialised information technology and will continue to closely monitor climate change and supply chain logistics.

The above graph indicates the number of directors on the Board who possess the relevant sector experience.

\* Including Annamarie van der Merwe, to be appointed in August 2020.

### Controlling shareholder representation on the Board

The Group's controlling shareholder, Ackerman Investment Holdings Proprietary Limited (AIH), transferred its shareholding into AIH's wholly-owned subsidiary, Newshelf 1321 Proprietary Limited, to ringfence it from other portfolio investments. The Company and shareholders were advised of this transaction in October 2019.

The non-executive Chairman of the Group, Gareth Ackerman; non-executive director, David Robins; and two executive directors, Suzanne Ackerman-Berman and Jonathan Ackerman, were nominated as representatives of the controlling shareholder and were elected by shareholders to the Board. All are members of the Ackerman family, and are not considered independent by virtue of their indirect shareholdings in the Company. Between them, they have over 88 years' experience in the Group. Their wealth of retail knowledge assists the Group in making decisions for the benefit of all stakeholders.

To guard against a perception that a conflict of interest could arise between the controlling shareholder and other shareholders, the Board elects an independent non-executive director annually, to act as lead independent director (LID). The role of the LID is to provide leadership and advice to the Board when the Chairman has a conflict of interest, without detracting from the authority of the Chairman. The position also provides an important point of contact for the broader investment and stakeholder community should they have concerns with the management of the Group or potential conflicts of interest. Jeff van Rooyen was appointed as LID, on 2 March 2020.

All directors receive regular briefings on changes in the Group's consumer and competitive environment, including relevant updates on regulatory compliance, which focus on the material opportunities and risks facing the Group that could impact on successful execution of the Group's long-term plan.

### Director appointment and rotation

A third of non-executive directors resign at each annual general meeting.

This enables shareholders to hold directors to account and to appoint directors to the Board who shareholders believe will ensure long-term sustainable value creation for all stakeholders.

When filling vacancies, the Board seeks and appoints qualified individuals who reflect a diverse range of skills and professional backgrounds and who represent the gender, race and ethnic diversity of the communities we serve. This is guided by the Group's diversity policies, as well as ensuring that the Board enjoys representation across all elements of sector experience.

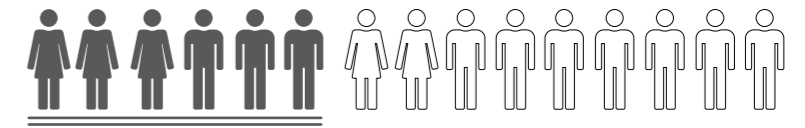
### Gender diversity (%)

At least 25% of our Board should comprise women.



### Racial diversity (%)

At least 25% of our Board should comprise South African citizens who are African, coloured or Indian.

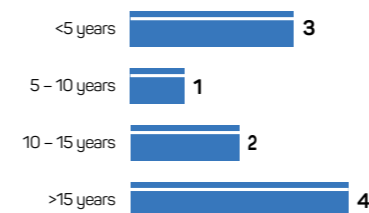


The Board has achieved its gender and race diversity targets.

### Non-executive director tenure

King IV does not consider the length of a non-executive director's term in office as a determinant of independence. However, the Group's policy remains that all independent non-executive directors who have served on the Board for more than nine years retire by rotation at the end of every year, instead of the standard three-year term of office.

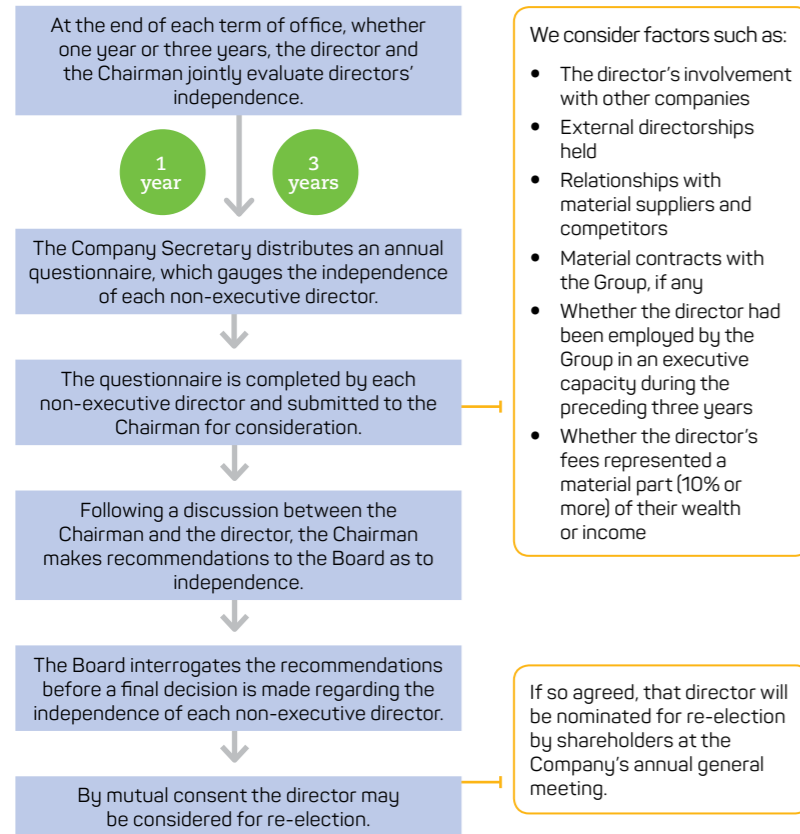
### Non-executive director tenure



The Board has established a good balance between the experience of long-standing directors and the fresh insights from more recently appointed directors. Our long-standing non-executive directors are highly respected in the industry and corporate South Africa. They provide the Board with valuable insight and perspective across the South African economic environment, and more particularly across the retail, property and financial sectors. We believe our longer-serving directors continue to act with objectivity and integrity. The Board is strengthened by the depth of their experience and their commitment to robust and meaningful debate.

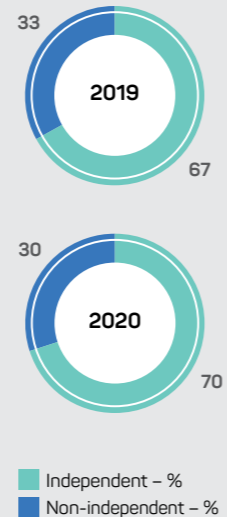
The Board assesses its composition and its performance on an annual basis, and where it is felt that the Board needs to increase its independence, its skill and experience in any way, the appropriate changes are made.

Independence of non-executive directors



Non-executive directors

All directors regularly declare their directorships and commercial interests to the Board. Transparency of commercial interests ensures that directors can be seen to be free from any business or other relationship that may interfere materially with any director's capacity to act in an independent manner.



What the Board focused on during the year

The directors ensure that the Group is managed in a transparent, equitable and responsible manner for the benefit of all its stakeholders. The Board appreciates that the strength of its strategy, the identification of material issues, the effectiveness of its risk management, its commitment to social and environmental sustainability and its financial performance are all inseparable elements of long-term value creation. Directors engage in rigorous and informed debate with the aim of promoting direction, governance and effective leadership of the Group. Decisions are made by consensus. All Board members are conscious of their obligation to act with integrity and as representatives of all our stakeholders.

The Board supports the materiality approach, which emphasises integrated reporting based on the issues, risks and opportunities that can have a material impact on the sustainable performance of the Group over the short, medium and longer term. It ensures that the reports issued by the Group enable stakeholders to make informed assessments of its performance and its longer prospects.

Please refer to the message from our Chairman on page 9 and our Corporate Governance Report for further information on the Board's key focus areas this year.

# OUR BOARD OF DIRECTORS

Chairman



Gareth Ackerman (62)

Chairman

*BSocSci, CMS and AMP (Oxon)*

- Appointed 1990
- Years of service to the Group: 36
- Years of service on the Board: 30
- Chairman of the corporate governance committee, the nominations committee and the Employee Share Incentive Trust



An executive at Pick n Pay for 15 years until 1999, Gareth headed up various divisions and served as Joint Group Managing Director and the Managing Director of Pick n Pay Group Enterprises. He was appointed to the Board in 1990 as an executive director, until becoming a non-executive director in 1999. From 2002 to 2010 Gareth was Chairman of Pick n Pay Holdings Limited, which at that time was the ultimate holding company of the Group. In 2010 he was appointed non-executive Chairman of Pick n Pay Stores Limited.

Among his other involvements, Gareth is co-chairman of the Consumer Goods Council of South Africa and is previous co-chairman of the international Consumer Goods Forum. He is also a trustee of the Masisizane Fund and a member of the international board of the Young Presidents' Organisation (YPO). He chairs the Ackerman Family interests.



Executive directors



Richard Brasher (58)

Chief Executive Officer (CEO)

*BSc (Hons)*

- Appointed 2013
- Years of service to the Group and on the Board: 7



Richard joined Pick n Pay as CEO in 2013 and has led the plan to restore the business to sustainable long-term growth. He has an outstanding track record spanning 30 years in international retail, having joined Tesco in 1986 and having served as a director on the Tesco main board from 2004 to 2012.



Richard van Rensburg (59)

Chief Information Systems Officer (CISO)

*CA(SA)*

- Appointed 2009
- Years of service to the Group and on the Board: 11



Richard has extensive experience in retail and information technology with Woolworths, Massmart and Affinity Logic. In 2009 he joined the Board of Pick n Pay as an independent non-executive director. Appointed as an executive director in 2011, Richard is the CISO, taking responsibility for the IT, financial services and e-commerce portfolios of the Group.



Members of:

- Audit, risk and compliance committee
- Remuneration committee
- Nominations committee
- Corporate finance committee
- Corporate governance committee
- Social and ethics committee
- Executive committee
- Employee Share Incentive Trust

Indicates director's sector experience. Refer to pages 86 and 93 for further information.

Executive directors (continued)



**Chief Finance Officer (CFO)**  
CA(SA)

- Appointed September 2019
- Years of service to the Group: 9

Lerena joined the Group nine years ago, taking responsibility for financial reporting and the finance team in the Pick n Pay Group finance division. During her 18 years of experience in JSE-listed companies in the retail sector, Lerena has gained expertise in finance, risk management, strategy, accounting and tax. She was appointed to the position of CFO and to the Board in September 2019.

C R  
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LC S  
RM IT  
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Lerena Olivier (44)



**Executive Director**

BA, Fellow: Aspen Business Institute; First Movers

- Appointed 2010
- Years of service to the Group: 25
- Years of service on the Board: 10
- Chairman of the social and ethics committee

Following broad executive experience in the Company, Suzanne was appointed Director of Transformation 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 active in many areas of philanthropy across different sectors of society. In particular, she is a passionate proponent of enterprise development. She is chairman of the Ackerman Pick n Pay Foundation and heads the Pick n Pay Enterprise Development Division. Suzanne is also on the Advisory Board of the Zeitz MOCAA Art Museum and a trustee of the SMILE Foundation.

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Suzanne Ackerman-Berman (57)



BA Marketing

- Appointed 2010
- Years of service to the Group: 27
- Years of service on the Board: 10

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. He was appointed to the Board as a representative of the controlling shareholder in March 2010.

C SM  
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H S  
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Jonathan Ackerman (53)

Non-executive directors



BBusSci

- Appointed 2002
- Years of service to the Group: 26
- Years of service on the Board: 18

David joined the Group in 1994 and was appointed in 2005 as the executive responsible for expansion outside South African borders. In 2002 he was appointed as Deputy Chairman of the Group and as an executive director. During 2008 he retired from his executive position. He remains on the Board as a non-executive director and as a representative of the controlling shareholder.

C R  
RM F  
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G

David Robins (66)



CA(SA)

- Appointed as non-executive director September 2019
- Other listed company directorships: Oceana Group

Following his 34-year career in the finance team of Pick n Pay, Bakar retired as CFO in September 2019. Given his extensive experience in retail, strategy, tax and finance, the Group is privileged to retain his expertise and experience in his new capacity as a non-executive director.

Bakar is a member of the University of Cape Town Council and deputy chairman of the UCT finance committee.

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RM S  
SM

Aboubakar (Bakar) Jakoet (64)

Independent non-executive directors



CA(SA)

- Appointed 2013
- Years of service on the Board: 7
- Other listed company directorships: Investec Limited, Investec plc, The Foschini Group Limited

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.

C G  
LC R  
RM F  
H S  
SM

David Friedland (66)



BA LLB, LLD (hc)

- Appointed 1976
- Years of service on the Board: 44
- Chairman of the remuneration committee

Hugh was a partner at law 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. Hugh was appointed honorary life president of the Investec Group and remains chairman of Ninety One Africa (previously Investec Asset Management).

LC R  
RM F  
SM S  
G

Hugh Herman (79)



BJuris LLB

- Appointed 2010 – 2013, re-appointed 2016
- Years of service since re-appointment: 4
- Alex will be stepping off the Board on 4 August 2020

Admitted as an attorney in 1997, Alex has extensive experience in governance, legal and regulatory risk management. She is currently the regulatory and conduct risk management executive at FirstRand, taking responsibility inter alia for regulatory compliance with financial sector laws and requirements, market conduct, business conduct, ethics and promoting an appropriate risk culture.

Owing the pressures of her executive career, Alex is resigning with effect from 4 August 2020.

C RM  
H SM  
IT G  
LC R  
S

Alex Mathole (47)



BA (Hons)

- Appointed 2013
- Years of service on the Board: 7
- Other listed company directorships: Life Healthcare Group

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 board of Brainworks Capital, Roedean School South Africa and Orange Babies South Africa.

C RM  
CC SM  
H G  
IT R  
LC S

Audrey Mothupi (50)

Members of:

- Audit, risk and compliance committee
- Remuneration committee
- Nominations committee
- Corporate finance committee

- Corporate governance committee
- Social and ethics committee
- Executive committee
- Employee Share Incentive Trust

Indicates director's sector experience. Refer to pages 86 and 93 for further information.

Independent non-executive directors (continued)



**Mariam Cassim (38)**

*CA(SA), MBA*


- Appointed May 2020
- Other listed company directorships: Super Group Limited

Mariam Cassim is the Chief Executive Officer of Vodacom Financial and Digital Services and a member of the Vodacom Group's Executive Committee.

Mariam's professional experience includes Corporate Finance and Deal Structuring, Mergers and Acquisitions, Debt Structuring, Commercial Evaluation and now, full CEO responsibility. Her flair for innovation, disruption and new business development allows Mariam to generate creative business solutions, which have a strong purpose element and thereby benefits business as well as society.

Before her current appointment, Mariam was Executive Head: Commercial, at the Telesure Group and prior to that, she held four positions at Thebe Investment Corporation: first as Senior Corporate Finance Advisor, then as Executive Manager in the Chairman's Office, then Group Executive: Synergy and finally CEO of Thebe Connect. After serving articles at KPMG Inc., Mariam worked at Eskom Holdings and Sanlam Capital Markets.

C SM  
CC L  
IT R  
LC F  
RM S



**Haroon Borhat (51)**


*PhD in Economics*

- Appointed May 2020
- Other listed company directorships: Sygnia Asset Management (independent non-executive Chairman)

Haroon is Professor of Economics in the School of Economics and Director of the Development Policy Research Unit at the University of Cape Town. He is a Board Member of the National Research Foundation, the UNU World Institute for Development Economics Research and the Partnership for Economic Policy. He holds the National Research Chair in Economic Growth. He is a Non-resident Senior Fellow at the Brookings Institution, and a Research Fellow at the Institute for the Study of Labour. He was a member of the World Bank's Advisory Board of the Commission on Global Poverty and a member of the Programme Committee of the 2017 International Economic Association World Congress.

His career appointments include being an Advisor on Parliament's High-Level Panel on Acceleration of Change and Transformation and serving on the Presidential Economic Advisory Panel. Haroon sits on the Presidential Economic Advisory Council established by President Ramaphosa to generate ideas for economic growth, job creation and addressing poverty.

C F  
CC S  
LC H  
RM L  
G



**Jeff van Rooyen (70)**

*BCom (SA), Hons BCompt, CA(SA)*

- Appointed 2007
- Years of service on the Board: 13
- Lead independent director (LID)
- Chairman of the audit, risk and compliance committee and corporate finance committee
- Other listed company directorships: Exxaro Resources Limited (independent non-executive Chairman)

A chartered accountant with extensive experience in both the private and public sectors, Jeff is the founder 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 founder 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, member of the Standing Advisory Committee on Company Law and director of MTN Group Limited.

C G  
H R  
LC F  
RM S

Members of:

- Audit, risk and compliance committee
- Remuneration committee
- Nominations committee
- Corporate finance committee
- Corporate governance committee
- Social and ethics committee
- Executive committee
- Employee Share Incentive Trust

Company Secretary



**Debra Muller (58)**

**Company Secretary**  
*BA LLB*

- Appointed 2010
- Years of service to the Group: 14

Debra was admitted as an attorney in 1988. From 1994 she assisted Pick n Pay as a legal consultant, taking a permanent position as in-house legal advisor in 2006, working with litigious, contractual and compliance issues. Appointed as Company Secretary to the Pick n Pay Group in 2010, Debra continues to head up the legal department. In 2016 Debra was appointed to the board of directors of the Consumer Goods and Services Ombud (RF) NPC, where she also serves as a member of the CGSO audit and risk committee. In addition, Debra serves as a director of St Luke's Hospice property company.

Honorary life presidents



**Raymond Ackerman**  
Years of service: 53



**Wendy Ackerman**  
Years of service: 53

Sector experience

- C Corporate social responsibility
- CC Climate change
- H Human resources
- IT Information technology
- LC Legal compliance
- RM Risk management
- SM Sales and marketing
- G Governance
- L Logistics
- R Retail
- F Finance
- S Strategy

Refer to page 86 for insight into the Board's overall sector experience.



**Annamarie van der Merwe**

*B.Juris, LLB, LLM, EMP*

- To be appointed in August 2020

Annamarie is currently the Executive Chair of the FluidRock Governance Group, a business that she co-founded approximately 15 years ago. Annamarie has been a corporate lawyer and company secretary of companies in the listed environment for more than 30 years. She is a member of the King Committee on Corporate Governance for South Africa and was actively involved in the writing of King II, III and IV with a particular focus on the sections dealing specifically with the functioning of boards and responsibilities of directors. She is a well-known presenter of workshops on issues such as board effectiveness, good corporate governance and statutory duties and liabilities faced by boards and individual directors. Annamarie acted as a facilitator for the IoDSA for more than 15 years and currently chairs the board of the Bureau of Food and Agricultural Policy NPC (BFAP).

- C SM
- H G
- LC F
- RM S

# REMUNERATION REPORT

The FY20 result was protected by continued strength and consistency within the core South African business.

Our remuneration policies seek to incentivise and reward performance that delivers on the Group's long-term objectives.

The remuneration committee must exercise careful judgement to ensure that its policies remain relevant in all conditions.

## SECTION 1: Committee chairman's report

These are exceptional times. COVID-19, and the measures taken to mitigate it, have had major consequences for South Africa's fragile economy. The Pick n Pay Group, as a provider of essential goods and services, has played a valuable role in maintaining the supply of food and other essential goods and services throughout the national state of disaster. We are proud of the role our team has played in feeding the nation, and are particularly grateful to our front-line Pick n Pay and Boxer staff for their commitment to our customers.

Group CFO, Lerena Olivier, has explained in her report that the full financial impact of COVID-19 on the Group cannot yet be reasonably known. However, there is little doubt that the pandemic, the trading and movement restrictions introduced to limit its spread, and the additional hygiene and safety measures put in place to protect staff and customers, will have a significant impact on the Group's financial performance in FY21.

In these extraordinary circumstances, the Board's mandate to the remuneration committee is clear. The committee must ensure that its remuneration policies and decisions at all times support the achievement of the Group's strategic objectives in a fair and responsible way.

Our remuneration policies seek to incentivise and reward performance that delivers on the Group's long-term objectives, measured against clear and relevant financial and operational targets. Decisions on pay and reward for the Board and for senior management must be appropriate in order to attract, motivate and retain a strong and effective team, and to align their interests with those of shareholders.

In exceptional times, it is important that remuneration policy takes into account the impact of unforeseen events on the ability of management to achieve existing performance targets, and does not penalise them for circumstances entirely outside of their control. The remuneration committee must exercise careful judgement to ensure that its policies remain relevant in all conditions.

### The year in review

Economic conditions deteriorated significantly over the course of FY20, both in South Africa and the other southern African regions in which the Group trades. The difficult domestic trading environment reflected very low levels of economic growth, rising household costs and high levels of unemployment. Operations in the rest of Africa, particularly Zambia and Zimbabwe, were impacted by economic and political instability, currency weakness, drought and erratic power supply.

Against this background, the Group delivered a sound FY20 financial result, with a resilient performance from the South African division. However, the overall result fell short of what the remuneration committee, and indeed the senior executive team, felt the Group was capable of this year.



In exceptional times, it is important that remuneration policy takes into account the impact of unforeseen events on the ability of management to achieve existing performance targets.



**Hugh Herman**  
Chairman: Remuneration committee

The remuneration committee recognises that challenges in Zambia and Zimbabwe, including severe and rapid currency devaluation over the year, reduced Group earnings by 8.7 percentage points year-on-year. Earnings were reduced by a further 7.1 percentage points as a result of an increase in the Group's effective tax rate from 24.3% to 31.2%. This was driven by hyperinflation in Zimbabwe and reduced share scheme obligations as a result of the Group's lower share price over the year. Please refer to the CFO report on page 61 for further information.

The FY20 result was protected by continued strength and consistency within the core South African business, which lifted its comparable profit before tax by 15.2% this year. As a result, the Group was able to deliver comparable headline earnings of 278.81 cents per share, down 0.6% on last year.

### Executive incentives

#### Short-term incentive – FY20 annual bonus

The Group delivered growth in profit before tax and exceptional items (PBTAIE), the Group's primary short-term performance target, of 6.5% in FY20. This was short of the remuneration committee's threshold target of 8.0%. As such, the Group did not meet the required performance measures set by the remuneration committee for the payment of a short-term annual bonus, and accordingly the remuneration committee has not awarded a short-term bonus to its senior executive team this year.

This decision was not taken lightly. The Group once again delivered consistent and sustained progress against its long-term plan under the leadership of its senior team, notwithstanding the increasingly challenging trading environment. However, the FY20 result fell short of the primary earnings target, and also missed the mark on a number of secondary targets, including sales growth, expense ratios, finance costs and inventory management.

Short-term bonuses have been paid to our Boxer team, for an outstanding market-leading sales and earnings performance and to lower levels of Pick n Pay management in recognition of the attainment of individual performance targets.

#### Long-term incentive – forfeitable shares due in 2020 (FSP 4)

The Group delivered compound annual growth of 4.0% in headline earnings per share (HEPS) over the past three years, short of the 10% threshold target required for the vesting of FSP 4 (awarded in 2017). The below-target HEPS performance is largely as a result of challenges outside South Africa in FY20. Accordingly, the remuneration committee has elected to forfeit approximately 70% of the FSP 4 shares awarded to executives.

In line with the discretion provided within the scheme rules, the remuneration committee will allow approximately 30% of the allocation to vest in June 2020 (subject to service conditions being met). This is in recognition of the strong performance of the Group's South African division over the past three years (10% compound annual earnings growth), and acknowledgement that

the Group HEPS target miss was largely due to factors outside of the control of the senior executive team in FY20. This includes hyperinflation in Zimbabwe, currency devaluation Zambia and a material increase in the Group's tax rate.

The remuneration committee is satisfied with the difficult decisions it has taken this year. These include decisions to withhold an annual bonus for its executive team, and to forfeit approximately 70% of the forfeitable shares due to vest later this year. These decisions have provided balanced and fair remuneration for our team in the context of missed financial performance targets in a difficult economy, and are appropriately aligned with the expectations and interests of our shareholders.

#### Long-term incentive – forfeitable shares due in 2021 and 2022 (FSP 5 and FSP 6)

The COVID-19 pandemic will have a meaningful impact on FY21 Group earnings. During the nationwide lockdown, the Group was unable to trade in many key categories, including liquor, tobacco and most clothing and general merchandise lines. These non-essential categories make up around 20% of revenue, and have higher margins than basic food and grocery lines. Earnings will also reflect additional hygiene and personal protection costs, and consumer confidence and consumer spending markedly changed by a more acute economic recession.

The Group's long-term strategic objectives are being re-evaluated and re-set by the Board, to reflect the substantively changed economic and trading conditions under COVID-19. Please refer to Richard Brasher's report for further information on the Group's plan to accelerate the delivery of its long-term plan, including a cost and efficiency "Project Future" programme to remove R1 billion of operating costs over the next two years.

The remuneration committee is mindful that the historic performance targets set for the Group's outstanding FSP 5 and FSP 6 awards, due to vest in June 2021 and June 2022 respectively, are likely no longer attainable within the context of the COVID-19 landscape, and may no longer be relevant in terms of the Group's revised long-term plan. Please refer to page 106 for further information. The remuneration committee is cognisant that performance targets which are no longer relevant due to circumstances outside the control of the management team are discouraging to senior executives and create long-term retention risk.

The remuneration committee will utilise the discretion provided in terms of Section 8 of the FSP scheme rules to revise the HEPS performance targets of FSP 5 and FSP 6 to reflect the changed circumstances of the COVID-19 pandemic and its likely long-term impact. The objective is unchanged – revised targets will be stretching but attainable, aligned to the Group's long-term plan, and must drive a performance that delivers long-term value creation for shareholders. The remuneration committee will report to shareholders on the action taken in due course.



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 4 August 2020.



### Malus and claw-back

In line with best corporate governance practice, and under the direction of the remuneration committee, the Group adopted a malus and claw-back remuneration policy this year. The policy provides that in the event of a material misstatement of the financial statements of the Pick n Pay Group, or of any company in the Pick n Pay Group, the Board is entitled to adjust (malus) or recover (claw-back) any performance-related elements of remuneration from executives implicated in the misstatement, as a result of their fraud, dishonesty or negligence.

### Review and restructure of long-term share incentive schemes going forward

#### Share option scheme

The remuneration committee has tasked the Group's employee benefits team to re-evaluate the Group's share option scheme to establish whether there is a more modern and more effective way of incentivising and retaining middle and lower levels of management. In particular, one that is more cost effective for the Group, creates more certain value for employees in the context of poor performing equity markets, and removes the volatility risk from the tax rate. Please refer to page 106 and page 107 of Section 3 for further information.

#### Forfeitable share plan (FSP)

The remuneration committee assured shareholders last year that it would continue to assess the effectiveness and appropriateness of the FSP scheme, and would seek to modernise it in line with market best practice when appropriate. The remuneration committee will once again re-evaluate the appropriateness of the FSP scheme in the coming year. Assisted by industry experts, the committee will seek to ensure that the FSP scheme adequately and reasonably achieves executive retention in a competitive market, while rewarding individual and divisional performance, in a manner that maximises long-term shareholder value creation. As a start, the Group will ask shareholders at the 2020 AGM for greater flexibility around FSP participant voting and dividend rights. Voting and dividend rights are currently mandatory under the rules of the FSP, which necessitates upfront funding of the scheme in the form of treasury shares. These rights add cost to the scheme, and allow FSP participants to receive dividends over the course of the scheme, whether or not financial performance conditions are ultimately met for the shares to vest. The remuneration committee seeks greater shareholder alignment, and the flexibility to issue FSP shares without voting and dividend rights (during the vesting periods) as appropriate.

### FY21 salary increases for executive directors and senior management

In light of the economic disruption and dislocation of COVID-19, the Board and the remuneration committee have agreed not to grant an annual increase to executive directors and senior management for the coming year. These savings will be directed towards increases for our front-line staff and our colleagues at more junior employment grades. Non-executive Board members have waived their shareholder-approved fee increase for the FY21 financial year.

### Stability of labour relations

The Group secured new three-year wage agreements with its main Pick n Pay and Boxer supermarket labour unions in FY20. The agreements deliver fair and reasonable remuneration improvements for our staff, introduce a further increase in minimum guaranteed hours for variable time employees, and provide the Group with long-term stability in labour relations.

The Group has experienced some labour disruption in its supply chain operations over recent months. This follows the transition from a model which traditionally included a number of service providers, to a functional outsourced model, which includes the introduction of formal measures of productivity and efficiency. To date, any disruption has been short-lived and the remuneration committee congratulates management on the work it is doing to improve ways of working across its supply chain and to promote long-term labour stability across its operations.

### Voluntary severance programme

The Group has achieved significant progress against its long-term plan over the past seven years. However, the need to deliver even better value to customers has never been greater, and this can only be achieved through greater efficiency in the Group's operations. The Group's Project Future will address all operational costs, including product and store waste, energy usage, better utilisation of the store estate, greater efficiency in the supply chain and better use of working capital. Targeting labour cost and efficiency, Pick n Pay launched a voluntary severance programme (VSP) in March. Participation in the scheme is entirely voluntary, and acceptance of applications is at the Group's discretion. The VSP is an opportunity for colleagues to choose to leave the business on a voluntary basis, with a more generous package than would be the case with any statutory retrenchment programme.

### Leadership update – Group CEO

During 2019, the Group's CEO, Richard Brasher, provided the Board with 12 months' notice of his intention to retire from the Group at the end of May 2020, post the publication of the Group's FY20 financial result. Richard expressed his confidence in the strength and stability of the business, and in the depth and skill of the management team, and believed 2020 would be the right time to hand over the reins to a new CEO.

The Group, under Richard's steadfast and determined leadership has been transformed over the past seven years. Richard has had a very clear vision for the business and his long-term plan has steered the Pick n Pay and Boxer teams successfully through difficult economic times. The business is leaner and fitter, and with a strong and stable balance sheet has delivered consistent earnings growth. Richard and his team have built the Group into a genuine multi-channel retail platform, with the flexibility to successfully pursue growth in the market.

Richard provided the Board and its nominations committee with sufficient notice to begin the work of identifying and appointing a strong successor to lead the Group in future years.

The COVID-19 pandemic reached South Africa in early March 2020 and has brought unprecedented operational challenges. Richard has assured the Board that he intends to stay at the helm throughout the COVID-19 crisis, and will navigate his team through these challenging times.

Richard has once again stepped up as a strong leader with energy and determination. He has committed to stay with the Group until a strong and suitable successor has been appointed, and a reasonable and effective handover period has been completed, or until 31 March 2022, in line with the Group's retirement policy. In recognition for his unwavering commitment to the Group, the remuneration committee has awarded Richard with 1.2 million FSP shares under the Group's executive share incentive scheme. This award seeks not only to incentivise Richard adequately over the extension to his term, but also to recognise that, due to his planned retirement, Richard did not receive an annual share incentive award in 2019 (FSP 6) when one was allocated to his executive team. Please refer to page 106 for further information.

### Looking ahead

The remuneration committee is confident that it has played an integral role in the Group's strategic objective to build a strong and winning retail team by ensuring the Group offers fair and balanced remuneration and benefits, designed to retain key skills and reward outperformance. We will continue our work this year to modernise our policies, and to ensure that all incentive structures adequately reflect current trading conditions and individual achievements. Employment equity, gender equity and pay parity remain keen focus areas. While the Group has a good record in all these areas, the remuneration committee will ensure that it continues to improve where possible, and continue to set an example of fair benefits for all.

#### Hugh Herman

Chairman: Remuneration committee

1 July 2020

### An overview of the remuneration committee

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; and
- aligned to the Group's strategic objectives.

The remuneration committee is mandated by the Board to ensure that our remuneration policy achieves its key objective of value creation over the short, medium and long term. Our remuneration policy incentivises behaviour that delivers on our strategic plan. This is measured against clear individual and Group performance targets. Importantly, pay and reward for the Board and senior management must be appropriate, fair and responsible to attract, motivate and retain a winning team in a manner that is aligned with the interests of our shareholders. 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.

### Members and meeting attendance:

	Attendance
Hugh Herman (chairman)	2/2
Gareth Ackerman	2/2
Aboubakar Jakoet*	1/1
Audrey Mothupi	2/2
Jeff van Rooyen	2/2

\* Aboubakar Jakoet was appointed as a non-executive director and as a member of the remuneration committee in September 2019.

The remuneration committee 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. Independent expert advice is obtained as required, including in respect of the evaluation of our share incentive schemes. 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.

More information about the directors on the remuneration committee can be found on page 85.

Reporting to our stakeholders

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

Our remuneration policies, including all reward principles, are consistent with last year – with the inclusion of a new malus and claw-back policy. Remuneration policies are outlined in Section 2 of this report. Read more from page 99.

The application of our remuneration policies in FY20 is detailed in Section 3 of this report. Read more from page 105.

The remuneration committee is confident that the remuneration policy achieved its stated objectives:

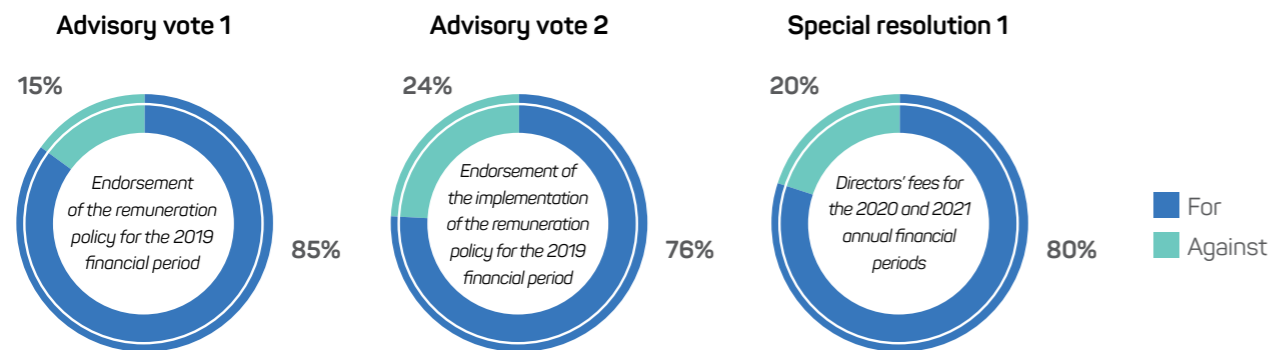
- Senior management and staff were remunerated fairly, commensurate with market best practice
- Current achievements were recognised in a tough economic climate
- Future performance was incentivised in line with the objectives of the Group's long-term strategy and shareholders' interests

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 4 August 2020. The proposed directors' fees for the 2021 and 2022 financial periods will be submitted to shareholders at the AGM. No fee increase will be taken in FY21, notwithstanding previous shareholder authority received. Please refer to page 107 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; and
- 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 2020 financial year were approved by shareholders at the AGM held on 30 July 2019 as follows:



The remuneration committee is satisfied that it has fulfilled its responsibilities in terms of the Board charter and its objectives for the 2020 financial year.

SECTION 2: Overview of remuneration policy

Our 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:

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

Our remuneration policies

The Group's underlying remuneration policies provide balanced reward that recognises the attainment of short-term performance goals, while incentivising sustainable long-term value creation. The interests of our team are aligned with those of our shareholders through governance practices 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 decisions 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
- The executive team is not unduly rewarded where performance does not meet expectations. However, the committee strives to find a reasonable balance to retain key executives and attract quality executives from outside the business to ensure delivery against our strategic objectives. Executive remuneration is considered in the context of overall employee remuneration, given South Africa's socio-economic conditions

Fair and responsible remuneration

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

The remuneration committee recognises its responsibility to ensure that our remuneration policies support the Group's long-term strategic goals. Executive pay is directly linked to the achievement of these goals. This is reflected in the performance targets set by the remuneration committee. The remuneration committee further ensures that executive directors are remunerated fairly and in line with industry benchmarks and shareholder expectations.

Underpinned by strong governance principles, the committee is satisfied that the Group's remuneration policies ensure objective and reasonable executive director pay that is free from discrimination, prejudice or favouritism.

Parity of remuneration across gender and race groups

The Group's 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.

Fixed and variable benefits are benchmarked against industry norms. Comprehensive statistical analysis at all levels of remuneration is performed on an ongoing basis, 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.

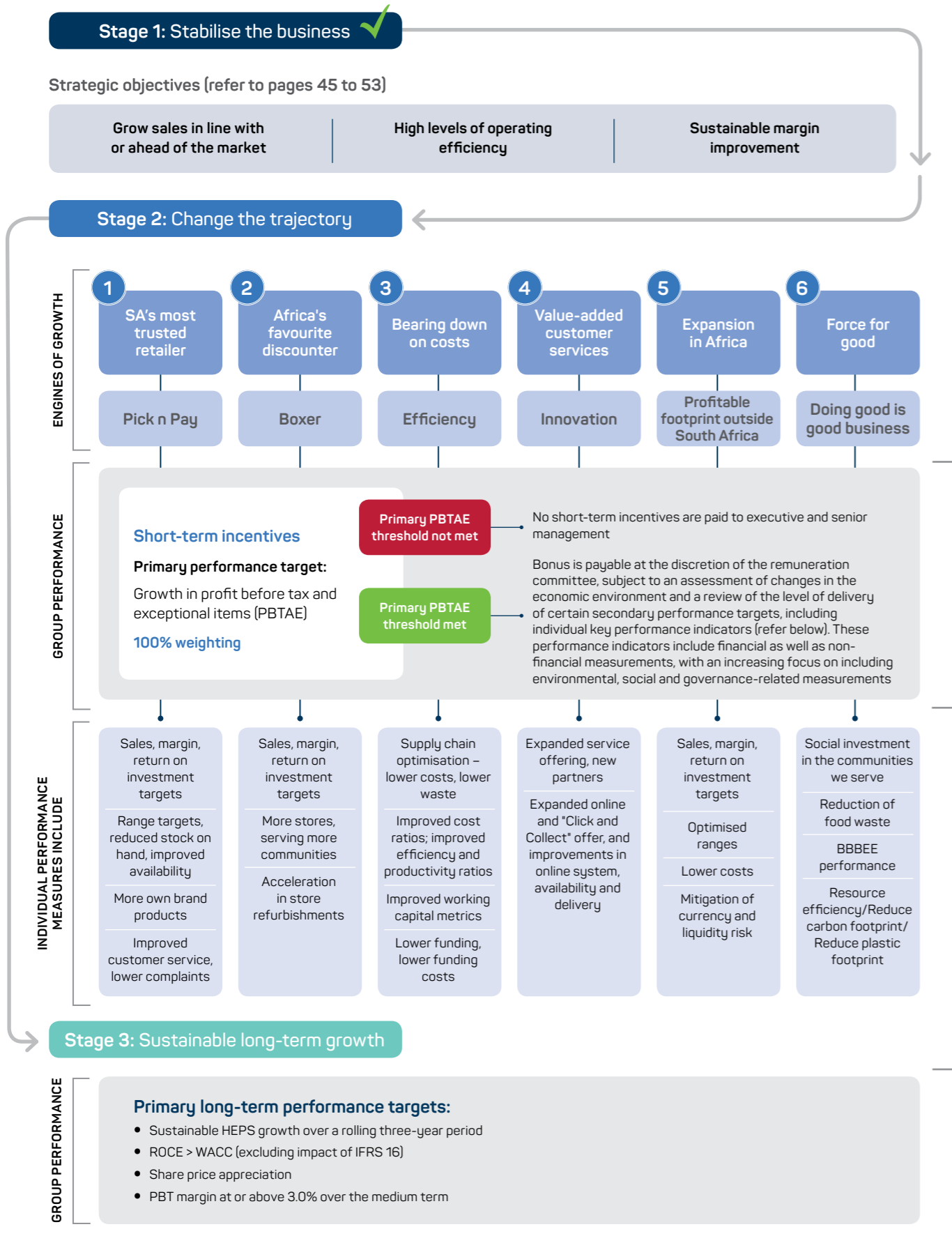
The Group has made strong progress on our employment equity and gender equity targets across the business – achieving pay parity across all levels of the business, while acknowledging that there is more to do in our most senior roles.

We have committed the following to our employees:

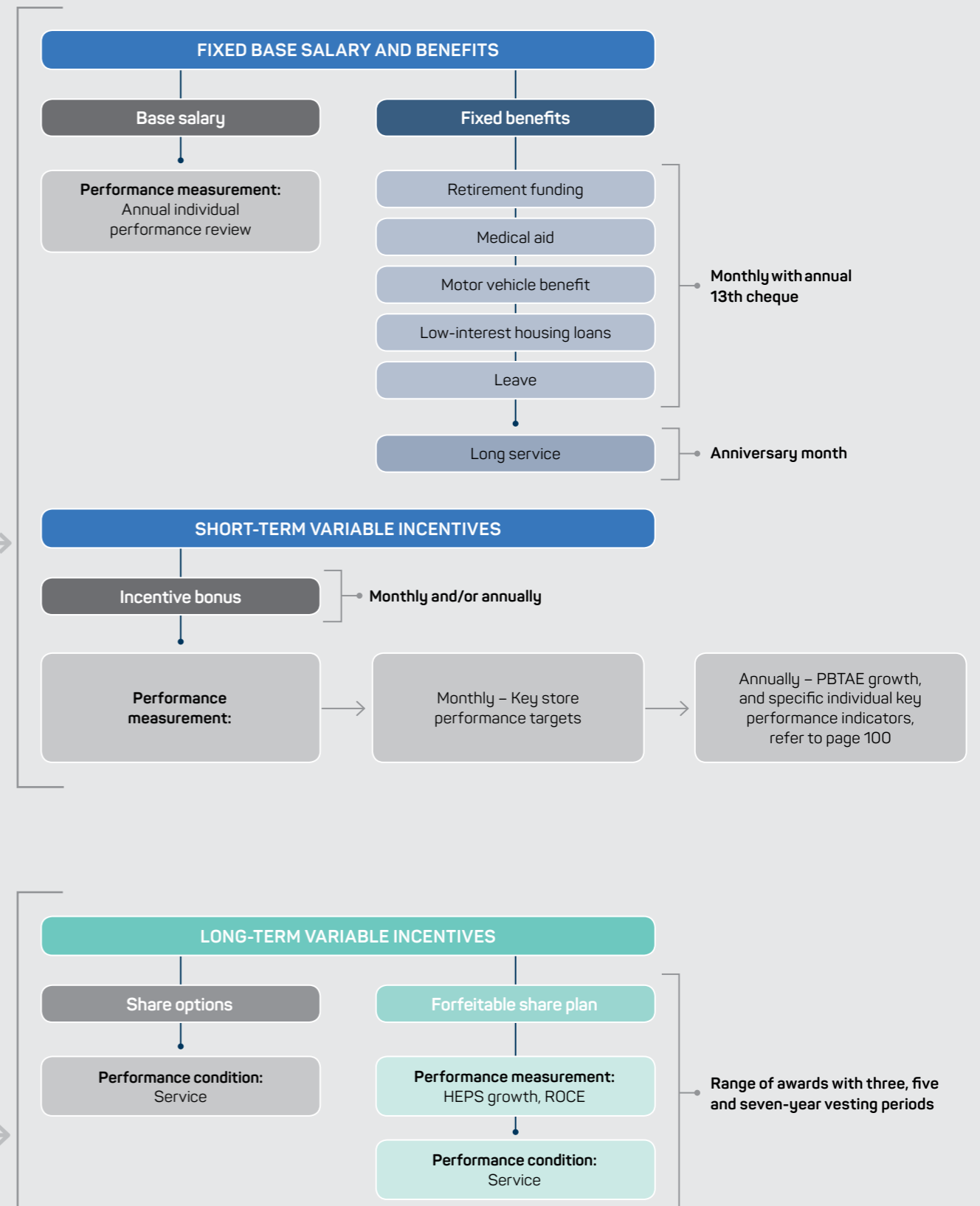
- We will take deliberate action to achieve our employment equity and gender equity targets
- We are equitable in our recruitment
- Colleagues will enjoy fair pay for work done – equal pay for equal work
- Everybody will have the opportunity to progress in the Group

### Aligning remuneration with long-term strategic plan

Short- and long-term incentives are linked to the achievement of performance targets that support our strategic objectives, contribute to building a winning team and create long-term, sustainable value for all stakeholders.



### 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.

<b>Base salary</b>	<p>Annual base salaries across 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 our strategic business objectives.</p> <p>The fixed base salary reflects the relative skills, experience, contribution and performance of the individual. Remuneration is directly linked to formal annual performance assessments.</p> <p>The scope of the employee's role, competence and performance, the projected consumer price index and comparable increases in the general and retail market determine annual increases.</p>
<b>Retirement funding</b>	<p>It is an employment condition that all employees (including variable-time employees<sup>2</sup>) 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.</p>
<b>Medical aid</b>	<p>Medical aid provisions are in place for all full-time<sup>1</sup> and variable-time<sup>2</sup> 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<sup>3</sup> employees. We contribute 50% of medical aid contributions on behalf of employees.</p>
<b>13th cheque</b>	<p>A 13th cheque is paid to qualifying employees in November each year. Variable-time employees<sup>2</sup> 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, which is paid on a pro rata basis where the employee has been with the Group for less than a year.</p>
<b>Motor vehicle benefit</b>	<p>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.</p>
<b>Leave</b>	<p>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<sup>2</sup> employees accumulate leave based on ordinary hours worked. The Group provides family responsibility and religious leave, where applicable.</p>
<b>Training, bursaries and study grants</b>	<p>We offer over 330 training programmes to employees, ranging from basic literacy and numeracy to computer-based training and management and leadership programmes. Our Chartered Accountant (SA) and graduate training programmes attract talented young people into the business and develop them to join our management team. Our corporate academy seeks to fast-track the development of a pool of managers for our stores. We also offer learnership programmes that focus on scarce skills, particularly in the bakery and butchery sectors. Our leadership development programmes, accredited by formal tertiary institutions in South Africa, have been very successful in providing the business with future leaders.</p>
<b>Long service</b>	<p>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 recognised with an additional allocation of leave at five-year intervals, depending on the terms and conditions of employment.</p>

<sup>1</sup> Full-time employees have a fixed contract with the Group and work 45 hours per week.

<sup>2</sup> Variable-time employees have a variable contract with the Group, which guarantees 105 hours per month.

<sup>3</sup> NMBU refers to our non-management bargaining unit.

### Short-term incentives

The annual 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 100.

The bonus pool is self-funding and is created after achieving 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 depends on the overall Group target reached and on their 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	36 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	1 x basic monthly salary

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 incentives

It is Group policy to maintain a broad-based share incentive 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. All levels of management can acquire Group shares. This is a key differentiator between the Group and other retail employers in South Africa, encouraging employee retention and creating opportunities for economic upliftment.

The Group operates two share incentive schemes:

#### Share option scheme

The employee share option scheme incentivises management and employees through the acquisition of Group shares, thereby aligning interests with shareholders. It further fosters trust and loyalty among employees and rewards performance, encouraging employee retention.

#### Forfeitable share plan (FSP)

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

### Funding of share incentive schemes

Shareholders authorised the Board to utilise up to 63.9 million Pick n Pay Stores Limited (PIK) shares to manage the Group's share schemes, representing 13% of issued share capital. Both of the Group's share schemes fall within this limit. Accordingly, the aggregate number of shares awarded under both schemes cannot exceed the authorised limits. In respect of the number of new shares that can be issued to cover obligations under the employee share schemes, the two share schemes are further constrained by an aggregate limit of 5% of the issued share capital of PIK.

### The Group's share option scheme

Share options	Eligibility	Vesting			
Status share options – service conditions attached	Status share options are granted to employees who attain grade F. 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. 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 before the end of a vesting period, unvested share options lapse.			
Performance share options – service conditions attached	Middle-management employees on grades C and D may be eligible for performance "top-up" share options in recognition of their individual performance and contribution to the Group.	This is a reward scheme, aimed at high performers, in order to recognise and retain key management personnel over the longer term. To encourage employee retention, status and performance shares vest in three tranches (vesting periods) as follows:			
		<table border="0"> <tr> <td style="text-align: center;"><b>40%</b> 3 years of service</td> <td style="text-align: center;"><b>30%</b> 5 years of service</td> <td style="text-align: center;"><b>30%</b> 7 years of service</td> </tr> </table>	<b>40%</b> 3 years of service	<b>30%</b> 5 years of service	<b>30%</b> 7 years of service
<b>40%</b> 3 years of service	<b>30%</b> 5 years of service	<b>30%</b> 7 years of service			

### The Group's forfeitable share plan (FSP)

The FSP recognises key members of senior management who have a significant role to play in delivering Group strategy and ensuring the growth and sustainability of the business in the future. A participant of the FSP 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.

<b>Eligibility</b>	The remuneration committee awards shares to participants. The actual number of shares awarded takes into account recognised market benchmarks as well as each participant's individual contribution to value creation, annual salary, employment grade and other relevant retention and attraction requirements.
<b>Vesting</b>	The shares are held by a Central Securities Depository Participant (CSDP) on behalf of the employee during the time of the vesting period. The employee cannot dispose of the shares before the vesting date. If the employee leaves the Group before the completion of the vesting period (other than on normal retirement, disability or death), all shares are forfeited.
<b>Performance conditions</b>	<p>The performance conditions are linked to the Group's financial performance, with growth in HEPS as the primary performance measure. Performance conditions are applied on a linear, rising scale. This allows for the vesting of an increasing number of shares as earnings thresholds are met and exceeded. All growth thresholds recognise the applicable IFRS 2 share-based payment expense, which is charged to the income statement over the vesting term of the forfeitable shares. The scheme is therefore self-funding.</p> <p>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: ROCE must be greater than WACC (excluding any impact from IFRS 16 liabilities) over the vesting period before any FSP shares can vest. This ensures that the Group generates a real return for shareholders before rewarding its management team.</p>

### Service contracts and termination benefits

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 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. Termination or restraint of trade payments may be made in this regard at the discretion of the remuneration committee.

### 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. Fees are not subject to attendance of meetings as attendance of Board meetings is generally good. Refer to page 107 for more detail on the proposed fees for FY21.

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.



In the coming year, the remuneration committee will re-evaluate its share option and FSP schemes as effective and appropriate mechanisms for long-term retention and reward.



## SECTION 3: Implementation of remuneration policy

The committee chairman's report on pages 94 to 97 details the key focus areas of the remuneration committee this year, including the important decisions taken to balance short-term and long-term incentives in a tough economic climate, alongside the best interests of shareholders. Additional work performed and decisions taken by the remuneration committee during FY20 include:

### Executive director remuneration benchmarking, including an annual review of all benefits provided

#### CEO remuneration

In setting the CEO's FY20 base salary at R10.7 million, the remuneration committee considered Richard Brasher's 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 contribution to date.

#### CFO remuneration

The Board welcomed Lerena Olivier into her new role as Group CFO this year. Led by the nominations committee, the Board followed a formal process to appoint the right successor for Bakar Jakoet, considering a number of external and internal candidates. Lerena, a qualified chartered accountant, has extensive experience in the retail industry, including eight years leading the Group's financial reporting team. The remuneration committee worked closely with the Board to formulate an appropriate remuneration package for the position, aligned with industry norms, including adequate incentives for retention and reward.

#### Other executive and senior management remuneration

The committee evaluated the overall value and composition of short-term and long-term benefits in respect of executive and senior management, to ensure the packages are effective and appropriate to drive the delivery of short- and long-term strategic objectives. Executive remuneration is considered fair and competitive against market benchmarks and the role and performance of each individual executive director.

### Determining annual increases in fixed remuneration for executive directors, and an overall salary increase for salaried staff across the Group

Annual increases were determined in April 2019 after formal performance reviews. These increases reflect individual performance against key performance indicators, the scope of each role, as well as comparable increases in the general and retail market, and moderate CPI projections.

The increase in total fixed base salary and benefits (fixed remuneration) paid to executive directors year-on-year was on average 5.0%, excluding additional fringe benefits. The average salary increase for the Group was 7.0% in FY20, excluding employees governed by a labour union agreement (NMBU).

Executive directors and senior management received lower annual salary increases (5% on average) than employees on lower employment grades (6% – 7% on average) in recognition of the impact of the tough economic climate on many of our employees. The average annual increase for NMBU employees, as governed by labour union agreements, was between 7% and 10%.

### Short-term incentives – determining an appropriate annual cash bonus, and the reasonable allocation thereof to executive directors and qualifying management 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 annual 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 remuneration committee's PBTAE targets for FY20, on a comparable 52-week financial calendar basis, were as follows:



As described in Section 2 of this report, secondary performance targets, which include turnover growth, improved operating costs and other efficiency ratios and key working capital metrics are set on an individual basis. 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 R1 870.7 million for FY20, a 6.5% increase on the comparable PBTAE for the 52-week prior period. The increase in PBTAE fell short of the threshold target set by the remuneration committee. As a result, no short-term incentive bonus has been awarded to executive directors, or to the senior management team of Pick n Pay. Please refer to the chairman's report on page 95 for further information.

The remuneration committee will meet later this year to set new and appropriate targets for FY21. It will work closely with the Board to formulate targets which adequately reflect the impact of the COVID-19 pandemic, and all related trade and social distancing restrictions, on Group performance.

### Long-term incentives – the vesting of forfeitable shares (FSP 4) in June 2020

The Group has delivered three-year compound annual growth in headline earnings per share (HEPS) of 4.0% per annum (FY18 – FY20). The HEPS performance over three years is short of the required 10% threshold target for FSP 4 to vest in June 2020.

The remuneration committee has utilised the discretion available to it within the rules of the FSP scheme, and will forfeit approximately 70% of the FSP shares, and allow approximately 30% to vest in June 2020 (subject to the service condition being met). This recognises the strong performance of the Group's South African division over the past three years (10% compound annual earnings growth). It further acknowledges that the Group HEPS under-performance was largely due to factors outside of the control of the senior executive team in FY20, including hyperinflation in Zimbabwe and a material increase in the Group's tax rate. Please refer to the chairman's report on page 95 for further information.

## Long-term incentives – forfeitable share award to executive directors and qualifying senior management (FSP 6)

The remuneration committee agreed an annual award of forfeitable shares to senior management personnel in FY20, 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 6 award provided 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 2019 award (FSP 6) and agreed on the individual participants and the level at which each would participate, with particular focus on allocations to executive directors. Please refer to the disclosure provided below for further information.

## Long-term incentives – the re-evaluation of performance hurdles in respect of outstanding forfeitable share awards held by executive directors and senior management (FSP 5 and FSP 6)

The Group's outstanding executive forfeitable share awards are as follows:

Year	Scheme	Number of shares millions	Number of participants	Current performance targets – to be revised			Vesting date
				3-year HEPS CAGR threshold	3-year HEPS CAGR target	3-year HEPS CAGR stretch	
2018	FSP 5	2.3	117	10%	12%	14%	June 2021
2019	FSP 6	1.9	124	8%	10%	12%	June 2022

The remuneration committee will utilise the discretion provided in terms of Section 8 of the FSP scheme rules to revise the HEPS performance targets to reflect the changed circumstances of the COVID-19 pandemic and its likely longer-term impact. These targets must be stretching but attainable, aligned to the Group's long-term plan, and must deliver a performance that drives long-term value creation for shareholders. The remuneration committee will report to shareholders on the action taken in due course. Please refer to the chairman's report on page 95 for further information.

## Long-term incentives – CEO

### FSP Award

The remuneration committee has awarded 1.2 million FSP shares to CEO Richard Brasher. The share award recognises that Richard did not participate in FSP 6 as a result of his planned retirement, and seeks to ensure that Richard is now adequately rewarded over his extended term, and fairly incentivised to lead the Pick n Pay Group through the COVID-19 crisis and deliver on the Board's revised earnings' targets. The shares will have a two-year vesting term, to 31 March 2022, with hurdles aligned with the revised targets for FSP 6 (as detailed above).

### Restraint of trade

In recognition of Richard Brasher's key role in formulating and delivering Group strategy through the COVID-19 crisis and beyond, the remuneration committee has now included a restraint of trade provision in his CEO employment contract. The remuneration committee will have the discretion to pay Richard Brasher up to four times his annual salary on his retirement from the Group, to secure appropriate employment restrictions. This is in line with our remuneration policy in respect of executive service contracts, as detailed on page 104.

## Long-term incentives – share options issued in recognition of promotion and performance

During FY20, 3.2 million Pick n Pay Stores Limited (PIK) options were issued to employees in respect of their progress and performance. A further 200 000 share options were awarded to Lerena Olivier on her appointment as Group CFO. Share options were awarded at market price, and vest over a period of three, five and seven years. A total of 23.5 million share options were held by employees at year-end, amounting to 4.8% of shares in issue. Please refer to note 5 of the FY20 annual financial statements for further information.

The future net realisable value of all outstanding share options at 1 March 2020:

Year	Average grant price	Number of options 000's	Net realisable value* Rm
Outstanding share options may be taken up during the following financial periods:			
2021	R44.85	11 416.3	118.6
2022	R68.20	3 188.5	-
2023	R63.79	2 564.6	-
2024	R70.44	2 242.5	-
2025 and thereafter	R67.55	4 090.0	-
		23 501.9	118.6

\* The net realisable value of outstanding share options was calculated using the prevailing market share price at year-end of R55.24, less the grant price per award.

In recent years, the Group's share price performance has mirrored under-performing equity markets across the globe, and increasingly negative investor sentiment towards emerging market economies. In particular, investor confidence in South Africa remains low as a result of stagnant economic growth, high unemployment, and credit agency downgrades taking the country's sovereign rating below investment grade. As a result, approximately 65% or 15 million share options held by employees have no value (are currently out-of-the-money), notwithstanding the Group delivering compound annual earnings growth of 19% per annum over the past seven years. As such, these instruments are increasingly ineffective in providing middle and lower levels of management with adequate incentive or reward.

At the same time, the significant reduction in the value of the Group's employee share scheme obligations over the past year has resulted in a reversal of related deferred tax assets and a material 4.2 percentage point increase in the Group's tax rate. Please refer to page 64 of the CFO's report for further detail.

The remuneration committee has tasked management to re-evaluate the Group's share option scheme to establish whether there is a more modern and effective way to incentivise and retain key members of staff, particularly middle and lower levels of management. The remuneration committee seeks a scheme that is more cost effective for the Group, creates more certain value for employees, and removes the volatility risk from the tax rate. The remuneration committee will communicate its final decision on the Group's share option scheme in its FY21 report.

## Malus and claw-back

No incidents identified in the FY20 financial year.

## Reviewing and recommending to the Board the overall compensation for the Chairman, for approval by shareholders at the AGM

In setting the Chairman's proposed annual fee of R4.7 million in FY20, 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 recommending non-executive directors' fees for FY21 for approval by shareholders at the AGM

Shareholders approved the FY21 directors' fees at the AGM held in July 2019, agreeing that the FY20 fees be increased by CPI for the 2021 annual financial period. However, non-executive directors have waived their right to the increase in light of the COVID-19 pandemic. Directors' fees will remain unchanged for the 2021 annual financial period.

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

	Proposed 2021 R	Actual 2020 R	% Change
Chairman of the Board	4 660 000	4 660 000	-
Lead independent non-executive director of the Board	145 000	145 000	-
Non-executive director of the Board	435 000	435 000	-
Chairman of the audit, risk and compliance committee	375 000	375 000	-
Member of the audit, risk and compliance committee	145 000	145 000	-
Chairman of the remuneration committee	200 000	200 000	-
Member of the remuneration committee	94 500	94 500	-
Member of the nominations committee <sup>1</sup>	90 000	90 000	-
Member of the social and ethics committee <sup>2</sup>	94 500	94 500	-
Chairman of the corporate finance committee <sup>3</sup>	200 000	200 000	-
Member of the corporate finance committee <sup>4</sup>	135 000	135 000	-
Member of the corporate governance committee <sup>5</sup>	90 000	90 000	-
Trustee of the employee share purchase trust	42 000	42 000	-

<sup>1</sup> The chairman of the nominations committee is the Chairman of the Board and does not receive an additional fee for chairing this committee.

<sup>2</sup> The chairman of the social and ethics committee is an executive director and does not receive an additional fee for chairing this committee.

<sup>3</sup> 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 FY20, and therefore no fees were paid.

<sup>4</sup> 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 FY20, and therefore no fees were paid.

<sup>5</sup> The chairman of the corporate governance committee is Chairman of the Board and does not receive an additional fee for chairing the committee. No formal meetings were held during FY20, and therefore no fees were paid.

## Payments, accruals and awards to directors

### Total remuneration of executive directors

	Base salary R'000	Retirement and medical contributions R'000	Fringe and other benefits R'000	Total fixed remuneration R'000	Bonus and gratuity*** R'000	Total remuneration R'000	Long-term share award charges# R'000
<b>2020</b>							
Richard Brasher	10 707.0	968.0	742.5	12 417.5	-	12 417.5	4 551.7
Aboubakar Jakoet*	2 711.3	52.8	1 348.4	4 112.5	-	4 112.5	2 673.6
Lerena Olivier**	1 896.2	182.4	169.7	2 248.3	-	2 248.3	285.2
Richard van Rensburg	4 980.0	431.3	327.6	5 738.9	-	5 738.9	(637.8)
Suzanne Ackerman-Berman	2 922.3	276.8	289.6	3 488.7	-	3 488.7	(791.6)
Jonathan Ackerman	1 494.0	271.6	298.1	2 063.7	-	2 063.7	(234.7)
<b>Total remuneration</b>	<b>24 710.8</b>	<b>2 182.9</b>	<b>3 175.9</b>	<b>30 069.6</b>	<b>-</b>	<b>30 069.6</b>	<b>5 846.4</b>
<b>2019</b>							
Richard Brasher	10 140.0	916.4	293.7	11 350.1	20 640.0	31 990.1	32 477.3
Aboubakar Jakoet	5 088.6	33.8	152.6	5 275.0	15 216.0 <sup>®</sup>	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
<b>Total remuneration</b>	<b>24 174.8</b>	<b>1 878.2</b>	<b>1 354.0</b>	<b>27 407.0</b>	<b>41 736.0</b>	<b>69 143.0</b>	<b>46 071.1</b>

\* Effective 6 September 2019, Aboubakar Jakoet retired as an executive director and was appointed as a non-executive director of Pick n Pay Stores Limited. On retirement, outstanding leave encashment and the settlement of outstanding employee loans resulted in additional fringe and other benefits received during the year.

\*\* Lerena Olivier was appointed as an executive director of Pick n Pay Stores Limited on 6 September 2019.

\*\*\* The remuneration committee has not awarded a short-term bonus to its senior executive team this year, as the growth in comparable profit before tax and exceptional items (PBTA) of 6.5% for the 52 weeks ended 1 March 2020 was short of the targeted 8.0%.

<sup>®</sup> During the prior period, a gratuity of R10.0 million was granted to Aboubakar Jakoet on his retirement, in appreciation of his outstanding contribution to the Pick n Pay Group over the 34 years of his career.

# The long-term share awards expense or recoupment is determined in accordance with IFRS 2 Share-Based Payments, and reflects the current year's charge recorded in the Group's statement of comprehensive income and statement of changes in equity. The fair value of share awards are determined at grant date, and are recognised in the statement of comprehensive income and statement of changes in equity over the period during which the employee becomes unconditionally entitled to the award (the vesting period). Long-term share awards will vest in the future only if all the vesting criteria set out in the rules of the 1997 Employee Share Options Scheme and the Forfeitable Share Plan (FSP) are met. Dependent on the nature of the vesting criteria, long-term share awards expense may be reversed and recouped by the Group if the vesting criteria are not met. During the current year, certain vesting criteria relating to FSP awards with a vesting date of 25 June 2020 were not met. As a result, approximately 70% of the cumulative long-term share awards expense relating to this FSP allocation was recouped by the Group.

### 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 governance committee R'000	Social and ethics committee R'000	Employee share trust R'000	Total remuneration R'000
<b>2020</b>									
Gareth Ackerman	4 660.0	-	-	-	-	-	-	-	4 660.0
David Friedland	435.0	-	145.0	-	-	90.0	-	-	670.0
Hugh Herman	435.0	145.0	145.0	200.0	-	-	-	42.0	967.0
Alex Mathole	435.0	-	-	-	90.0	-	94.5	-	619.5
Audrey Mothupi	435.0	-	145.0	94.5	90.0	-	-	42.0	806.5
Aboubakar Jakoet*	217.5	-	-	47.25	-	-	47.25	21.0	333.0
David Robins	435.0	-	-	-	-	-	94.5	-	529.5
Jeff van Rooyen	435.0	-	375.0	94.5	-	90.0	-	42.0	1 036.5
<b>Total remuneration</b>	<b>7 487.5</b>	<b>145.0</b>	<b>810.0</b>	<b>436.25</b>	<b>180.0</b>	<b>180.0</b>	<b>236.25</b>	<b>147.0</b>	<b>9 622.0</b>
<b>2019</b>									
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 <sup>^</sup>	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
<b>Total remuneration</b>	<b>7 122.5</b>	<b>138.0</b>	<b>754.0</b>	<b>361.0</b>	<b>127.5</b>	<b>61.5</b>	<b>135.0</b>	<b>120.0</b>	<b>8 819.5</b>

\* Aboubakar Jakoet has retired as an executive director and was appointed as a non-executive director of Pick n Pay Stores Limited on 6 September 2019.

<sup>^</sup> Lorato Phalatse resigned, in the prior period, as a director of Pick n Pay Stores Limited on 31 August 2018.

### Share awards granted to directors

	Calendar year granted	Award grant price R	Balance held at 3 March 2019	Forfeits	Granted/ (exercised)	Exercise price R	Balance held at 1 March 2020	Grants/ (forfeits) subsequent to 1 March 2020**	Available for take-up
<b>2020</b>									
<b>Richard Brasher</b>									
Forfeitable shares	2016	Nil	230 000	-	(230 000)	69.30	-	-	n/a
	2017	Nil	400 000	-	-	-	400 000	(280 000)	June 2020
	2018	Nil	1 000 000	-	-	-	1 000 000	-	June 2021
	2020	Nil	-	-	-	-	-	1 200 000	March 2022
			<b>1 630 000</b>	<b>-</b>	<b>(230 000)</b>		<b>1 400 000</b>	<b>920 000</b>	
<b>Lerena Olivier</b>									
Share options	2019	58.05	-	-	80 000	-	80 000	-	September 2022
	2019	58.05	-	-	60 000	-	60 000	-	September 2024
	2019	58.05	-	-	60 000	-	60 000	-	September 2026
Forfeitable shares	2017	Nil	60 000	-	-	-	60 000	-	June 2020
	2018	Nil	20 000	-	-	-	20 000	-	June 2021
	2019	Nil	-	-	100 000	-	100 000	-	June 2022
			<b>80 000</b>	<b>-</b>	<b>300 000</b>		<b>380 000</b>	<b>-</b>	
<b>Richard van Rensburg</b>									
Share options	2016	31.14	487 464	-	-	-	487 464	-	Now
Forfeitable shares	2016	Nil	45 000	-	(45 000)	69.30	-	-	n/a
	2017	Nil	140 000	-	-	-	140 000	(98 000)	June 2020
	2018	Nil	30 000	-	-	-	30 000	-	June 2021
	2019	Nil	-	-	150 000	-	150 000	-	June 2022
			<b>702 464</b>	<b>-</b>	<b>105 000</b>		<b>807 464</b>	<b>(98 000)</b>	
<b>Suzanne Ackerman-Berman</b>									
Forfeitable shares	2016	Nil	25 000	-	(25 000)	69.30	-	-	n/a
	2017	Nil	80 000	-	-	-	80 000	(56 000)	June 2020
	2018	Nil	15 000	-	-	-	15 000	-	June 2021
	2019	Nil	-	-	15 000	-	15 000	-	June 2022
			<b>120 000</b>	<b>-</b>	<b>(10 000)</b>		<b>110 000</b>	<b>(56 000)</b>	
<b>Jonathan Ackerman</b>									
Forfeitable shares	2016	Nil	25 000	-	(25 000)	69.30	-	-	n/a
	2017	Nil	40 000	-	-	-	40 000	(28 000)	June 2020
	2018	Nil	8 000	-	-	-	8 000	-	June 2021
	2019	Nil	-	-	8 000	-	8 000	-	June 2022
			<b>73 000</b>	<b>-</b>	<b>(17 000)</b>		<b>56 000</b>	<b>(28 000)</b>	
<b>Aboubakar Jakoet*</b>									
Share options	2008	26.14	150 000	-	(150 000)	70.35	-	n/a	n/a
	2011	41.70	226 458	-	(226 458)	70.35	-	n/a	n/a
	2011	41.70	273 542	-	(273 542)	65.69	-	n/a	n/a
Forfeitable shares	2016	Nil	45 000	-	(45 000)	69.30	-	n/a	n/a
	2017	Nil	140 000	-	(140 000)	69.78	-	n/a	n/a
	2018*	Nil	30 000	(30 000)	-	-	-	n/a	n/a
			<b>865 000</b>	<b>(30 000)</b>	<b>(835 000)</b>		<b>-</b>	<b>-</b>	

\* Effective 6 September 2019, Aboubakar Jakoet retired as an executive director and was appointed as a non-executive director of Pick n Pay Stores Limited. As a result of his retirement, 30 000 of his forfeitable shares were forfeited.

\*\* The remuneration committee has forfeited approximately 70% of the FSP shares awarded to executives in 2017, as the three-year cumulative growth target of 10% set for Group headline earnings per share was not met. In line with the discretion provided within the scheme rules, the remuneration committee will allow approximately 30% of the allocation to be available for take-up in June 2020 in recognition of the South African division's market leading performance over the past three years.

## Directors' interest in ordinary shares

2020	How held*	Balance held at 3 March 2019				Forfeits <sup>®</sup>	Additions/Forfeits sub-sequent to 1 March 2020 <sup>#</sup>		Beneficial/non-beneficial interest <sup>^</sup>
		Balance held at 3 March 2019	Additions/grants	Disposals	Forfeits <sup>®</sup>		Balance held at 1 March 2020	Additions/grants sub-sequent to 1 March 2020	
Gareth Ackerman	direct	309	-	-	-	309	-	Beneficial	
	indirect	1 687 200	17 000	-	-	1 704 200	5 806	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	-	(124 677 237)	-	1	-	Non-beneficial	
Newshelf 1321 Proprietary Limited***	indirect	-	124 677 237	-	-	124 677 237	-	Non-beneficial	
Mistral Trust****	indirect	2 735 008	32 992	-	-	2 768 000	-	Non-beneficial	
Richard Brasher	direct	463 578	230 000	(693 578)	-	-	-	Beneficial	
	direct - FSP	1 630 000	-	(230 000)	-	1 400 000	(280 000) 1 200 000	Beneficial	
Lerena Olivier*****	direct	8 100	-	-	-	8 100	-	Beneficial	
	direct - FSP	80 000	100 000	-	-	180 000	-	Beneficial	
Richard van Rensburg	direct	291 439	45 000	(336 439)	-	-	-	Beneficial	
	direct - FSP	215 000	150 000	(45 000)	-	320 000	(98 000)	Beneficial	
Suzanne Ackerman-Berman	direct	120 528	25 000	(25 000)	-	120 528	-	Beneficial	
	direct - FSP	120 000	15 000	(25 000)	-	110 000	(56 000)	Beneficial	
	indirect	598 609	13 500	-	-	612 109	-	Beneficial	
Jonathan Ackerman	direct	122 888	25 000	(25 000)	-	122 888	-	Beneficial	
	direct - FSP	73 000	8 000	(25 000)	-	56 000	(28 000)	Beneficial	
	indirect	726 686	39 200	-	-	765 886	21 533	Beneficial	
	indirect	11 039	3 456	-	-	14 495	-	Non-beneficial	
Aboubakar Jakoet <sup>®</sup>	direct	758 764	185 000	(185 000)	(30 000)	758 764	-	Beneficial	
	direct - FSP	215 000	-	(185 000)	-	-	-	Beneficial	
	indirect	13 059	-	-	-	13 059	-	Non-beneficial	
David Friedland	indirect	36 688	5 000	-	-	41 688	2 500	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	1 700	(1 786)	-	-	-	Beneficial	

\* Direct interests represent a holding in the director's personal capacity. Indirect interests represent a holding by a trust (of which the director is a trustee), a spouse or 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 capacities as trustees.

\*\*\* In order to ring fence its Pick n Pay shareholding, Ackerman Investment Holdings Proprietary Limited (AIH) transferred its shareholding to a wholly-owned subsidiary of AIH, namely Newshelf 1321 Proprietary Limited. The indirect non-beneficial interest in Newshelf 1321 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.

\*\*\*\*\* Lerena Olivier was appointed as an executive director of Pick n Pay Stores Limited on 6 September 2019. The balance as at 3 March 2019 reflects the interest in shares prior to the executive director appointment.

<sup>®</sup> Effective 6 September 2019, Aboubakar Jakoet retired as an executive director and was appointed as a non-executive director of Pick n Pay Stores Limited. As a result of his retirement, 30 000 of his forfeitable shares were forfeited.

<sup>#</sup> The remuneration committee has forfeited approximately 70% of the FSP shares awarded to executives in 2017, as the three-year cumulative growth target of 10% set for Group headline earnings per share was not met. In line with the discretion provided within the scheme rules, the remuneration committee will allow approximately 30% of the allocation to be available for take-up in June 2020 in recognition of the South African division's market leading performance over the past three years.

<sup>^</sup> Beneficial interest represents an interest in shares in which a person is entitled to receive income payable in respect of that shareholding and obtain any benefit as a result of holding those shares. Non-beneficial interest represents an interest in shares in which a person will not benefit directly as a result of holding those shares.

## Directors' interest in B shares

2020	How held*	Balance held at 3 March 2019			Balance held at 1 March 2020 <sup>®</sup>	Beneficial/non-beneficial interest <sup>^</sup>
		Balance held at 3 March 2019	Additions	Disposals		
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
Newshelf 1321 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. Indirect interests represent a holding by a trust (of which the director is a trustee), a spouse or minor children of directors.

\*\* In order to ring fence its Pick n Pay shareholding, Ackerman Investment Holdings Proprietary Limited (AIH) transferred its shareholding to a wholly-owned subsidiary of AIH, namely Newshelf 1321 Proprietary Limited. The indirect non-beneficial interest in Newshelf 1321 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.

<sup>®</sup> There have been no changes in the directors' interest in shares since 1 March 2020 up to the date of approval of the 2020 audited Group annual financial statements.

<sup>^</sup> Beneficial interest represents an interest in shares in which a person is entitled to receive income payable in respect to that shareholding and obtain any benefit as a result of holding those shares. Non-beneficial interest represents an interest in shares in which a person will not benefit directly as a result of holding those shares.



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# ANALYSIS OF ORDINARY SHAREHOLDERS

as at 1 March 2020

## Pick n Pay Stores Limited

SHAREHOLDER SPREAD	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	8 523	63.1	2 320 568	0.5
1 001 – 10 000 shares	3 598	26.6	11 727 767	2.4
10 001 – 100 000 shares	1 067	7.9	34 663 892	7.0
100 001 – 1 000 000 shares	247	1.8	71 066 905	14.4
1 000 001 shares and over	67	0.6	373 671 189	75.7
<b>Total</b>	<b>13 502</b>	<b>100.0</b>	<b>493 450 321</b>	<b>100.0</b>

PUBLIC/NON-PUBLIC SHAREHOLDERS	Number of shareholders	%	Number of shares	%
<b>Non-public shareholders</b>	<b>17</b>	<b>0.1</b>	<b>147 965 833</b>	<b>30.0</b>
Newsshelf 1321 Proprietary Limited*	1	-	124 677 237	25.3
Ackerman Investment Holdings Proprietary Limited	1	-	1	-
Ackerman Pick n Pay Foundation	1	-	101 900	-
Mistral Trust	1	-	2 768 000	0.6
Directors of Pick n Pay Stores Limited	10	0.1	4 303 455	0.9
Shares held on behalf of FSP participants	1	-	7 630 000	1.5
Pick n Pay Retailers Proprietary Limited	1	-	662 978	0.1
Pick n Pay Employee Share Purchase Trust	1	-	7 822 262	1.6
<b>Public shareholders</b>	<b>13 485</b>	<b>99.9</b>	<b>345 484 488</b>	<b>70.0</b>
<b>Total</b>	<b>13 502</b>	<b>100.0</b>	<b>493 450 321</b>	<b>100.0</b>

BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE	Number of shares	%
Newsshelf 1321 Proprietary Limited*	124 677 237	25.3
Government Employees Pension Fund	64 084 116	13.0
GIC Private Limited	17 403 304	3.5
Fidelity Series Emerging Markets Opportunities Fund	14 764 156	3.0
Coronation Balanced plus fund	9 218 044	1.9
Pick n Pay Employee Share Purchase Trust	7 822 262	1.6
Alexander Forbes Investments	7 661 977	1.6
Shares held on behalf of FSP participants	7 630 000	1.5
Vanguard Total International Stock Index Fund	5 666 933	1.1
Vanguard Emerging Markets Stock Index Fund	5 573 229	1.1

\* In order to ring fence its Pick n Pay shareholding, Ackerman Investment Holdings Proprietary Limited (AIH) transferred its shareholding to a wholly-owned subsidiary of AIH, namely Newsshelf 1321 Proprietary Limited.

# ANALYSIS OF B SHAREHOLDERS

as at 1 March 2020

## Pick n Pay Stores Limited

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
<b>Total</b>	<b>26</b>	<b>100.0</b>	<b>259 682 869</b>	<b>100.0</b>

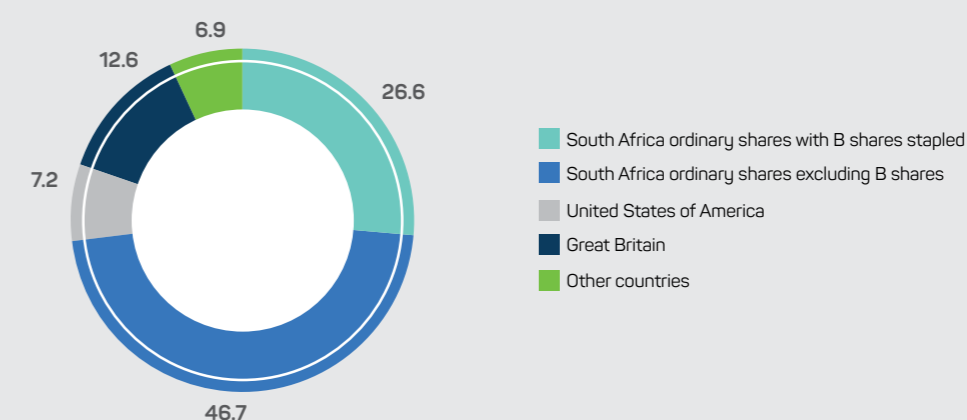
PUBLIC/NON-PUBLIC SHAREHOLDERS	Number of shareholders	%	Number of shares	%
<b>Non-public shareholders</b>	<b>6</b>	<b>23.1</b>	<b>258 295 007</b>	<b>99.5</b>
Newsshelf 1321 Proprietary Limited*	1	3.9	246 936 847	95.1
Directors of Pick n Pay Stores Limited	4	15.3	6 008 601	2.3
Mistral Trust	1	3.9	5 349 559	2.1
<b>Public shareholders</b>	<b>20</b>	<b>76.9</b>	<b>1 387 862</b>	<b>0.5</b>
<b>Total</b>	<b>26</b>	<b>100.0</b>	<b>259 682 869</b>	<b>100.0</b>

BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE	Number of shares	%
Newsshelf 1321 Proprietary Limited*	246 936 847	95.1
Mistral Trust	5 349 559	2.1
Gareth Ackerman (Director of Pick n Pay Stores Limited)	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.

\* In order to ring fence its Pick n Pay shareholding, Ackerman Investment Holdings Proprietary Limited (AIH) transferred its shareholding to a wholly-owned subsidiary of AIH, namely Newsshelf 1321 Proprietary Limited.

### GEOGRAPHIC SPREAD OF SHAREHOLDERS – %



# SHAREHOLDERS' INFORMATION

## Annual general meeting – 4 August 2020

The 52nd annual general meeting of shareholders of Pick n Pay Stores Limited (AGM) will be conducted entirely by electronic communication as permitted by the Companies Act, No 71 of 2008, as amended and the Company's Memorandum of Incorporation. The AGM will be held at 08:30 on Tuesday, 4 August 2020.

The minutes of the previous year's AGM held on 30 July 2019 are available on our investor relations website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za).

## FY21 Results announcements

Interim to 1 September 2020	October 2020
Final to 28 February 2021	April 2021

## Publication of annual financial statements

2020	July 2020
2021	June 2021

## Publication of Integrated Annual Report and Corporate Governance Report

2020	July 2020
2021	June 2021

## Publication of Sustainability Report (every two years)

2021	June 2021
2023	June 2023



# 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)  
Lerena Olivier (CFO)  
Richard van Rensburg (CISO)  
Suzanne Ackerman-Berman  
Jonathan Ackerman

### Non-executive

Gareth Ackerman (Chairman)  
Aboubakar Jakoet  
David Robins

### Independent non-executive

Haroon Borat  
Mariam Cassim  
David Friedland  
Hugh Herman  
Alex Mathole  
Audrey Mthupi  
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 Sonnenbergs

## Principal transactional bankers

Absa Limited  
First National Bank

## Company Secretary

Debra Muller  
Email address: [demuller@pnp.co.za](mailto:demuller@pnp.co.za)

## Promotion of Access to Information Act

[informationofficer@pnp.co.za](mailto:informationofficer@pnp.co.za)

## Investor relations

Penny Gerber  
Email address: [pennygerber@pnp.co.za](mailto:pennygerber@pnp.co.za)

## Website

Pick n Pay: [www.pnp.co.za](http://www.pnp.co.za)  
Investor relations: [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za)

## Customer careline

Tel: +27 800 11 22 88  
Email address: [customer@pnp.co.za](mailto:customer@pnp.co.za)

## Online shopping

Tel: +27 860 30 30 30  
[www.pnp.co.za](http://www.pnp.co.za)

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