We are pleased to present our 2021 Integrated Annual Report for the 52 weeks ended 28 February 2021.

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 28 February 2021. 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 also considers the information needs of all our stakeholders.

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.

We use six broad capitals to create sustainable stakeholder value:

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

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

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

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

- **Boxer: Africa’s favourite discount supermarket**
- **Pick n Pay: South Africa’s most trusted retailer**
- **Soccer: Africa’s favourite football club**
- **830 company-owned stores**
- **342 company-owned stores**
- **61 associated stores**
- **761 franchise stores**
- **28 trading as Pick n Pay**

**Our approach to online reporting**

Our Integrated Annual Report is available online on the Group’s investor relations website at www.picknpayinvestor.co.za. Printed copies are available on request from our Company Secretary, Debra Muller, at demuller@pnp.co.za or by fax at +27 21 797 0394.

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**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.

**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. For more information, please email our Company Secretary, Debra Muller, at demuller@pnp.co.za. We continue to engage with all stakeholders to ensure that we improve our external integrated reporting year-on-year.
The Board endorses the concept of integrated thinking, which underpins corporate citizenship, stakeholder inclusivity, sustainable development and integrated reporting. Furthermore, the Board understands that integrated thinking requires a comprehensive understanding of the Group’s strategy, resources, stakeholders, systems and controls to achieve integrated decision-making and effective internal and external reporting.

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 business strategy remains relevant and responsive. The executive committee is tasked with implementing the strategy and managing the day-to-day operations of the Group to ensure sustainable value creation for all stakeholders. Read more from page 41.

We successfully execute our customer-led, innovative and forward-looking strategy to create sustainable value. Read more from page 49.

Our sustainability strategy supports our business strategy. Our sustainability strategy is aligned with the seven United Nations Sustainable Development Goals (SDGs) most relevant to our business. Read more from page 57.

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 54 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
This has been an extraordinary, unprecedented year, which fell almost entirely within the Covid-19 State of Disaster. It has called upon us to adapt to a new way of working, a demanding and increasingly digitised reality, and to marshal all our energies through Feed the Nation to keep South Africans from going hungry.

We are extremely proud of our performance this year, and the FY21 results delivered. The Group’s strong core trade performance and the resilience in its earnings – down just 6.1% on a comparable basis – is an extraordinary performance under very difficult circumstances. Our teams all did a magnificent job in delivering the results and in growing the business this past year.

Our role in society has never been more important than over this past year. I have been enormously proud of our team and the values that they have shown every day in keeping our customers and staff safe, and in contributing so ably to communities throughout the country. It has been an extraordinary effort.

Today, because of the devastating socio-economic impact of Covid-19, there has been a generally positive shift in matters relating to ESG – environmental, social and governance issues. ESG is attracting increasing interest from investors around the world, with companies – and countries – being asked to account for their values and activities. With this trend, we have seen companies becoming more practical in their approach, and focusing on real goals to make a difference.

The fact of it is that ESG matters to long-term sustainability – and must work alongside financial factors to save, not increase costs. It is only in this way that companies will give these critical issues their full attention.

Fund managers have correctly put pressure on listed entities to make sure that the shares they own are morally, socially and environmentally sound. The strength of this trend can be clearly seen in net inflows into ESG funds, particularly in developed countries.

Our business has developed six engines for long-term strategic growth. One of those engines defines our sustainability ambition: to be a force for good. Our commitment is to use our business to do good, to make a difference.

Through its long-term plan the Group continues to reinforce and integrate environmental, social and governance (ESG) factors in our strategic and operational decision-making.

This year, our business turnaround plan entered its third phase: a transition to sustainable, long-term growth. This marks a significant milestone in the integration of ESG factors in our strategic and operational decision-making.

There have been significant developments in the ESG disclosure arena over the past year, and we continue to track the evolving requirements of various ESG rating agencies. These are underpinned by sound governance and compliance, which for many is a key factor in investment decision-making, as it should be.

We have been fortunate in that Pick n Pay has embedded ESG issues in its values since the 1970s. This has given us a head start in the way we approach these critical questions. Through its long-term plan the Group continues to reinforce and integrate environmental, social and governance (ESG) factors in our strategic and operational decision-making.

We have retained our listing on the FTSE4GOOD Responsible Investment Index Series. We are committed to supporting and upholding the Ten Principles of the United Nations Global Compact, and we align our sustainability work with the United Nations Sustainable Development Goals (SDGs). Our efforts contribute directly to seven of the global goals, as reflected in our strategic framework, and work is currently underway to assess our indirect contribution to additional global goals.

We have also been very strong on talent management and skills development, promoting from within. At the same time, we have when necessary sought the best talent available globally to work and thrive at our Group, bringing the very best skills available to the benefit of shareholders. In this respect, South Africa must understand that we are not to be globally competitive, we have to be in a position to remunerate global talent commensurately, or we will never be able to attract the very best to our shores.

Gender diversity – %

* Male 64%
* Female 36%

Racial diversity – %

* White 41%
* Black 36%
* Other 23%

A quick overview of our Board – May 2021

Board composition

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<th>Independent non-executive directors</th>
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The Board has met its targets for gender diversity. When filling vacancies, the Board seeks and appoints qualified individuals who represent the diversity of the communities we serve.

We have reduced our carbon emissions per square metre by 6.5% against our 2013 baseline. In 2019, we switched to full natural refrigerants using CO₂ on freezers as well as chillers. Nearly 10% of our estate now has these systems, while over a third of our estate now uses a version of natural refrigerants.

We have also reduced our water usage by just over 11% year-on-year in our Pick n Pay owned stores, while nationally – including our distribution centres – the reduction is just under 10%. Having reduced water usage at a Warwick Eco Farm in Cape Town, we have achieved a reduction of 20%, since 2018.

While the specifics of our ESG achievements are detailed in this report, I would like to highlight just a few:

**Energy, carbon and water**

Since 2010 we’ve had an active energy management programme, and through our efforts, we have saved over R2 billion in electricity costs over the past decade. This figure alone demonstrates the considerable financial upside of sustainable operations.

Ten years on, we are using 10% less energy despite 76% more stores and a 38% increase in gross lettable area. We have also reduced our energy intensity by over a third over the same period. We are now using about half of the energy per square metre we were using in 2008. In addition, we have increased the amount of renewable energy we generate.

We have retained our listing on the FTSE/JSE Responsible Investment Index Series.

We have also reduced our water usage by just over 11% year-on-year in our Pick n Pay owned stores, while nationally – including our distribution centres – the reduction is just under 10%. Having reduced water usage at a Warwick Eco Farm in Cape Town, we have achieved a reduction of 20%, since 2018.

**Waste and food waste**

Waste and food waste are a strong focus for us given that food insecurity is an issue that’s widespread in South Africa. This year, we diverted more than 60% of all waste from landfills. We sold more than 1.6 million re-usable bags and donated R38 million of excess food to FoodForward SA.

In a year that saw unemployment and poverty rise sharply, the Feed the Nation Foundation raised R136 million in hunger relief efforts, enabling the distribution of more than 28 million meals to vulnerable families across South Africa. This was achieved through a phenomenal collective effort from our employees, customers, suppliers, other corporates, welfare organisations and foundations both locally and internationally.

**Packaging**

We have done extensive work to reduce our packaging impacts, and the collective impact at scale has been enormously encouraging. Big way of example: revised bottled water and fresh juice packaging is reducing plastic usage by 1.5666 tonnes annually.

Encouraging lifecycle thinking is a critical part of reducing packaging waste. On all new Pick n Pay own brand packaging designs, we are introducing a revised on-pack recycling label to help customers understand how best to recycle their packaging. By 2023, all our branded products will feature the new logo.

**Sustainable sourcing**

By the end of 2021, all palm oil, palm kernel oil or palm oil derivatives used in Pick n Pay will be sourced only from suppliers who are using sustainable palm oil. We are working with our suppliers to ensure that they all become certified members of the Roundtable on Sustainable Palm Oil (RSPO) by the end of 2022.

**Encouraging lifecycle thinking is a critical part of reducing packaging waste.**
Enterprise development

Pick n Pay offers structured support to SMMEs in the way of business development advice and mentoring through its Enterprise and Supplier Development (ESD) programme. A key objective of the ESD programme is to increase the economic impact of SMMEs as well as integrate them into our supplier chain. Despite the impact of Covid-19, the financial performance of SMMEs provided with support in the last financial year grew steadily by 13%.

We increased our spend on SMMEs by 14% to R5.4 billion. We have 2 178 SMMEs in our supplier base, more than half of whom are black-owned and black women-owned suppliers make up more than half of these.

The Group procures around 97% of its food and groceries locally, a fact which is a source of great pride to us. This we have achieved - we most companies with a similar record - without any punitive regulation. Encouragement, not legislation, is what achieves a high degree of localisation.

Goverance

Corporate governance is a critical issue for listed companies, and we have always run the Group at the highest level of governance. Our policy has been to be within the guidelines of King IV where we have complied or explained why we are unable to.

Governance and compliance have become very complex, and reporting standards make it increasingly difficult to be a listed company. Rules and regulations should govern the manner in which companies report consistently and influence the manner in which we run our business.

But while we comply fully with all listing requirements, we have to ask whether the degree of complexity, and the sheer weight of detail, are adding value for shareholders. Providing comfort and confidence to shareholders should be the aim, but shareholders would have a legitimate expectation firstly that the costs could be done less expensively, and secondly that management is not distracted by increasing levels of unnecessary detail, when their focus should be on running the Group and increasing returns.

Proposed changes to the Companies Act will inevitably result in a great deal of debate. The main objective should be to ensure that all independent directors use their independence to scrutinise the Company and ensure stakeholder interests are met, and are not placed on boards to represent special categories of interest groups.

At the same time, increasing the reach of share schemes is an idea to be encouraged. If the associated tax implications and complex accounting rules are scrutinised at the same time, currently there is little incentive to hold shares given the associated tax burden.

Governance also requires that companies make it as easy as possible for its shareholders to understand the company, its results, its activities and its practices. Our ambition is to make communication with all stakeholders cleaner, simpler and better.

A change in our Board

During the year, we welcomed three new non-executive directors, Haroon Bhorat, Mariam Cassim and Annamarie van der Merwe. Thank you for agreeing to serve on our Board.

At the end of the year, we said farewell and thank you to Richard Brasher as our CEO. Our Group was transformed in Richard’s eight-year tenure, as he stabilised the business, changed its trajectory and put us on the path to sustainable long-term growth.

Richard led the Group with integrity, putting people first. Never was this more apparent than in this past year, just when the Group needed strong leadership. He calmly and skilfully steered the business, our customers and our people through unprecedented challenges. Our thanks to Richard, and our very best wishes to him and his family for the future.

We were delighted to welcome our new CEO, Pieter Boone, after an extensive local and global search for Richard’s successor. Pieter was the outstanding candidate, with great global experience of leading retail businesses in tough, developing markets. Pieter has our warm welcome and every support for the years ahead.

In conclusion

The Group has performed very well this past year, in a very demanding environment. This coming year will be no less challenging for all of us – from those on the senior management team to those who serve in our stores. I have every confidence that we will continue to drive our values to their fullest, serving our customers with efficiency, commitment and dedication.

We are deeply saddened that over the Covid-19 pandemic over 50 members of the Pick n Pay team have passed away. Our thoughts and condolences are with their families and friends. Their contribution will always be remembered.

Gareth Ackerman
Chair
27 May 2021
Our honorary life president and 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, Nigeria, eSwatini and Lesotho. Pick n Pay also owns a 49% share of Zimbabwean supermarket chain, TM Supermarkets.

Key facts

- R93 billion turnover
- Close to 2,000 stores doubled over eight years
- 90,000 employees, created 15,000 jobs over eight years
- 16% compound annual growth in comparable earnings over eight years
- 400,000 jobs sustained through the reach of our supply chain
- 40% return on capital employed
- 25% sales participation of own brand products
- Listed on the FTSE/JSE Responsible Investment Index
- First South African retailer to sign up to the 10x20x30 Food Waste Initiative
- Smart Shopper recognised as South Africa’s best loyalty programme for the past decade
- R12 billion capital investment over eight years
- Member of the international Consumer Goods Forum and the Consumer Goods Council of South Africa
- Founding member of the Consumer Goods Council Voluntary Food Waste Agreement
- First retailer in Africa to make sustainable seafood commitments

About us

The Pick n Pay Group 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. Pick n Pay also operates one of the largest online grocery platforms 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. The Group has successfully pursued a clear and customer-led turnaround strategy over the past eight years – with greater efficiency and investment in an improved customer offer driving sustainable value growth for all stakeholders.

For further information on our business model, refer to pages 19 to 24.
The Group’s investment case

Customers are at the heart of our business. Consumer sovereignty informs everything we do, from how we treat our customers, the product range we offer, to 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.

Strong brand loyalty: broad customer reach

Pick n Pay – increasingly tailored to meet the needs of customers

Pick n Pay is one of South Africa’s strongest and most inclusive brands. As a much-loved shopping destination, Pick n Pay has moved hand-in-hand with the changing needs and aspirations of its customers for over 50 years. Our customer-led store segmentation programme – across our Value, Core and Select supermarkets – is driving growth through product ranges, promotions and customer engagement specifically tailored to meet the needs of customers served. As a result, Pick n Pay’s product offer is increasingly clear, uncluttered and relevant, enabling improved forecasting, supplier replenishment, reduced waste, higher on-shelf availability and consistently high levels of customer service.

Boxer – the fastest growing food and grocery retailer in South Africa

Boxer is South Africa’s fastest growing discount supermarket chain, with sustained double-digit sales growth and solid market share gains over a number of years. Boxer is winning customers through a modernised store estate, a tight range of 3,000 products, a strong fresh meat and produce offer and unbeatable value on the products that are most important to customers in the lower to middle-income communities of South Africa. The Group converted 18 Pick n Pay franchise stores to Boxer stores this year (13 supermarkets and five liquor stores) and all are delivering the needs of customers served. As a result, Pick n Pay’s product offer is increasingly clear, uncluttered and relevant, enabling improved forecasting, supplier replenishment, reduced waste, higher on-shelf availability and consistently high levels of customer service.

The Group’s broad range of formats, including growing clothing and liquor businesses and Boxer’s unbreakable value proposition, positions our Group well to serve all customers across the diverse socio-economic communities of southern Africa.

Clear and effective strategy: consistent returns and strong growth platform

The Group has followed a clear and consistent long-term plan over the past eight years, notably focused on stabilising the Group’s balance sheet and its financial performance, followed by decisive action to accelerate the growth trajectory of the business. Consistent and effective execution, underpinned by robust risk and capital management, has delivered sustained revenue growth and improved operating margins, notwithstanding the increasingly difficult economic conditions across the regions in which we operate. The Group has delivered against its plan to build a strong and agile multi-format and multi-channel retail business, providing an increasingly tailored customer offer across a broad socio-demographic reach.

Return on capital employed – %

The stability of the Group’s business throughout the Covid-19 crisis is evident in the underlying strength of its balance sheet, including low levels of debt, which has enabled an uninterrupted dividend cycle and has delivered increasing returns from a measured and targeted capital investment programme.

Well positioned for long-term growth

The size of the formal food and grocery retail market in South Africa is estimated at R595 billion. Historically, the formal market has grown at 10% – 15% ahead of GDP growth plus inflation, benefitting from the ongoing formalisation of the informal retail market. On this basis, the formal retail market is forecast to grow by an estimated 7.0% per annum to reach R820 billion in 2025.

Growth is not evenly spread across socio-demographic groups in South Africa – with R140 billion (over 60%) expected to come from the less affluent segments of the market, where the Group is currently under-represented. Future success in this segment 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. Market share gains of 1% in this part of the market provide an opportunity to capture R5 billion in future sales.

The Group is well positioned to capture and accelerate growth in the value end of the market, through its increasingly agile and efficient Pick n Pay Value and Boxer supermarkets.

Greater operational efficiency under Project Future

The Group developed Project Future 18 months ago, a programme of initiatives aimed at accelerating the growth and efficiency objectives of the Group’s long-term plan, to ensure it maintained its momentum in an increasingly challenging economic environment. Project Future has three main objectives: to transform the business beyond incremental change, to drive productivity and efficiency gains so that the Group can invest in a strengthened customer offer, and to use data and systems better to enable more effective ways of working. The Group has delivered solid progress against Project Future this year, achieving R860 million of cost savings against its two-year target of R1 billion.

The Group increased its gross profit margin to 19.8% of turnover this year – fully mitigating the severe impact of Covid-19 trading restrictions on its higher margin categories, with cost savings, efficiency gains and increased centralisation across its supply chain.

Strong digital platform: driving innovation in omni-channel retail

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 also supports our Smart Shopper loyalty programme, including the redemption of personalised discount vouchers directly through the programme’s digital app. Pick n Pay has led online grocery retail in South Africa for more than a decade – and its sustained investment into a modern, flexible and fully integrated systems infrastructure has built the country’s largest digital grocery platform, a clear advantage throughout the Covid-19 crisis.

The Group’s information technology platform is modern, robust, integrated and highly scalable, providing the Group with valuable customer insights and a strong platform from which to grow its omni-channel proposition.

South African food and grocery market

Market in 2020 Market in 2025

Our current market share Scale of % change by 2020

- 16% 7%

Our brand share

Scenario A

SA Plastics Pact; a signatory to the Ellen MacArthur Foundation’s Global Commitment to develop a circular economy for plastic; and a member of The South African Alliance to End Plastic Pollution in the Environment

In 2020 we achieved a B rating on CDP Climate and an A rating on CDP Water – positioning Pick n Pay as one of South Africa’s best performing retailers.

We contribute to the SDGs and look for opportunities to align to the global goals

Pick n Pay was the first South African retailer to sign up to the World Resources Institute’s 10x20x30 Food Waste Initiative. We currently divert 61% of our total waste from landfill through donation, recycling and composting.

Since 2018, we have reduced the sugar content of our Pick n Pay own brand products by 34% and over 2,000 tons of sugar have been removed from a variety of our own brand products.

We promote certification with internationally-recognised farming standards linked to good agricultural practices across our supplier base – GLOBALG.A.P. and local a.p.

Responsible retailer: committed to environmental, social and corporate governance

The Group’s commitment to the highest standards of corporate governance has contributed to its sustainable value creation over 54 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, and is always anchored by the belief that doing good is good business.

Pick n Pay is a founding member of the SA Plastics Pact; a signatory to the Ellen MacArthur Foundation’s Global Commitment to develop a circular economy for plastic; and a member of The South African Alliance to End Plastic Pollution in the Environment.

In 2020 we achieved a B rating on CDP Climate and an A rating on CDP Water – positioning Pick n Pay as one of South Africa’s best performing retailers.

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We promote certification with internationally-recognised farming standards linked to good agricultural practices across our supplier base – GLOBALG.A.P. and local a.p.
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 and Boxer 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.

### Geographic footprint

**Close to 2 000 stores across all formats**

8 countries including our investment in TM Supermarkets in Zimbabwe

**AFRICAN FOOTPRINT**

- **Included in total stores above**: 1 542
- **Pick n Pay, company-owned**: 1 542
- **Boxer company-owned**: 9
- **Pick n Pay, franchise**: 66
- **TM Supermarkets – associate**: 59

**AFRICAN FOOTPRINT**

- **By country**: 154
- **Botswana**: 12
- **Lesotho**: 2
- **Namibia**: 38
- **eSwatini**: 23
- **Zambia**: 20
- **Zimbabwe**: 59

*We opened our first store in Nigeria in March 2021*
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. Pick n Pay has structured 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 tanker 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.

### OUR STORE FORMATS

**Pick n Pay Supermarkets**

Pick n Pay company-owned and franchise 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 merchandises 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 certain Select stores also provide specialty service counters, wine rooms, flower markets and sushi bars.

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

**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. The Group lost 209 liquor trading days over FY21 under the South African government’s Covid-19 risk adjusted strategy.

**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. Stores 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.

**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.

**Pick n Pay Pharmacy**

In May 2021, the Group announced the sale of its small pharmacy business, including 25 in-store pharmacies, to Clicks Group Limited. The transaction allows the Group to exit a non-core part of the business and focus on its strategic priorities. The pharmacies will be rebranded as Clicks pharmacies and, given the strength of the Clicks pharmacy network, we believe our customers will be well-served in respect of their pharmacy needs. The transaction is subject to Competition Commission approval in South Africa.

**Pick n Pay Online**

Our online shopping platform - picknpay.com – is the largest and most developed online grocery business in sub-Saharan Africa. The platform provides online convenience, good availability and on-time delivery. The online offer in the Western Cape and Gauteng is supported by two dedicated 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 rapidly increased its online capacity and reach, including through the acquisition of the on-demand delivery service Bottles, which was re-engineered during the nationwide lockdown from an on-demand liquor service, to deliver same-day grocery essentials to customers. We have also rolled out our Click n Collect service across many of our Pick n Pay stores, and many of our franchise stores now encourage customers to use click 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 FY21 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.

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. TM has kept its shelves stocked, and has been rewarded with sustained market share growth.

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.

**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 include 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 Build delivered strong sales growth this year notwithstanding complete closure during Level 5 lockdown in South Africa, benefitting from increased customer investment in home improvements.

**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.

As with our Pick n Pay liquor stores, there were just three weeks of the financial year that our Boxer liquor stores in South Africa did not trade under any trading restrictions.

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**South Africa and eSwatini**

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**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. TM has kept its shelves stocked, and has been rewarded with sustained market share growth.

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 and preserve long-term sustainable value, and minimise value erosion, for all 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 and enduring values at its core.

Our management teams devoted much of their energy and focus this year to navigating significant economic and operational disruption underpinned by strong corporate and social governance, with our unique and enduring values at its core.

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 advance the growth engines of our long-term strategy.

Our business model operates within a range of store formats - enabling us to serve customers across a diverse socio-economic spectrum.

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 way that enables us to serve customers across a diverse socio-economic spectrum.

Constraints and challenges faced during the year included:

- Worsening macro- and socio-economic conditions and constrained consumer spending, exacerbating the economic impact of Covid-19
- Volatility and liquidity in local debt markets as a result of the pandemic
- Currency weakness and hyperinflation in the Rest of Africa segment

Relevant material issue: "Consumer environment", "Funding liquidity" and "Foreign investment return" – refer pages 26, 37 and 38

Through our business activities, we serve customers across the diverse spectrum of southern African communities - and we are South Africa’s most inclusive retailer.

Governance: The Board influences the strategic direction of the Group and oversees remuneration and incentives linked to the capital.

- Material risks and opportunities: external conditions, trends and internal factors influence business activities and performance, creating a growth environment or restricting ability to create value

- Strategy and resource management: relevant business activities support and drive resource allocation plans to achieve short, medium and long-term strategy

- Stakeholders: participation in our shared value creation through a range of engagements and relationships

- Performance: business activities have financial and non-financial indicators that can impact the capitals available to the Group

We stimulate economic and social upliftment within the communities we serve.

Our successful strategy supports investment in our communities, in line with our ethos of doing good in good business, as captured in our enduring values and our mission statement as set out on pages 2 and 10.

Our operating model enables us to utilise our capital inputs across our retail operations in the most effective and efficient manner to optimise our capital inputs and outcomes for all. Our business model maintains a virtuous circle which balances the needs of our stakeholders in a fair and equitable manner, while effectively managing the trade-offs between our capitals. The balance and stability provided by the Group’s operating model – guided at all times by the underlying principle that doing good is good business – has underpinned the strength of the business throughout the Covid-19 crisis and has safeguarded the interests of all stakeholders at a time of unprecedented disruption.

Our business outputs include the wide range of products and services that we sell to our customers in our Pick n Pay, Boxer and TM brands, including food, groceries, clothing, general merchandise, liquor and other value-added services. As a result of our retail operations, we produce by-products and waste (including food waste, our packaging and other waste) which we try to reduce or recycle. We buy products effectively and responsibly.

We buy for customers, underpinned by ethical sourcing and food safety standards that contribute to earning the loyalty of our customers, generate more jobs, contribute to the economic welfare of the communities and customers we serve, and advance the growth engines of our long-term strategy.

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Action taken to enhance positive outcomes, minimise negative outcomes, and manage our capital trade-offs

**Financial**
- Covid-19 trading restrictions – constrained sales growth at 4.3%
- Covid-19 operational response – additional costs of R200 million
- Strengthened customer offer – market-leading food and grocery performance, up 10.0% year-on-year
- Effective and targeted promotions – selling price deflation kept to 3.8%
- Staff restructurings – once-off severance costs of R200 million
- Strong cash and working capital management – comparable net cash position up R500 million year-on-year
- Uninterrupted dividend cycle – R900 million paid to shareholders

**Manufactured**
- Covid-19 response – store closures, reduced trading hours, physical distancing measures
- Expanded digital shopping platform to meet accelerated online demand – including through the purchase of on-demand app Bottles and the launch of online clothing sales
- R1.6 billion of capital investment – programme scaled back as a result of Covid-19
- Capital spend well balanced – new stores (50%); refurbishments (20%); infrastructure (30%)
- Property resale to maximise investment returns – 112 new stores; 34 conversions; 43 closures
- Lower centralised supply increased to 55% – new distribution centres in Polokwane
- Collaboration with suppliers minimised Covid-19 supply chain disruption – product availability maintained at 95%
- Improved efficiency of transport model – fewer trucks, fewer kilometres, lower costs

**Intellectual**
- Covid-19 restrictions over non-essential value-added services – all related commission and other income down 0.5% year-on-year
- Met customer demand for contactless payment solutions – over 13 billion contactless payments processed
- Strengthened partnership with TyMeal – 3 million accounts now open
- Launched mobile virtual network operator – low-cost airtime and data through PiN Mobile and Bicocurum
- Value innovation through PiN in PiN own brand – 1 500 new products launched, sales participation now at 20%; re-sourced product development
- Sustained investment in Smart Shopper loyalty programme – R1.5 billion provided in loyalty savings; 50% growth in redemption of personalisation discounts; 75% sales participation
- Sustained investment in digital innovation – online customers tripled; 700% growth in on-demand online service

**Social and relationship**
- Feed the Nation Covid-19 relief campaign – raised R136 million, provided 28 million meals to vulnerable families in South Africa
- Business development – 10 new entrepreneurs in our Spaza-to-Market store programme
- PiN in PiN is a member of leading ethical trade membership organisation SDiEX (Supplier Ethical Data Exchange) and SEDA (Sustainability Initiative of South Africa)
- Low prices on fresh produce and Live Well products, providing our customers with greater access to healthy choices
- The PiN in PiN School Club supports 2.3 million learners at 3 155 schools
- Annual strategic targets met
- Satisfactionary progress
- More to do

**Human**
- Staff appreciation – bonus paid to essential staff working at the frontline of the Covid-19 crisis
- Staff recognition – performance bonuses for outstanding performances under challenging conditions
- Strengthened health and wellness programmes – addressed physical and emotional impact of Covid-19
- Greater productivity – voluntary severance programme right-sized our operational teams
- Administrative efficiency – targeted severance programme addressed support structures
- Growing businesses – 2 000 new jobs created through store openings
- Appointed two functional outsourcers partners in our supply chain – providing greater skill, efficiency, stability
- Achieved disability targets, including through learnership programmes
- Ongoing progress in meeting diversity targets in senior management – with significant improvement in racial and gender management roles

**Natural**
- 4.3% reduction in energy intensity from a 2008 baseline
- 8 465 MtCO2e of solar energy generated, reducing our carbon footprint by almost 8 000 tonnes CO2e
- We consumed an estimated 1 006 megawatts of water, a reduction on last year’s consumption (2 020 1 177 megawatts)
- Local sourcing of our clothing division increased to its local sourcing by close to 40%
- 4 500 duplicate and uneconomic lines discontinued – contributing to significant reductions in food waste
- 16 million reusable shopping bags sold
- We reduced/removed 81% of total waste generated, including 17.356 tonnes of cardboard and paper; 2 234 tonnes of plastic and 10 tonnes of metal
- Organised community clean-ups in adherence with Covid-19 regulations, with 1 426 volunteers collecting 2.7 tonnes of waste

Unpacking the significant capital trade-offs we made during the year

Our capitals are transformed by our business activities and strategic business decisions. As part of this, we prioritise certain resources and shareholder requirements above others. Our strong and experienced management team operates within a sound risk management framework that considers the social and environmental impact of our decisions and operations. Read more about our risk management framework from page 33.

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 create and preserve 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 85.

Management’s judgement in prioritising stakeholder needs and capital resources was particularly significant this year. Many difficult decisions were made in the face of the unprecedented circumstances of the Covid-19 virus. Our management team led with distinction, acting decisively, pragmatically and primarily in best interests of our staff and customers. This ensured that our business continued to grow, adapt and innovate, without placing stakeholders under undue risk.

**Covid-19 response:** Reduced trading hours; physical distancing; health and hygiene costs; and some store closures

The Covid-19 crisis necessitated an effective response that would keep our operations safe and working, provide customers with essential food and groceries, and assist government efforts to slow the spread of the virus. The Group understood that our response would come at a financial cost. However, as an essential service during the crisis, our efforts to stay open and working were a social imperative.

We reinforced our health and hygiene standards, reduced our trading hours to support government-imposed curfews, reduced the number of customers allowed in stores at any one time, and closed stores for sanitising where positive cases of the virus were identified among staff. These combined measures incurred additional operating costs of R200 million in FY21, and caused some disruption and inconvenience to stakeholders. However, they were essential to deliver business continuity and safeguard our staff and customers’ well-being.

**Working capital investment:** Maintaining the availability of essential food and groceries

Our Group, alongside other retailers, has played a significant role in providing customers with confidence in the supply of essential food and groceries throughout the crisis. The Group recognised the importance of maintaining consistently high levels of on-shelf product availability to allay any public concerns around food security. We understood that this would come at a cost, and would impact the Group’s short-term working capital targets.

The Group worked closely with suppliers to minimise disruption across the supply chain. We invested significantly in our core food and grocery lines to maintain product availability at 95% over the year, and particularly over our busy month-end trading periods. The Group’s range optimization initiatives removed 4 500 slow moving and uneconomic lines from the business, which mitigated the cost impact of this strategic investment into fast moving essential lines.

**Capitals impacted – Short term**

- Additional operating costs of R200 million in FY21
- Covid-19 response to keep operations safe and working
- Government-imposed curfews and store closures
- Health and hygiene costs
- Physical distancing
- Staff severance costs of R200 million

**Capitals impacted – Long term**

- Covid-19 trading restrictions – constrained sales growth
- Covid-19 operational response – additional costs of R200 million
- Strengthened customer offer – increased food and grocery performance
- Effective and targeted promotions – selling price deflation
- Staff restructurings – once-off severance costs
- Strong cash and working capital management
- Uninterrupted dividend cycle
- Staff appreciation
- Value innovation
- Sustained investment in digital innovation
- Cost of Covid-19 response

**Integrated Annual Report 2021**

This is the Pick n Pay Group 02
CREATING VALUE THROUGH OUR BUSINESS MODEL (continued)

Property reset: Store closures and conversions to drive investment returns

The Group has a broad, multi-format store estate, operated on an owned and franchise basis, and trading through the Pick n Pay, Boxer and TM brands. The Group maintains the overall quality of its estate through new stores, an ongoing refurbishment programme, store closures where necessary, and conversions between formats and brands. Store closures and conversions can be difficult decisions to make, and the long-term impact on divisional performance, store staff and franchise partners is always considered.

The Group closed 43 stores this year, across all formats, and converted 34 franchise stores to company-owned Pick n Pay and Boxer stores, including 22 supermarkets. While there was some limited short-term disruption, the converted stores are all delivering stronger sales performances and improved profitability, and the Group has reduced the risk on its franchise dealer’s book. The Group remains committed to harnessing the flexibility of its estate and operating model to secure the right format for each site and generate the greatest investment return.

Capitals impacted – Short term
Capitals impacted – Long term

Project Future: Staff restructuring programmes to improve productivity and efficiency

Project Future is the Group’s long-term modernisation programme. It is aimed at accelerating the Group’s growth and efficiency objectives to ensure it maintains its momentum in an increasingly challenging economic environment. Employee costs are the Group’s largest operating expense. As such, several Project Future initiatives have focused on improving staff productivity and efficiency across the business. Staff restructuring and severance programmes add short-term once-off costs, and can bring anxiety and uncertainty for those affected. However, they are necessary for the business to build a modern, efficient and agile workforce, better able to serve our customers over the longer term.

The Group incurred R200 million in once-off compensation costs related to voluntary and structured employee severance programmes undertaken during the year. This resulted in the removal of approximately 1 600 roles from the business, targeting improvements in store and support office efficiency. Half of these costs were recouped through cost savings in the second half of FY21, with the balance to be recouped over FY22. Notwithstanding these initiatives, the Group created over 2 000 new roles through its store opening programme this year.

Capitals impacted – Short term
Capitals impacted – Long term

Rest of Africa: Developing the right operating model

Difficult trading conditions persist in our Rest of Africa operations, including local currency weakness, high levels of inflation and escalating unemployment. The Group is cognisant of the real risks of trading in emerging market economies in the Rest of Africa, including complex political, economic and operational challenges. However, these markets provide significant growth opportunities, driven by young and growing working-age populations and the rapid formalisation of informal retail markets.

The Group is repositioning its Rest of Africa store operations, most notably in Zambia, into an increasingly cost-effective and efficient limited range discount model. This provides customers with a tighter range of targeted products (including more own brand) at unbeatable value. The Group has taken decisive action to close under-performing stores, to reduce the size of others, and to eliminate US dollar-based leases and other expenses. While short-term prospects remain constrained, the Group is committed to driving long-term sustainable growth in the Rest of Africa, at acceptable levels of risk, and without comprising core South African operations.

Capitals impacted – Short term
Capitals impacted – Long term

Outlook for 2022

Notwithstanding the considerable progress delivered over the past eight years, it is the Group’s FY21 performance that will stand out for its extraordinary resilience under the most challenging of circumstances.

The Group grew its market share over the year, accelerated its momentum on improving the efficiency and productivity of its operations and was able to provide its customers with ever greater value, including through a growing own brand offer and a highly personalised loyalty programme.

The Group has a strong plan to deliver long-term sustainable value creation, anchored by a strong balance sheet, low gearing levels, and strategic funding partners who continue to demonstrate ongoing support for the Group and its long-term growth strategy.

The Group recognises the growing risks around climate change and the need for responsible, ethical business practices that support the well-being of the communities we serve. We continue to place a strong focus on being an environmentally and socially conscious retailer that is responsive to the needs of our customers and the regions within which we operate. Our efforts in this regard are driven by our People n Planet initiative, which is the umbrella under which all our sustainable development programmes fall.

Through the actions taken during the year, we have strengthened our capital inputs and supported our strategic growth engines going into FY22.

FY22 investment plans include a strong store pipeline across our Pick n Pay and Boxer formats, ongoing store refurbishments, further investment in expanding the reach of the Group’s central supply chain, and ongoing investment in the Group’s modern and flexible system infrastructure. Read more in our CFO report on page 72.

We remain confident that the actions taken during the year both in our response to the Covid-19 crisis, and in our commitment to modernising the business through Project Future, have positioned us well for long-term growth. The Group remains confident that it will succeed in funding future capability requirements with available capital inputs, notwithstanding the difficult economic conditions in the countries in which we trade.
The Pick n Pay Group operates close to 2,000 stores across multiple formats in eight countries across southern Africa, including a 49% investment in TM Supermarkets in Zimbabwe. With a 54-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 business model, seeking to find the most effective and appropriate operating model for a particular region; for example, operating company-owned stores, working alongside effective franchisees, or investing in an established business, while providing management support.

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**An overview of the South African market**

South Africa's retail market is diverse and disparate in geography and income. The food and grocery sector comprises a modern formal sector and a large informal sector. The total market had an estimated value of R900 billion in our FY21 year, with approximately 60% of the market considered formal and around 40% informal.

The formal South African food and grocery market is highly competitive. Four large retailers, including our Group, account for approximately 50% of sales. With turnover of R50 billion from our South African segment in FY21, it is estimated that our Group has an almost 10% share of the total market, and around 16% of the formal market.

### Geographic footprint

- **Company-owned stores**
- **Franchise stores**
- **Business investment**

**South Africa – the year in review**

**Increasingly tough local market conditions**

The Covid-19 pandemic has had a profound impact on the global and local economy. South African GDP contracted 7% over the 2020 calendar year - the country’s worst economic performance in a century.

The South African government imposed a stringent and lengthy lockdown from 27 March 2020 to combat the spread of the virus, which resulted in a contraction of approximately 4% in grocery volumes over the balance of 2020. At the time of publication, South Africa remains under a National State of Disaster; as concerns over a third wave of Covid-19 infections persist.

Food and grocery retailers have benefited from some switch in spend from the discretionary consumer economy (travel and entertainment) into non-discretionary food and grocery categories. The value of the uplift is difficult to quantify, and has not been sufficient to mitigate the negative impact of trading restrictions and other Covid-19 disruptions, including the unprecedented economic impact of the pandemic.

The less-affluent consumers in the South African retail market have been supported by additional government support, for example through Covid-19 Social Relief grants of R350 per month.

### Covid-19 impact on our market and business

**How this impacted our business**

Sales and earnings were negatively impacted by Covid-19 and the measures taken by government to contain it. Trading restrictions affected up to 20% of revenue at different stages of the lockdown and sales were further impacted by reduced trading hours, limits on the number of customers in stores, and temporary store closures. This had a significant impact on revenue, with an estimated R4 billion in lost sales over the year, a 0.3% points impact on gross profit margin, and R200 million in additional operating costs related to the Group’s operational response.

**Our strategic response**

The Group responded quickly to meet our customers’ changing needs throughout the crisis, including through maintaining a safe and secure shopping experience; strengthening our range of core food and grocery essentials; and upholding consistently high levels of on-shelf availability. Customers are facing increasing financial pressure and are rewarding retailers who can provide ever greater value. The Group accelerated its efforts on cost and efficiency under Project Future this year (page 52) – providing meaningful savings to invest in lower prices, including through an integrated and personalised Smart Shopper loyalty programme; and a programme of deep value promotions in Boswer. Refer to page 49 for more on our strategic response.

The Group is agile response to the Covid-19 crisis, supported by strong collaboration with suppliers and other key partners, delivered 95% on-shelf availability and market leading sales growth of 10.0% in core categories. The value of the uplift is difficult to quantify, and has not been sufficient to mitigate the negative impact of trading restrictions and other Covid-19 disruptions, including the unprecedented economic impact of the pandemic.

The Group responded quickly to meet our customers’ changing needs throughout the crisis, including through maintaining a safe and secure shopping experience; strengthening our range of core food and grocery essentials; and upholding consistently high levels of on-shelf availability. Customers are facing increasing financial pressure and are rewarding retailers who can provide ever greater value. The Group accelerated its efforts on cost and efficiency under Project Future this year (page 52) – providing meaningful savings to invest in lower prices, including through an integrated and personalised Smart Shopper loyalty programme; and a programme of deep value promotions in Boswer. Refer to page 49 for more on our strategic response.

The Group is agile response to the Covid-19 crisis, supported by strong collaboration with suppliers and other key partners, delivered 95% on-shelf availability and market leading sales growth of 10.0% in core food and grocery categories in South Africa. The Group delivered this strong sales growth consistently across the year, even as the more discretionary areas of the consumer economy were opening up.

**Strategic growth engines**

- **Consumer environment, regulatory landscape, health and safety, security of supply, stability of value chain, digital security, competitive landscape**

**Relevant material issues**

- **Consumer environment, regulatory landscape, health and safety, security of supply, stability of value chain, digital security, competitive landscape**

**Read more from page 52.**

**Read more from page 35.**

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**Table 1:**

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* Excluding R200 million of once-off staff compensation costs

**Trading result and directly attributable costs only. No allocations are made for indirect or incremental costs incurred by the South Africa segment relating to the Rest of Africa segment.**

**Figure 1:**

**Market volumes -4%**

- **March’19 to March’20 market volumes +13%**

**South African retail environment 2020**

- **-70% GDP growth**
- **+11% Annual grocery retail sales growth**
- **70% Prime interest rate**
- **4.8% CPI Food**
- **29.2% Unemployment**
- **-5.4% Household expenditure growth**

**Figure 2:**

**South African real GDP 2009 – 2020**

- **(7%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**

**Figure 3:**

**Consumer expenditure environment 2020**

- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**

**Figure 4:**

**Household expenditure growth**

- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
- **(7.0%)**
Rest of Africa – the year in review

The Group’s Rest of Africa segment contributed R4.3 billion of segmental revenue, down 8.6% on last year. Removing the impact of currency weakness, segmental revenue was down 2.5% in constant currency terms. Government responses to the Covid-19 pandemic differed in severity across the regions in which the Group traded. However, most markets experienced trading and border restrictions, which – due to their reliance on imported stock – led to stock shortages and inconsistent on-shelf availability. Group operations outside South Africa mitigated the impact of Covid-19 measures with exceptional cost discipline and working capital management.

The Group’s franchise operations remained resilient across Namibia, Botswana, eSwatini and Lesotho, notwithstanding economic and societal challenges across those southern African regions. Difficult trading conditions remain in Zambia (company-owned and Zimbabwe Investment in TM Supermarkets), the Group’s two largest business units in its Rest of Africa segment.

The Rest of Africa division delivered profit before tax of R148.1 million, before the application of hyperinflation accounting, up R580.0 million on last year - underpinned by the underlying resilience of TM Supermarkets in Zimbabwe.

Zimbabwe continues to operate under severe currency weakness and illiquidity, escalating levels of hyperinflation and a resultant shortage in fuel and other critical supplies. In addition, persistent drought across the southern African region has led to ongoing water shortages and power outages. The Group’s estimate of the fair market value of the local Zimbabwean dollar has fallen from 30.8 Zimbabwe dollars to 1 US dollar last year, to 115.0 Zimbabwe dollars to 1 US dollar at the end of FY21.

Difficult trading conditions in Zambia

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. The country’s dependence on hydro-electric power has resulted in erratic power supply. Alongside these challenges, the persistently low copper price has led to economic depression and higher levels of unemployment.

How this impacted our business

Challenging trading conditions in Zambia persisted over FY21, with local currency weakness driving up US-dollar based operating costs, and fuelling inflation. Power shortages were extremely disruptive, with constrained local manufacturing capacity impacting in-store stock availability. Additional operating expenses related to power outages include diesel costs, higher levels of waste of perishable items, and escalating repair and maintenance costs.

Our strategic response

The Group is repositioning its Zimbabwe store operations into an efficient limited range discount model better able to respond to the demands of the recessionary environment. The team delivered strong cost control, anchored by a reduction in occupancy costs through the elimination and rationalisation of US dollar-based rentals. The team focused on its range optimisation initiatives re-inventing key categories during the year, and delivering strong growth in several produce, bakery and liquor lines under difficult trading conditions. The Group acquired four stores from another retailer this year, all of which are delivering stronger trade and earnings performances under the Group’s discount model.

Our response to consumer needs and trends in the time of Covid-19

Online shopping

The demand for online grocery shopping has significantly accelerated as a result of the Covid-19 pandemic. Many customers feel safer shopping online during the lockdown period, particularly elderly or more vulnerable customers with health concerns.

Convenience

The global trend in retail is for greater convenience. Customers are looking to shop in smaller stores that are closer to home, work and transport. Customers are also demanding more value-added options, including pre-prepared convenience meals, and financial services at till, including banking, bill payments and the purchase of prepaid electricity.

Growing demand for casualwear

Remote and more flexible working arrangements has meant an increased demand for high-quality casual and leisurewear.

Zimbabwe – market share growth in a tough environment

Zimbabwe continues to operate under severe currency weakness and illiquidity, escalating levels of hyperinflation and a resultant shortage in fuel and other critical supplies. In addition, persistent drought across the southern African region has led to ongoing water shortages and power outages. The Group’s estimate of the fair market value of the local Zimbabwean dollar has fallen from 30.8 Zimbabwe dollars to 1 US dollar last year, to 115.0 Zimbabwe dollars to 1 US dollar at the end of FY21.

Overview

TM grew its market share this year, underpinned by an outstanding shopping experience in fresh and modern stores, and consistent on-shelf availability (subject to the reliability of local supply) driven by strong and valuable partnerships with local suppliers. TM is entirely self-funding, and does not require any additional capital investment from Pick n Pay South Africa in order to operate and grow the business in Zimbabwe. The Group re-assessed the fair value of its investment in TM at R63.7 million (FY20: R56.4 million), recognising its strong underlying operating performance over the period, and the repayment of its foreign-currency denominated debt. TM added those new stores during the year taking its store footprint to 61 stores in Zimbabwe, with 28 stores trading under the Pick n Pay banner.

Our response

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Overview

Our Group’s franchise operations remained resilient across Namibia, Botswana, eSwatini and Lesotho, notwithstanding economic and societal challenges across those southern African regions. Difficult trading conditions remain in Zambia (company-owned and Zimbabwe Investment in TM Supermarkets), the Group’s two largest business units in its Rest of Africa segment. The Rest of Africa division delivered profit before tax of R148.1 million, before the application of hyperinflation accounting, up R580.0 million on last year - underpinned by the underlying resilience of TM Supermarkets in Zimbabwe.

Difficult trading conditions in Zambia

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. The country’s dependence on hydro-electric power has resulted in erratic power supply. Alongside these challenges, the persistently low copper price has led to economic depression and higher levels of unemployment.

How this impacted our business

Challenging trading conditions in Zambia persisted over FY21, with local currency weakness driving up US-dollar based operating costs, and fuelling inflation. Power shortages were extremely disruptive, with constrained local manufacturing capacity impacting in-store stock availability. Additional operating expenses related to power outages include diesel costs, higher levels of waste of perishable items, and escalating repair and maintenance costs.

Our strategic response

The Group is repositioning its Zimbabwe store operations into an efficient limited range discount model better able to respond to the demands of the recessionary environment. The team delivered strong cost control, anchored by a reduction in occupancy costs through the elimination and rationalisation of US dollar-based rentals. The team focused on its range optimisation initiatives re-inventing key categories during the year, and delivering strong growth in several produce, bakery and liquor lines under difficult trading conditions. The Group acquired four stores from another retailer this year, all of which are delivering stronger trade and earnings performances under the Group’s discount model.

Overview

TM Supermarkets (TM), delivered a solid trading and earnings performance under extremely challenging economic conditions. The Group’s share of TM’s sales increased to R392.2 million this year (FY20: R331.4 million) - with the concerted effort of the team to repay all foreign debt protecting the business from the significant foreign currency losses incurred last year. The Group accounts for its investment in TM under the provisions of hyperinflation accounting, with a resultant impairment loss of R816 million this year (FY20: R173.6 million).

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Capturing growth: our response to the challenges and uncertainties that are likely to arise

**South African GDP growth**

3.9% growth

**Annual grocery retail sales growth**

5% – 6%

**South African prime lending rate**

7.0%

**South African CPI**

4.2%

**High unemployment – remaining over 30%**

3.8%

**Household expenditure growth**

**Covid-19 risk adjusted strategies remain:**

- Increasing trade and social restrictions in response to rising infections
- Zimbabwean GDP projected to grow 3.1%, and Zambia’s to grow 0.6% (IMF) in 2021

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 will invest in its digital infrastructure to further develop as a forward-looking omni-channel retailer.

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 one of the largest and most reliable players in the market, alongside ongoing investment in the integration and digitisation of our data and systems.

**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 Group remains committed to its Rest of Africa division as a key engine of growth.

The ongoing formalisation of food and grocery retail across Africa will provide the Group with opportunities in coming years, and we will continue to look for opportunities to expand our footprint outside South Africa, that will provide the prospect of strategic scale and sustainable return, without placing 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.

**Short-term outlook**

- Low consumer confidence and restrained spend
- High unemployment
- Consumers looking for more value
- Inflationary pressure from rising input costs, in particular fuel and energy costs
- Stable South African rand, weaker and volatile currencies in Zambia and Zimbabwe

**Long-term outlook**

- The long-term consumer outlook is more positive, supported by:
  - Improved outlook for economic transformation and growth
  - Young working age populations
  - A growing consumer base across changing demographics
  - Good infrastructure in South Africa, with robust and enduring institutions with strong corporate governance

**Next one to two years**

**Next three to five years**
We apply materiality to improve internal and external decision-making and to focus our Board and management discussions on the core issues the Group manages. We believe this not only improves the quality of information available to our stakeholders but also enables a more efficient and productive allocation of capital.

The Group’s material matters are reflected in the material risks and opportunities table provided alongside, and represent the key issues identified by the Group as having the potential to significantly impact the performance of the Group and on our ability to create sustainable value for our stakeholders over the longer term. Our process for determining materiality and material risks and opportunities (including emerging risks):

To determine materiality, the Board considers:
- The macro-economic environment
- Changing industry and consumer trends
- The expectations and concerns of stakeholders
- Material risks and opportunities that could impact value creation
- The Group’s underlying capitals

Material risks and opportunities are reviewed annually by senior management, the audit, risk and compliance committee, and the Board.

Our 2021 Integrated Annual Report focuses on information that the Board believes is material to our stakeholders’ understanding of our business.

The Group’s risk management process involves a formal and structured system to identify and assess material risks, both at a strategic and at an operational level – including all environmental, social and governance-related risks.

The day-to-day responsibility for identifying, evaluating and managing risk resides with senior management.

The audit, risk and compliance committee monitors the risk management process across all divisions in the Group.

This review forms part of the Group’s comprehensive, enterprise-wide risk management and combined assurance programme.

Material matters change over time, influenced by many factors, including changes in our economic, natural and social environments, evolving consumer needs and trends, advancements in operating systems and technology, disruptions in our competitive landscape.

As an outcome of the Group’s annual risk review, the Board agreed that all material risks and opportunities identified and presented to stakeholders last year remain relevant for 2021.

Our material risks and opportunities continue to reflect the significant impact that the Covid-19 pandemic has had on the South African economy, our business, and on the customers and communities that we serve.

The Group responded quickly and effectively to manage the material risks heightened by the pandemic, and to identify opportunities where we could best meet our customers’ changing needs, particularly for safety, convenience, availability and online shopping.

The Group has successfully navigated the crisis to date, and has remained open, safe and working, and through a strengthened customer offer has grown its market share over a difficult year.

The Board acknowledges that the strength of its strategy, the accurate and timely identification of material risks and opportunities, the effectiveness of its governance and 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 topics that could impact our ability to create and protect value for our stakeholders. These discussions are unpacked in more detail on pages 35 to 40 and reflect the risks and opportunities identified as material by the Group in FY21, how these are being mitigated, and where possible are viewed as growth opportunities for the Group through its long-term strategic plan.

The Group’s material risks and opportunities:

Material risks and opportunities that could impact value creation
- Increased economic pressure on consumer spend
- Trading restrictions under Covid-19 lockdown regulations
- Increased health and safety concerns under Covid-19
- Particularity of risk of food and grocery items
- Covid-19 disruption on business partners
- Impact of Covid-19 on local debt market
- Safe and secure online, loyalty and other digital platforms
- Earnings volatility within the Group’s Rest of Africa division
- Building and retaining a talented, diverse and motivated retail team
- Impact of environmental degradation on food and grocery retail
- The competitiveness of the domestic retail market

Governance at work

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South Africa’s economic environment remains challenging, with GDP growth falling 7.0% over the 2020 calendar year, and unemployment reaching 29.3%. The Covid-19 crisis has added significant economic strain and consumer confidence remains low, with many of our customers grappling with high levels of debt, and escalating transport, energy, rent and other household costs.

The Group expects customers to experience greater financial pressure over the short to medium term, particularly those customers who were dependent on Covid-19 social grants and other government stimulus measures. As such we expect consumers to prioritise their spend on non-discretionary essential food and groceries.

Risks to value creation
- Worsening macro- and socio-economic conditions will further constrain consumer spending
- Higher electricity, utility and other operating costs may drive cost inflation and put pressure on sales volumes

Risk management and opportunities to create value
- The Group is South Africa’s most inclusive retailer – well positioned through our Pick n Pay and Bower brands to meet our customers’ needs across all socio-economic demographics
- Pick n Pay’s repurposed Value, Care and Select supermarkets are providing greater relevance in product range and promotion
- Increased supply chain and operational efficiency supports greater value for customers – with selling price inflation restricted to 3.8% in FY21
- Smart Shopper is providing more personalised value than ever before – giving loyalty customers confidence that our Smart Price is the Best Price
- More than 80% of our offer is local – reducing the impact of currency weakness on our value chain
- Our growing own brand offer provides trusted quality and better value

The government has guided that it will work closely with health and safety regulators to ensure we provide a safe and secure environment for our customers and staff in our stores, offices and supply chain, and the Group supports the national imperative of minimising person-to-person transmission through clear and appropriate physical distancing measures.

Security of supply – particularly of essential food and grocery items

The Covid-19 crisis resulted in heightened demand in March 2020 for certain essential products – including cleaning and personal hygiene products and tinned and packaged non-perishable food items – which resulted in temporary shortages in some stores.

The Group has since worked tirelessly to maintain high levels of availability in essential items and reduce the stockholdings in restricted categories.

Risk management and opportunities to create value
- A Covid-19 steering committee guides our operational response, engagements with affected stakeholders, and external and internal communication
- Engage actively with government in order to trade effectively and in the best interests of our customers
- Work closely with suppliers to maintain high levels of availability in essential items and reduce the stockholdings in restricted categories
- Work closely with health and safety regulators to ensure we provide a safe and secure environment for our staff and customers
- Redirect our staff from closed stores and departments into essential areas to bolster service levels and health and safety standards

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The Group is reliant on its own central supply chain channel, with close to 80% of Pick n Pay’s and 53% of Bower’s inventory distributed through central distribution centres.

The Group’s central supply infrastructure is increasingly efficient and cost effective, with mature and responsive forecast and replenishment systems.
The Covid-19 pandemic has had a profound impact on the South African economy with many businesses and consumers experiencing a material loss of earnings during the most restrictive levels of the national lockdown, alongside the significant cost of heightened health safety standards and personal protection requirements.

Many businesses have also experienced disruption as a result of increased staff absences, and now follow robust sanitisation and employee isolation protocols.

The Group is mindful of the substantive financial and operational impact of the virus across its value chain, including for its valued suppliers, service providers and franchise partners.

Risks to value creation

- Suppliers or service providers are unable to provide goods or services to the Group
- Suppliers or service providers require financial assistance or changes in payment terms, with an impact on the Group’s working capital
- Franchise partners require financial assistance or are unable to settle franchise debt, with an impact on the Group’s working capital

Risk management and opportunities to create value

- The Group has built strong and strategic partnerships with suppliers and service providers with terms that are fair and reasonable
- The Group operates a cost-effective supply chain finance programme (Pick n Pay Fast Pay) which allows for immediate settlement of supplier invoices through a strategic funding partner
- Flexible and responsive terms with franchise partners – including extended terms on non-essential and other restricted product lines
- The Group has carefully managed its liquidity to ensure it is able to pay all suppliers and service providers in line with agreed terms throughout the volatile and changing circumstances of the pandemic

The Group was well-positioned into the Covid-19 crisis, with a stable funding platform and high levels of liquidity.

Covid-19 trading restrictions had a significant impact on Group sales and earnings in FY21 – and the Group managed its net cash position extremely carefully to ensure we could meet all our working capital and operational needs, particularly during the most stringent levels of the national lockdown.

The Group exercised strong discipline in the management of working capital and operating costs, and in the prioritisation of capital spend.

In addition, the Group actively engaged with all its funding partners to increase available facilities over the year, at extremely cost-effective funding rates.

Risks to value creation

- The impact of further Covid-19 trade restrictions on cash flow
- Increased volatility and risk of liquidity in debt markets – reducing the Group’s access short-term working capital facilities, or increasing the cost thereof
- Liquidity in local debts markets increases the Group’s cost of working capital facilities

Risk management and opportunities to create value

- Conservative gearing strategy with low levels of structured debt on the balance sheet
- Cost-effective mix of overnight and three to 12-month funding to meet working capital needs
- Strong strategic partnerships with local and international funders delivers competitive funding costs

The Group strengthened its operating models in Zambia and Zimbabwe this year in response to increasingly challenging market conditions, with strong discipline in capital and operating spend and tighter working capital management.

The Group’s associates in Zambia settled its outstanding trade debt with Pick n Pay in full over the year, and trade through the Pick n Pay supply chain in South Africa has resumed, on an upfront cash basis.

Risks to value creation

- Different political, economic, social, regulatory, foreign exchange and other operational risks are present in each country in which we operate, contributing to volatility in the performance of the Rest of Africa division
- Poor understanding of local markets can negatively impact on sustainable returns from those countries
- Hyperinflation, currency weakness and falling foreign earnings increases the pressure on Group profitability, including through a higher effective tax rate

Risk management and opportunities to create value

- Growth outside South Africa is planned and deliberate, without placing the core South African business at undue risk
- The investment model tailored to suit the operating environment and, wherever possible, includes collaboration with experienced, local partners who share our values and our commitment to strong corporate governance
- We look for growing markets that provide opportunity, for real scale in a business environment that is well regulated, without too much complexity, and that is welcoming to foreign investment
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Online grocery sales have significantly accelerated as a result of the Covid-19 outbreak, with many customers placing significant reliance on our online sales and delivery systems in order to avoid leaving their homes to go grocery shopping.

Many of our support staff are now working remotely, to uphold physical distancing requirements in our support offices.

The Group has carefully managed its liquidity to ensure it is able to pay all suppliers and service providers in line with agreed terms throughout the volatile and changing circumstances of the pandemic.

Risks to value creation

- System disruption that impacts our ability to serve customers and run our business effectively
- Cyberattacks and the impact on the security of confidential information
- Reliance on IT systems that are unable to support growth and innovation
- A lack of accuracy or timeliness of information having a negative impact on decision-making ability

Risk management and opportunities to create value

- A specialist team, including external service providers, builds, maintains and protects the Group’s IT infrastructure, following global best practice in development, maintenance, cybersecurity and recovery
- Ongoing systems innovation
- Drives growth of value-added services at point of sale
- Creates an engaged and personalised Smart Shopper loyalty programme
- Facilitates the Group’s modern and innovative online offering
- Customer-centric, forward-thinking mobile technology drives convenience and customer service

Pick n Pay Online has expanded its capacity and reach, with its on-demand Bottles app, an expanded scheduled delivery and Click and Collect service, and the online launch of Pick n Pay Clothing.

The Group is building its operations across the African continent, and views this diversification as an important long-term engine of growth. At the close of FY21, the Group operated in six countries outside South Africa. In March 2021 it opened its first small store in Nigeria, through a partnership with AG Leventis in the region.

Risks to value creation

- Performance of the Rest of Africa division
- Foreign investment returns – earnings volatility within the Group’s Rest of Africa division
- Enterprise-wide information technology supports and facilitates critical functions across our operations, including point-of-sale transactions, value-added financial services, product forecast and replenishment, labour scheduling, our
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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 all our 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 supplies, 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 Chair, 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, including, among others, The New Plastics Economy Global Commitment and The Roundtable for Sustainable Palm Oil.
• Since starting our energy-efficiency journey, Pick n Pay has reduced its energy use per square metre by 43.6% against a 2008 baseline
• Pick n Pay has increased its percentage of waste diverted from landfill from 43% in 2014 to 61% in 2021

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 formal retail market has an estimated value of R595 billion and comprises approximately 60% of the total retail market in South Africa (40% informal).

The formal South African food and grocery market is highly competitive, with four large retailers, including the Pick n Pay Group, accounting for approximately half of all 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
• Bower 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 property reset programme is focused on driving sustainable investment returns through strategic openings, conversions and refurbishments
• 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
The Group identifies key stakeholders through ongoing engagement with individuals, groups and organisations. We focus our engagement efforts on those stakeholders that have 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:
- Gain insight into the nature and quality of our relationships with our key stakeholders
- Identify and respond to issues affecting our stakeholders and our business
- Improve our understanding of stakeholders’ legitimate expectations, aspirations and interests
- Strengthen the transparency and accountability through which we have established valued relationships
- Consider the needs and interests of stakeholders when determining our material risks and opportunities (from page 33) and strategic response (from page 48)

The Board, led by its social and ethics committee, takes overall accountability for the Group’s relationships with its key stakeholders. The Board is committed to stakeholder engagement that is constructive, fair, transparent and is conducted at all times in a manner that is aligned with the Group’s enduring values.

The Board, in formulating Group strategy and monitoring strategic progress, seeks to ensure that the Group’s long-term plan balances the needs, interests and expectations of all key stakeholders in the best long-term interests of the business. Furthermore, in identifying the Group’s material risks and opportunities, the Board considers these matters which are most material to its key stakeholders.

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

What our customers tell us is most important to them:
- Strong health and hygiene standards
- Appropriate physical distancing measures
- Low prices, good value
- Rewards for loyalty
- Convenience
- Consistently good product availability
- Product quality, traceability, food safety
- Great stores and service
- Community involvement
- Environmental sustainability, including less waste and less plastic
- The privacy and the protection of their personal information

Our ability to create long-term sustainable value depends on our ongoing constructive engagement with our key stakeholders.

Customers

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

Customers are at the heart of our long-term strategy

Getting “Better for Customers” has been one of the cornerstones of the Group’s strategic progress over the past eight years, and informs all long-term strategic thinking.

How our strategy responds to customers’ needs:
- Reduce Covid-19 operational response
- Operational efficiency – cost savings invested into lower prices and deeper promotions
- Greater relevance – Pick ’n Pay supermarkets re-organised into Value, Core and Select formats
- Optimised 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 – Smart Shopper
- More value-added services, including a competitive financial services offer
- The introduction of nude fruit and vegetable displays in certain stores to reduce plastic packaging
- Being a “force for good” in the communities we serve

Key value measures we track include:
- Turnover and volume growth
- Growth in customers and basket value
- Internal pricing policy inflation
- The redemption of personalised Smart Shopper loyalty vouchers, alongside the effectiveness of Smart Prices and Boxer discounts
- Growth in income from value-added services
- Number and nature of customer complaints – and the resolution thereof
- The results of all health and safety audits

Our response and actions in 2021

Customers have been anxious about their health and wellness this year, driven by serious concerns around the spread of the Covid-19 virus. We have communicated extensively with customers around our reinforced health, hygiene and physical distancing measures, in order to provide customers with confidence in the safety of our stores. In addition, many customers are battling with reduced household income as a result of the pandemic, and require lower prices and greater value. The Group leveraged the strength of its Smart Shopper loyalty programme to provide R3.5 billion in personalised savings this year – and introduced Smart Prices alongside a strengthened promotional calendar, to ensure our loyalty customers always get the best price.
We are committed to building a diverse and winning team. We engage with our staff to communicate strategy and responsibilities, improve our competitiveness, productivity and efficiency, identify needs, recognise and reward good performance and hold each team member accountable for their individual contribution to the Group’s success.

How we engage:

• Regular management updates
• Employee surveys
• Monthly internal publications
• Internal social media and interactive app
• Skills development and training
• Balanced, 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

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 supporting the development and reward of a diverse, high-performance team that delivers on our strategic objectives and creates sustainable value for all stakeholders.

How our strategy responds to employees’ needs:

• Our Covid-19 operational response, including all rigorous hygiene and sanitisation protocols, and, where appropriate, our remote working policies, have protected the health and safety of our employees
• Various health and mental well-being programmes
• 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 pages 104 to 109 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

Key value measures we track include:

• Employee costs – including all short-term and long-term incentives
• Individual store employee costs as a percentage of sales – and other relevant productivity measures
• Picking rates in our distribution centres – and other relevant productivity measures
• Number of new suppliers for the early settlement of invoices
• Stability of employee turnover across fixed time and variable time employees
• Value of investment in training, including bonuses
• Number of employees participating in training interventions
• Number of promotions
• Number of learners in internships, apprenticeships and graduate programmes

Our response and actions in 2021

The Group expanded its health and wellness programmes over the year, providing staff with greater support during the Covid-19 pandemic. The Group also engaged extensively with its store, supply chain and support office staff this year in order to adequately deliver on its Project Future ambition for a driving and efficient workforce. The Group also concluded a voluntarynwarservicewannoyour programmewhile, alongside more targeted restructuring. Our modernised and optimised operational structures, including the removal of duplicate and non-core processes, will deliver R200 million in annual cost and efficiency savings going forward and allow for greater individual accountability and empowered, empowered.

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

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

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 first 6 months of settlement

Key value measures we track include:

• Relative product performance within category
• Value unlocked through our Buy Better programme
• Effectiveness of targeted promotions, including volume uplift
• Growth in own brand products and own brand participation
• Number of suppliers mentored through our enterprise development programme
• Spend on black-owned and women-owned businesses

Our response and actions in 2021

In response to the Covid-19 crisis, the Group co-ordinated extensive and effective collaborations with its largest suppliers to minimise disruption across its value chain and to maintain shelf availability of 95% of all essential food and grocery lines. The Group’s Boxer business opened up a new distribution centre in Polokwane this year, allowing it to source centralised supply to 55%, delivering further benefits in supply chain efficiency and supplier incentives.

Our 761 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 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. We engage to find sustainable growth opportunities, build our scale and extend our reach.

How we engage:

• Store visits by franchise management team and service area consultants
• Regular meetings with regional operational teams and national franchise representatives
• CSR programmes in the communities in which our franchisees operate
• Virtual franchise conferences and trade shows

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, innovation, marketing support, quality of products and food safety
• Opportunities for cost reduction
• Resource efficiency (energy, waste, water, logistics)
• Transformation and enterprise development

Our response and actions in 2021

The Group opened 49 new franchise stores this year, including six supermarkets, 10 market stores, eight express stores and a number of clothing and liquor outlets. The Group also converted 34 franchise supermarket and liquor stores to company-owned Pick n Pay and Boxer stores. The acquisition and conversion of these stores were on an arm’s length basis and support the Group’s strategy of strengthening its position in the value-end of the market through targeted Boxer and Pick n Pay value formats.
ENGAGING WITH OUR STAKEHOLDERS (continued)

**Shareholders**

We engage with the investment community to provide a comprehensive, consistent and well-understood investment case, with a rigorous focus on capital efficiency and strategy execution that takes a sustainable long-term view. This aims to ensure that our shareholders can make informed investment decisions and that our share trades at a fair value.

**How we engage:**
- At least four formal engagements a year: two financial results presentations, one AGM and an investor day/strategic update
- Regular meetings 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

**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 – including a robust and independent Board
- A socially responsible and ethical corporate citizen
- Expanded financial disclosure and disclosures on key environmental and social concerns in line with recognised frameworks, including the Group’s key ESG focus areas and plans to reduce its negative impacts over time

**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 comparable headline earnings per share of 16% over the past eight years, and has paid out R7 billion in dividends to shareholders.

**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

**Key value measures we track include:**
- The Group’s relative market performance – including sales and volume growth in key categories
- Gross profit margin and comparable profit before tax margin
- Expense growths and ratios
- Growth in comparable profit before tax and comparable headline earnings per share
- Return on capital employed (ROCE) against the weighted average cost of capital (WACC)
- Dividend cover and dividend yield
- Long-term share price appreciation and market capitalisation

**Our response and actions in 2021**

The Group provided expanded disclosures in respect of the sales performance of its clothing, liquor and core food and grocery product categories this year. 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 a number of local and international investor conferences. The Group engaged extensively with major shareholders before and after its 2020 AGM, and made certain changes to its Board and remuneration policies as a result. Please refer to page 101 for further information.

As at May 2021, 14 retail analysts cover our stock, with investment recommendations split as follows:

<table>
<thead>
<tr>
<th>Buy/Overweight</th>
<th>Hold/Neutral</th>
<th>Sell/Underweight</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

**Government engagement**

As a national grocery retailer and major employer, the Group also has extensive engagements with government departments and regulatory authorities in all the markets in which we operate. Key issues include maintaining food safety and product integrity, maximising opportunities for investment, employment, and training, and ensuring safe places for our staff and customers.

The interface with government has been particularly important during the COVID-19 pandemic, given the Group’s major responsibility as an essential service to help maintain a stable supply of food and groceries.

The Group also maintains a productive dialogue with regulatory authorities, and was pleased this year to conclude a voluntary agreement with South Africa’s Competition Commission to phase out lease exclusivity in the coming years. The Group has always been mindful not to apply exclusivity to small traders and those from historically-disadvantaged groups, and was pleased to make this position very clear in the agreement.
49 Strategic focus

OUR STRATEGY

www.picknpay.com
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’s long-term strategic plan seeks to achieve three broad objectives:

1. **Stage 1: Stabilise the business**
   - Achieve high levels of operating efficiency and lower costs to enable maximum re-investment in the customer offer.
   - The Group will optimise the effectiveness of its central supply chain, with improved efficiencies and lower costs across its distribution channel.
   - The Group further aims to improve the productivity and cost effectiveness of its store operations and support offices, while minimising increases in rentable rates, electricity, water and other charges.
   - The Group introduced its Project Future modernisation programme in November 2019 to accelerate the delivery of the efficiency objectives of the long-term plan, in response to an increasingly difficult macro-economic environment.

2. **Stage 2: Change the trajectory**
   - Achieve high levels of operating efficiency and lower costs to enable maximum re-investment in the customer offer.
   - The Group will optimise the effectiveness of its central supply chain, with improved efficiencies and lower costs across its distribution channel.
   - The Group further aims to improve the productivity and cost effectiveness of its store operations and support offices, while minimising increases in rentable rates, electricity, water and other charges.
   - The Group introduced its Project Future modernisation programme in November 2019 to accelerate the delivery of the efficiency objectives of the long-term plan, in response to an increasingly difficult macro-economic environment.

3. **Stage 3: Sustain the momentum**
   - 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 key indicator of progress in achieving a balanced turnaround, characterised by consistent sales growth and greater operating efficiency. The Group’s FY21 comparable profit before tax margin of 19.4% (FY20 21.7%) reflects the significant impact of the Covid-19 pandemic on Group sales and earnings. The Group targets a comparable PBT margin at or above 3% over the medium to long term.

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 sustained and consistent execution of its strong and customer-centric long-term strategy over the past eight years has successfully built six clear engines of growth for sustainable long-term value creation.

- **Pick n Pay: South Africa’s most trusted retailer**
  - The Group will continue to strengthen the Pick n Pay customer offer, and earn customer loyalty across the broad range of communities served, through sustained investment in range, quality, value, innovation and service. Pick n Pay will always operate as a responsible retailer, dedicated to the uplifting of our communities, always mindful of the socio-economic needs of our stakeholders and of our impact on the environment.

- **Boxer: Africa’s favourite discount supermarket**
  - The Group will 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 southern Africa, and with the Group’s enduring values at its core.

- **Bearing down on costs: Building a leaner and more effective operating model**
  - The Group will strengthen its profit margins through greater business efficiency and financial cost discipline, including through a resource-efficient, fully centralised procurement and distribution channel, more cost-effective store operations, and streamlined support services that support sustained investment in our customer offer.

- **Value-added customer services: Convenience, innovation and personalisation**
  - The Group will harness the strength of its store and systems infrastructure to offer customers a low price, value-added services that increasingly contribute to revenue growth.

- **Expansion in Africa: Growing returns at acceptable risk**
  - The Group will 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.

- **Force for good: Responsible retailing**
  - 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.
An effective strategy

The Group has successfully executed its long-term plan over the past eight years, initially focused on stabilising the Group’s balance sheet and its financial performance, followed by decisive action to accelerate the growth trajectory of the business.

Despite operating in increasingly difficult economies, these and other steps have enabled the Group to deliver a track record of consistent sales growth and consistent improvements in profit margins over time, with a clear ambition to deliver more.

Long-term achievements include:

- Modern and convenient 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
- The fundamental step-change in our fresh meat and produce offer, which we believe provides the best combination of quality and value in the market
- Our increasingly centralised supply chain is delivering exceptional availability, freshness and reliability to company-owned and franchise stores
- Our rapidly growing Boxer business which has become the best limited-range discounter in sub-Saharan Africa
- An increasingly integrated and personalised Smart Shopper loyalty programme is providing greater rewards for customers – with 75% of Pick n Pay sales going through its loyalty card
- A modern online and retail service offer across Pick n Pay and Boxer stores which provides an exciting engine of growth within the Group

**Why this is important**

Turnover growth is an important measure of the quality of the Group’s overall financial and operating performance, particularly when viewed within the context of the trading environment, and against the comparable performance of its peers.

**Measurement and performance**

The Group sets annual turnover targets (including same store and new store sales growth) which seek to maintain trading momentum, and meet the strategic goal of growing ahead of the retail markets in which it trades. FY21 turnover of R93.1 billion – growth of 4.3% – reflects the significant impact of Covid-19 trade restrictions over the year. Core food and grocery categories grew at 10%, a market-leading sales performance in South Africa.

How this links to our remuneration strategy

Sales growth at a Group or divisional level (as appropriate) is a primary performance target set by the remuneration committee to incentivise and evaluate the performance of the management team as part of the Group’s annual short-term bonus scheme. Sales targets were met in FY21 and an annual performance bonus was paid to qualifying staff. Refer to pages 110 and 111.

**Comparable profit before tax (PBT) – Rbn**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY21</th>
<th>FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBT</td>
<td>R67</td>
<td>R63</td>
</tr>
</tbody>
</table>

**Why this is important**

Comparable PBT provides a balanced view of the Group’s financial performance – including the combined impact of the Group’s sales performance, gross profit margin management, and the control of operating expenses and finance costs.

**Measurement and performance**

FY21 comparable PBT reflects the significant impact of the Covid-19 pandemic on Group sales and earnings, with the comparable PBT margin falling from 2.1% in FY20 to 1.9% in FY21.

How this links to our remuneration strategy

Comparable PBT (before any capital and extraordinary items) at a Group or divisional level (as appropriate) is the gatekeeper performance target set by the remuneration committee to incentivise and evaluate the performance of the management team as part of the Group’s annual short-term bonus scheme. If the target is not met, no performance bonus is paid. Comparable PBT targets were met in FY21 and an annual performance bonus was paid to qualifying staff. Refer to pages 110 and 111.

**Comparable HEPS – cents**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY21</th>
<th>FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>HEPS</td>
<td>1.9</td>
<td>2.0</td>
</tr>
</tbody>
</table>

**Why this is important**

Comparable HEPS is the Group’s dividend cover driver.

**Measurement and performance**

The Group’s total FY21 dividend of 179.74 cents per share was down 16.7% on last year, in line with the decrease in comparable headline earnings per share, with the dividend cover of 1.3 times comparable headline earnings per share maintained.

How this links to our remuneration strategy

The Group’s restricted share plan (RSP) incentivises executive and top management employees who have a significant role to play in the successful execution of Group strategy. The RSP incentivises participants to deliver long-term earnings growth in line with the Group’s long-term plan, with performance conditions linked to the Group’s growth in comparable HEPS over a three-year period, aligning management interests with those of shareholders. Refer to page 108. The Group achieved the performance conditions required for the successful vesting and delivery of its 2018 award. Refer to page 112.

**Return on capital employed – %**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY21</th>
<th>FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROCE</td>
<td>4.0</td>
<td>4.1</td>
</tr>
</tbody>
</table>

**Why this is important**

The Group’s return on capital employed (ROCE) is an important measure of the Group’s ability to invest its capital effectively and efficiently in order to generate long-term sustainable returns for shareholders.

**Measurement and performance**

Notwithstanding the significant impact of Covid-19 on Group sales and earnings in FY21, the Group delivered ROCE of 40%, well ahead of its weighted average cost of capital (WACC) of 10.3%.

How this links to our remuneration strategy

To ensure that the Group’s restricted share plan is aligned with the best interests of the Group and its shareholders, the scheme is subject to an overarching gatekeeper performance condition that the Group’s ROCE must be greater than its WACC (excluding any impact from IFRS 16 liabilities) over the vesting period before any RSP shares can vest in participants. Refer to page 108.

- Comparable PBT and ROCE in FY21 excludes R200 million of once-off compensation costs in respect of staff severance programmes undertaken as part of the Group’s Project Future modernisation programme.
Sustained progress against our six engines of sustainable long-term growth:

### Key performance measures linked to our remuneration strategy

<table>
<thead>
<tr>
<th>Key performance measures</th>
<th>Boxer</th>
<th>Building a leaner and more effective operating model</th>
<th>Convenience, innovation and personalisation</th>
<th>Growing returns at acceptable risk</th>
<th>Responsible retailing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sales growth</td>
<td>• Sales growth</td>
<td>• Lower costs</td>
<td>• Growth in value-added services</td>
<td>• Sales growth</td>
<td>• Social investment</td>
</tr>
<tr>
<td>• Margin expansion</td>
<td>• Margin expansion</td>
<td>• Lower cost ratios</td>
<td>• Growth in online sales</td>
<td>• Low cost operating model</td>
<td>• Reduction in food and other waste</td>
</tr>
<tr>
<td>• Investment returns</td>
<td>• Investment returns</td>
<td>• Reduced waste</td>
<td>• Improved online availability and other relevant online service metrics</td>
<td>• Range and working capital targets</td>
<td>• B-BBEE performance</td>
</tr>
<tr>
<td>• Working capital targets</td>
<td>• Working capital targets</td>
<td>• Improved productivity</td>
<td>• Expanded loyalty programme</td>
<td>• Currency risk mitigation</td>
<td>• Resource efficiency</td>
</tr>
<tr>
<td>• Customer service improvements</td>
<td>• Customer service improvements</td>
<td>• Increased in commissions and other income</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### What we achieved in FY21

- Outperformed the market in core food and grocery
- Market share gains: clothing and liquor
- Competitive prices: internal selling price inflation restricted to 3.8%
- Strengthened health and hygiene measures: business continuity and 95% product availability maintained over Covid-19 crisis
- Stronger promotions: Smart Prices, multi-buys and daily deals
- Own brand: 25% penetration of participating categories, with 1 500 new products
- Expansion: 82 new Pick n Pay stores across all formats, including 43 franchise stores
- Flexibility: 16 strategic conversions between franchise and owned operations
- Range optimised: removed 4 500 unessential products, unlocked R450 million of value
- Expanded customer care centres: complaints down year-on-year

- Boxer supermarkets delivered the Group’s strongest sales and volume performance
- Competitive pricing and strong promotions
- Tailored range – carefully selected to meet needs of value customers
- Expansion: 16 new supermarkets and 12 new liquor stores
- Flexibility: 13 supermarkets and five liquor stores converted from Pick n Pay franchise stores
- Market share growth in many staple products including maize, sugar and oil
- Own brand products penetration increased to 23% of participating categories
- Acceleration of centralised supply to 55%, with new Polokwane distribution centre

- Gross profit margin: increased from 19.7% to 19.8%
- Highly efficient supply chain: reduction in labour costs
- Improved picking productivity
- Greater labour flexibility and stability
- Transport costs down 5%
- Lower waste
- Project Future: delivered R600 million in savings against two-year R1.2 billion target
- Covid-19: R202 million additional operating costs
- Staff severance programme: R200 million one-off compensation costs
- Trading expenses up 5.6%, excluding additional Covid-19 and one-off compensation costs
- Cost pressures remain across rates, electricity, water, security, insurance
- Net cash balances: up R500 million on a like-for-like basis
- Low gearing: net bank interest down 51%
- Energy usage: down 43.6% against 2008 baseline

- Commissions and other income down 0.5%, reflecting impact of Covid-19 restrictions
- Smart Shopper
- South Africa’s favourite loyalty programme of past decade
- Grown to 8.5 million active customers
- Proportion: R3.6 billion in savings this year
- Redemptions of personalised discounts up 300% this year
- Sales participation grew from 65% to 75% of Pick n Pay sales
- Online customers tripled over Covid-19 lockdown
- 70% increase in on-demand Bottles online service
- Launched online clothing offer: over 1 million visits to website
- TymeBank: reaches 3 million customers
- Processed over R3 billion in contactless payments
- Launched MyNDC PnP Mobile and Bowecom providing greater value in data and airtime

- Difficult economic conditions persist across Rest of Africa operations
- Currency weakness: high levels of inflation and hyperinflation, growing unemployment, stock shortages
- Segmental revenue of R4.3 billion down 2.5% in constant currency terms
- Segmental profit of R148 million up 64.4% due to improved performance from TM Supermarkets in Zimbabwe
- Stronger working capital management and cost discipline
- More efficient operating model in Zambia: tailored to local market
- Market share growth in Zimbabwe
- Nine net new stores

- The Feed the Nation Foundation raised R136 million, providing 28.2 million meals to vulnerable families
- Pick n Pay Clothing: local sourcing increased close to 40%
- Advanced our People in Planet initiatives – Read from page 57
- Donated 840 tones of food with a value of increased close to 40%
- Directed 61% of waste from landfill
- We achieved a B rating on CDP Climate and an A- rating on CDP Water – positioning Pick n Pay as one of South Africa’s best performing retailers
- Over 200 suppliers in our enterprise development programme and over 3 000 schools in our schools club

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Goverance at work

There are well-entrenched structures within the Group to ensure that proper assurance and oversight are given to strategic and operational performance. During the year, the Board assessed the effectiveness of the Group’s strategy in responding to changing customer needs, with a focus on maintaining trade and finding growth in a tough economic climate. The Board monitored management’s efforts to improve the cost effectiveness and efficiency of the business. The Board continued to monitor the impact of the increasingly difficult economic environment in South Africa on consumer confidence and consumer spend.

David North, Chief Strategy Officer
The Group has entirely transformed its performance and relevance to customers over the course of the past eight years. The Group’s effective execution of its clear long-term plan, under the leadership of CEO Richard Brasher, has built a strong and agile multi-format and multi-channel retail business providing an increasingly tailored customer offer across a broad socio-demographic reach. The Group’s modern and flexible store estate is generating enhanced investment returns, by providing customers with greater convenience, quality and value-added services. Our stores are supported by increasingly efficient and effective central distribution and support functions, allowing for the investment of ongoing cost savings into lower prices for customers.

The business is well placed for the next chapter of its growth, under the leadership of new CEO Pieter Boone. Pieter joins the Group with a successful and diverse career in retail, most recently with the Metro AG group. Pieter has significant expertise and global experience in the retail, food service and wholesale sectors, and has a strong record of delivering retail growth in challenging and emerging market economies.

The Group has a solid platform from which to deliver long-term sustainable growth. Pieter has communicated to key stakeholders a clear intent to combine evolution with acceleration to maintain momentum against a winning plan, and to accelerate in areas where we identify new or enhanced opportunities for long-term sustainable 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. Pick n Pay and Boxer will deliver long-term value creation for all stakeholders by being at the forefront of modernisation and change across the retail markets we serve, and through an unwavering commitment to provide lower prices and greater value for all our customers.

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
• An optimised, digitised and resource-efficient business that is a positive force for good in the countries in which it trades
• An effective omni-channel operating model that benchmarks internationally
• A strategy 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

Sustainability at Pick n Pay is about People n Planet. Our sustainable living strategy informs the decisions we make at every interface with society and the environment. Our sustainability goals and commitments seek to provide clarity in a highly complex space. This makes it easier for our employees to align behind our ambition to be a force for good.

Our sustainable living strategy

As our formal sustainability journey enters its fifth decade, our sustainable living strategy has evolved to enhance co-ordination of our efforts.

The global pandemic highlighted the need for balance between a more proactive role and our ongoing work behind-the-scenes. The critical need to feed the nation demanded immediate outreach and activism. At the same time, we continued ongoing engagements to reduce plastic across the value chain and deepen our alignment with the global Sustainable Development Goals. These challenges and opportunities prompted the latest revision of our strategic sustainability framework and will increasingly inform our Group efforts in the years ahead. Three high-level goals focus our resource investment, while allowing a flexible response to a dynamic range of material matters and priorities. These are presented in our revised strategic framework, outlined below and unpacked in more detail in our Sustainable Living Report, available on our website.

Previous focus areas aligned with our high-level goals

<table>
<thead>
<tr>
<th>Building an inclusive and ethical value chain</th>
<th>Advancing employee opportunity and diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoting healthy living</td>
<td>Doing good in the local community</td>
</tr>
<tr>
<td>Being environmentally sustainable</td>
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</table>

We launched our People n Planet initiative in 2019. This is the umbrella framework 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 everyone in our society 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 1970s.

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

• Promote inclusive and equitable economic growth
• Ensure access to clean water and sanitation
• Reduce inequality within and among countries
• Promote sustainable cities and communities
• Ensure availability and sustainable management of natural resources
• Strengthen institutions for sustainable development
• Take urgent action to combat climate change

Material matters: key sustainability commitments that informed our decision-making in FY21

SOIL TO SHELF
• Support small businesses
• Promote local products with passion
• Ensure ethical supply chains
• Support climate adaptation
• Offer sustainable products

HEALTHIER FOOD AND LIFESTYLES
• Encourage healthy, balanced lifestyles
• Promote healthier food choices
• Ensure food safety and quality
• Innovate for customer convenience and value

HEALTH, SAFETY AND WELL-BEING
• Guard against Covid-19 infection
• Support mental and physical well-being
• Ensure a safe and healthy work environment

WASTE LESS
• Think circular
• Reduce food waste
• Innovate to minimise packaging
• Improve energy and water efficiency

SHARE AND CARE
• Feed the Nation: supports vulnerable families
• Pick n Pay School Club: supports education
• Distribute excess food
• Grow community through food gardens

STABILITY AMID UNCERTAINTY
• Transition to highly resilient structures
• Maintain connection and develop capabilities
• Grow a diverse and inclusive culture

Governing and management of our sustainable living strategy

Our Board is accountable for the Group’s sustainability performance. To facilitate this oversight role, the social and ethics committee provides strategic guidance and recommendations in respect of the sustainable living strategy. The Board reviews the Group’s strategic performance annually and is updated on the progress against key performance indicators every quarter.

Alignment with our business strategy

Our business is focused on six engines for long-term strategic growth. One of these engines defines our sustainability ambition: to be a force for good.

This year, our business turnaround plan entered its third and final stage: a transition to sustainable, long-term growth. This marks a significant milestone in the integration of environmental, social and governance (ESG) factors in our strategic and operational decision-making.

We comply with all relevant codes and regulations, including codes of good governance.

We retained our listing on the FTSE/JSE Responsible Investment Index Series.

We support and uphold the Ten Principles of the United Nations Global Compact.

These important matters are presented in our revised strategic framework and unpacked in more detail in our 2021 Sustainable Living Report, available online from end June 2021.
As a retailer with thousands of suppliers and millions of customers, we are mindful of our reach and the environmental impact we have across our value chain. We are working on a broad set of solutions and targets to reduce our impact, with a particular focus on energy, refrigerants, water, waste and packaging. Climate change poses considerable challenges to developing a sustainable food system. Building on our submissions to the CDP, we are taking steps to identify climate-related risks and opportunities to build our resilience to climate change in the long term.

In 2010, we implemented an energy management programme. Since then, we have implemented several initiatives and rolled out various energy efficient technologies as part of our energy management journey.

Key initiatives implemented in Pick n Pay:

- Online electricity main meters in all stores and more than 1,900 sub-meters, enabling us to measure real-time consumption
- Daily and monthly dashboards and alert notifications, enabling us to proactively manage consumption and reduce waste

Energy efficient technologies rolled out in Pick n Pay:

- LED lighting roll-out to stores continuous, including back of house and trading floors, with 11% of our estate now on full LED lighting
- Solar at six company-owned sites with 5.6MWp installed, producing 780kWh annually
- 34% of our stores use some form of natural refrigerants
- 74% of our stores have electronically commutated (EC) fans; 70% have plant rooms with variable speed drives; 66% of stores have electronic expansion valves; and 10% of our estate has doors on most refrigeration cabinets

Overall impact of our energy management programme in Pick n Pay to date:

- We consume 10% less energy than in 2010 despite a 76% increase in stores and a 38% increase in gross lettable area
- We have reduced our energy intensity by 43.6% (kWh per trading floor area)

Looking forward:

- Continue to drive behaviour change and real-time monitoring
- Roll out energy efficient technologies, including LED lighting and refrigeration doors
- Optmise existing equipment through sensors and building management systems
- Expand our renewable solar energy programme to all owned and leased stores
- Continue to switch to full natural refrigerants and install EC fans

Our environmental commitments seek to provide clarity in a highly complex space. This makes it easier for all Pick n Pay employees to align behind our ambition to be a force for good.

Pick n Pay’s 2025 commitments

- 100% of Pick n Pay packaging will be re-usable or recyclable
- 100% of cardboard and paper used for Pick n Pay packaging will be sourced from responsibly managed forests
- 30% average recycled content across all Pick n Pay packaging
- 30% reduction in average packaging weight of Pick n Pay branded products
- 30% increase in sales of Pick n Pay re-usable bags
- 50% reduction in our food waste

We have taken a leadership role in demonstrating our commitment to improving our environmental performance. Pick n Pay was the first South African retailer to sign up to the 10x20x30 Food Waste Initiative and was a founding member of the SA Plastics Pact and the Consumer Goods Council Voluntary Food Waste Initiative.

We continually look at how we monitor, manage and use water.

In 2018, Pick n Pay installed online water meters with real-time alerts in all our Western Cape stores. This allowed us to pick up leaks (the biggest cause of water loss in any system) and fix them immediately – thereby achieving a water intensity reduction of 20%.

In 2021, we added water to our active energy management programme to enhance how we manage and report on water consumption.

Progress to date

- 86% of stores with real-time metering
- 12% reduction in water consumption in stores with dual feed water systems

Our strategy is aligned with the implementation of our five-year employment equity (EE) plan developed in advance progress in specific areas.

Recognising the need to innovate to deliver on our training objectives, we are adopting digitally enabled learning delivery channels. Our strategy is aligned with the implementation of our five-year employment equity (EE) plan developed in 2019, which sets progressive EE targets through to 2024 as well as commitments and interventions to advance progress in specific areas.

Looking ahead:

- Continue to drive behaviour change and real-time monitoring
- Roll out energy efficient technologies, including LED lighting and refrigeration doors
- Optimise existing equipment through sensors and building management systems
- Expand our renewable solar energy programme to all owned and leased stores
- Continue to switch to full natural refrigerants and install EC fans

We are developing an ESG data management system to enhance our ability to respond to the increasing disclosure expectations of our stakeholders, including our investors. In addition to our current reporting commitments to the SDDG and CDP, among others, we are taking steps to strengthen our reporting in line with global best practice. This includes future plans to align our reporting with leading standards and frameworks, such as the Task Force on Climate-related Financial Disclosures Framework.
MESSAGE FROM RICHARD BRASHER

It has been a privilege to lead the Group over the past eight years. My goal at the outset was to leave the business stronger than I found it – and to leave it confident and ready to win the loyalty of more customers in the coming years. In pursuing this goal, I have been determined to follow a simple and consistent strategy, providing clarity and direction for my team.

My sincere thanks go to everyone in our business for your dedication and unswerving support throughout the past year. In the toughest of times, your indomitable spirit and true teamwork have come to the fore, and have made this a year on which we can all look back with real pride.

The pandemic, and government restrictions and other measures to contain it, inevitably had a significant impact on our financial performance. As detailed elsewhere in this Integrated Annual Report, the Group lost an estimated R4 billion in sales of higher-margin products as a result of Covid-19 trading restrictions. It also incurred significant extra costs in additional safety measures, payments to frontline colleagues, and related measures.

Once these specific Covid-19 impacts are taken into account, it was an excellent result for the Group, demonstrating a very strong performance in many key areas. I am particularly pleased that our South African business delivered a market-leading performance in core food and groceries, growing at 10% across the year. We also outperformed the market in other areas, for example growing our market share in clothing and liquor. Our Smart Shopper loyalty scheme now has 8.5 million active members, and was recognised by the Sunday Times as South Africa’s favourite retail loyalty programme of the past decade.

A crucial contributor to this performance has been the good work we have done over a number of years to improve our efficiency and effectiveness – in our stores, commercial operation, offices and supply chain. We launched Project Future at the beginning of 2020 to accelerate this work – with a target to save R1 billion in costs over two years. We have made strong progress, saving over R600 million in the first year of the programme, with a clear line of sight to deliver the full R1 billion over two years.

This is not simply about improving the finances of the Group. The more efficient we are, the more rands we save, means more rands we can give back to customers in lower prices. In this most difficult year for customers, we were able to invest a significant amount in better value for customers – restricting our internal selling price inflation to 3.8% compared to CPI Food of 4.8%. I am particularly pleased with the performance of our Boxer and Pick n Pay Value stores, which serve customers in the toughest part of the market, where customers reward those who provide exceptional value.

The Group has delivered step change for customers in other areas. The Covid-19 lockdown resulted in an explosion in demand for online grocery shopping. Our online division responded very quickly and effectively, doubling its scheduled deliveries and working to launch a quick and responsive on-demand food and grocery app through Bottles. Our franchises also rose to the challenge, rapidly expanding their click n collect services for customers in very difficult times. The Group has subsequently acquired the Bottles business, and is now integrating our various online channels under the banner of picknpay.com. Customers will in future be able to shop seamlessly with Pick n Pay anytime, anywhere and in whichever way they choose.

Our businesses outside South Africa also performed well, demonstrating exceptional cost discipline and working capital management in a very difficult year. The Group’s company-owned and franchise operations remain resilient across Zambia, Zimbabwe, Namibia, Botswana, eSwatini and Lesotho.

In these and many other areas, I believe that I leave the Group much stronger than I found it when I joined in 2013. My thanks go to my Chair, Gareth Ackerman, the Ackerman family, and the Board, for giving me the opportunity in the first place, and for their valuable support over the years.

Most of all, I want to thank my thousands of colleagues for walking every step of the way with me.

I offer my very best wishes to Pieter Boone, who now has the privilege of leading the Group. Pieter is an outstanding retailer, and will have the full support of the Pick n Pay Board. The future of the Group is bright, and I very much look forward to seeing Pieter take the Group forward in ways that I never thought possible.

Richard Brasher
Chief Executive Officer: 2013 – 2021
April 2021
MESSAGE FROM PIETER BOONE

I am incredibly proud and humbled to be the new CEO of the Pick n Pay Group. Pick n Pay is a loved brand in South Africa – and beyond. The business is admired worldwide for the values instilled in it by the founder Raymond Ackerman and his wife Wendy. The Ackermans put the customer at the centre of the business, and the community in its heart, long before this approach became fashionable in business school textbooks. They were invariably on the right side of the argument when South Africa approached its defining era of change. They and their company have remained true to their principles and their values for over half a century.

I have worked in retail for over 25 years across three – and now four – continents, and I can tell you that this level of commitment is unprecedented. I am committed to upholding the heritage and values of the Group throughout my tenure as its CEO. A business must be successful if it is to maximise the benefits it delivers to customers and society. A well-functioning business will operate in a lean way which ensures that less is wasted and more value can be enjoyed by its customers and ultimately its shareholders. A successful retail business can grow sustainably, ensuring that more customers and more communities benefit from what it has to offer.

I commend Richard Brasher and his leadership team for the excellent work they have led over the past eight years to deliver a substantial turnaround of the business and its operations. The Group is stable and well-run. It is people-centric, understanding that people are its most important asset. As the latest set of full-year results demonstrate, the Group has become more efficient and competitive – not only responding to the challenge of Covid-19 in a remarkable way, but actually leading the market in its response.

My task in the coming years is to build on this strong platform. My goal will be to continue with our transformation, maintaining momentum where we have a winning plan, and driving forward with clarity and determination where we identify new or enhanced opportunities for sustainable growth.

My initial five priorities can be summarised as follows:

- Ensuring that Pick n Pay is the first choice for customers. Organising Pick n Pay’s operations into its Value, Core and Select segments is providing greater customer focus and clarity. The opportunity now is to further develop our offer at each point in the market, so that every customer has the Pick n Pay that they want.

- Building our omni-channel proposition. South Africa has historically been viewed as slow in waking up to the potential of online grocery sales. However, the past year has brought the future closer, and has shown very clearly that the grocery retailer of the coming decade must be an omni-channel retailer – as strong in the digital world as it is in its physical footprint. Pick n Pay and Boxer have an excellent platform for growth in this area and we intend to build on it.

- Sustainable growth in the Rest of Africa. The Group has a strong and stable business outside South Africa, and I commend our corporate and franchise teams for their sterling work in supporting customers in very tough times. Although conditions have been difficult, the potential of the African continent remains undimmed. My goal is to develop a successful format – building on the success of our Boxer business model – which delivers low-cost, unbeatable value, benefiting the many, not the few.

- Winning with our people. Our business is a people business. We can only succeed in our strategic goals through our people. Across Pick n Pay and Boxer, my commitment is to develop, train and motivate the best team in the retail industry, driving a culture of performance and accountability through the organisation. I believe in leading through people, and having the trust of our thousands of employees, franchise partners, labour partners, communities and wider stakeholders.

- I have no doubt that the coming years will present their challenges. Having led retail companies in South-East Asia, Latin America and central and Eastern Europe, I am no stranger to challenges. I particularly enjoy leading businesses in emerging markets – the challenges may be great but the opportunities are greater. I am very optimistic about the opportunity for South Africa and for the Pick n Pay Group in the Rest of Africa.

The goal of our Group and our people must be to grow in line with the hopes and expectations of the South African people – to help more and more people meet their aspirations for a better life for themselves and for their children. I am very excited about the challenge, and even more excited about the opportunities.

Pieter Boone
Chief Executive Officer: from April 2021
27 May 2021

The retirement of CEO Richard Brasher was planned well in advance, and allowed the Group to conduct a thorough search, over an 18-month period, for the right candidate to take over as CEO of the Pick n Pay Group.

The Board considered many skilled and experienced candidates both locally, and internationally, including strong candidates from within the organisation. The Board knew that it met Pieter Boone that it had found the right person to build on the solid growth platform developed by Richard Brasher over the course of his tenure.

Career highlights

Pieter Boone was the former Chief Operating Officer of Metro AG. Dutch national Pieter has extensive and diverse global experience in the retail, food service and wholesale sectors and exceptional experience in delivering retail growth, including through greenfield development.

Pieter spent the majority of his career in senior roles in Metro AG, a leading international business in the food and hospitality sector, and SHV Holdings NV, one of the world’s largest private trading groups, which includes the major Makro Cash & Carry wholesale business. The Makro business was acquired by Metro, and Pieter moved across to Metro.

Pieter was Chief Executive Officer of Metro Cash & Carry in Russia, one of Metro’s largest business units, before being appointed as CEO and Member of the Management Board of Metro AG, based out of Germany.

Earlier in his career, Pieter held various senior international managerial and Board positions for Makro Cash & Carry in Asia and Latin America.

I am delighted that we have succeeded in the appointment of Pieter Boone as the next CEO of the Group. Pieter has consistently demonstrated the ability to lead and deliver sustainable growth in tough and emerging market economies. His wide-ranging experience will stand him in very good stead across all areas of the Group’s business, including Pick n Pay, Boxer, franchise, our growing online offer, and our value-added services platform.

Gareth Ackerman, Chair
The Group’s executive management team met with a number of its large South African institutional shareholders in April 2021, following the publication of its FY21 result (a summary is presented on pages 73 to 79). These shareholder meetings are an important part of the Group’s annual investor relations engagement calendar, and provide shareholders with the opportunity to ask management questions on the Group’s strategy and financial result, and to highlight any concerns about the Group’s performance and future prospects.

Group CFO, Lerena Olivier, explores these themes as she responds to the most frequently asked questions posed by shareholders during the investor engagements:

### Shareholder discussions largely centred on the following key themes:

- The significant impact of the Covid-19 pandemic on Group sales and earnings
- The Group’s strong performance in core food and grocery lines
- The Group’s improved gross profit margin and the potential for further margin expansion
- The Group’s Project Future modernisation programme – and the structural improvements it generates
- Cash and liquidity management and the strength of the Group’s balance sheet
- Working capital management – specifically the potential to reduce stockholdings, and the quality of the Group’s franchise debtors’ book
- The Group’s property reset programme and the strategic intent around the conversion of certain franchise stores to company-owned stores
- The profitability of the Rest of Africa division and the risks associated with pursuing a growth strategy outside South Africa
- The Group’s capital investment plans for FY22

Group earnings also reflect R200 million of compensation costs related to voluntary and other staff retrenchments under the Group’s Project Future programme. Excluding these one-off costs, Group earnings were down just 6.1% year-on-year, an extraordinary achievement under very challenging circumstances.

What areas of the FY21 result do you believe best demonstrate the Group’s operational resilience?

Shareholders should take confidence from the Group’s market-leading core food and grocery performance, its exceptional gross profit margin management, and the discipline it has exercised in managing its operating costs, working capital and cash resources. Despite Covid-19, the Group continued its turnaround, becoming a more modern, efficient and customer-focused retailer.

### FY21 Highlights

- **Market-leading core food and grocery performance** – sales up 10.0% in South Africa
- **Stronger core retail offer** – improved trading densities through tighter and more tailored ranges
- **Solid market share gains over second half** – led by an outstanding Boxer performance
- **Resilient infrastructure** ensuring business continuity and high levels of product availability
- **Competitive prices and value** – internal selling price inflation kept to just 3.8% below CPI Food of 4.8%
- **Gross profit margin expansion** – cost savings and efficiency gains across supply chain
- **Positive net cash funding position** – R500 million
- **Improved store estate** – 112 new stores across all Pick n Pay and Boxer formats, with targeted investment in smaller community-based stores
- **Uninterrupted dividend cycle** – supported by effective cash and liquidity management
- **Feeding the Nation campaign** – raised R136 million in hunger relief efforts – providing more than 28 million meals to vulnerable families

<table>
<thead>
<tr>
<th>Sales growth by category</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>+6.0</td>
</tr>
<tr>
<td>Grocery and value-added</td>
<td>+1.3</td>
</tr>
<tr>
<td>Tobacco</td>
<td>-1.0</td>
</tr>
<tr>
<td>Clothing</td>
<td>+1.0</td>
</tr>
<tr>
<td>Alcohol</td>
<td>-1.0</td>
</tr>
<tr>
<td>Liquor and tobacco</td>
<td>-1.8</td>
</tr>
</tbody>
</table>

1. Food, grocery and general merchandise categories (including categories impacted by trading restrictions, such as hot foods, deli and bakery products, but excluding liquor and tobacco and clothing)

The Group delivered market-leading sales growth of 100% in its core food and grocery offer in South Africa this year. Sales growth strengthened from 9.9% [76k like-for-like] in the first half of the year to 10.1% [93k like-for-like] in the second half of the year, even as more discretionary areas of the consumer economy were opening up.

The Group’s clothing division consistently outperformed the overall apparel market over the year. Clothing sales grew 13.1% year-on-year, with 6.7% growth in the second half of the year.

Sales growth in South Africa has been distorted by the timing of each retailer’s reporting calendar, and by the extent to which each has been impacted by Covid-19 trading restrictions.

Our Group’s FY21 year included just three trading weeks which were not subject to disrupted conditions under the Covid-19 pandemic, and further reflects our higher participation of products subject to trading restrictions relative to peers – including clothing, general merchandise and tobacco categories.

### Our CFO’s Report

- **Our frontline staff.**
- **Rigorous health, hygiene and physical distancing measures.**
- **Appreciation bonuses paid to our frontline staff.**
- **Tightening trading densities and more tailored ranges for all our customers.**

Government-imposed trading restrictions affected up to 20% of the Group’s sales during Level 5 of the lockdown, and sales were further impacted by reduced trading hours, limits on the number of customers in stores, and temporary store closures. These challenges all had a significant impact on Group turnover, with an estimated R4 billion in lost sales over the year. Earnings reflect the gross profit margin impact of these lost sales, which were primarily in our higher-margin categories of clothing, liquor, general merchandise and value-added hot foods, deli and bakery products. Furthermore, the Group incurred R200 million of additional costs related to its Covid-19 operational response, largely driven by the implementation of rigorous health, hygiene and physical distancing measures, and appreciation bonuses paid to our frontline staff.

- **Our Project Future programme.**
- **Our geographical diversification and future prospects.**

The Group’s FY21 performance was delivered almost entirely under the unprecedented conditions of Covid-19, including stringent lockdown restrictions and disruption across the countries in which we trade. Our primary role has been to feed the nation by keeping our stores open, safe and fully stocked of essential food and groceries. I am extremely proud to say that our Pick n Pay and Boxer teams have fulfilled this responsibility with distinction.

In many respects, we have been a business operating in crisis mode over the past year. Led by our Covid-19 steering committee, our teams have responded effectively to the considerable operational challenges of government-imposed trading restrictions, physical distancing requirements, and stringent health and safety protocols.

The underlying resilience of the FY21 result is an outstanding example of effective and collaborative teamwork, and is testament to the determination of so many of our selfless colleagues who put our customers first, through what has been a difficult time.

Comparable earnings were down 18.8% this year, and yet you have spoken about the underlying resilience of the result. What factors had the most material impact on the FY21 result?

The Group’s senior management team described the FY21 financial result as an “outstanding performance in extraordinary times”. What makes this result so outstanding?

The Group’s improved gross profit margin and the potential for further margin expansion

- **Working capital management – specifically the potential to reduce stockholdings, and the quality of the Group’s franchise debtors’ book**
- **The Group’s property reset programme and the strategic intent around the conversion of certain franchise stores to company-owned stores**
- **The profitability of the Rest of Africa division and the risks associated with pursuing a growth strategy outside South Africa**
- **The Group’s capital investment plans for FY22**

The Group expanded its disclosure in respect of its sales performance this year, with a specific focus on core food and grocery lines. Why have you enhanced your reporting this year?

More detailed sales disclosure this year was essential in providing our stakeholders with a comprehensive assessment of the impact of Covid-19 on our results, as well as our comparable performance on largely unrestricted core food and grocery lines.

Quite simply, the Group’s overall FY21 sales growth of 4.3% – and 5.0% in South Africa – is not an accurate reflection of our comparable performance against our peers. Meaningful comparability this year has been distorted by the timing of each retailer’s reporting calendar, and by the extent to which each has been impacted by Covid-19 trading restrictions.

Our Group’s FY21 year included just three trading weeks which were not subject to disrupted conditions under the Covid-19 pandemic, and further reflects our higher participation of products subject to trading restrictions relative to peers – including clothing, general merchandise and tobacco categories.

**SA sales growth analysis per category – %**

- Total sales +6.0
- Grocery and value-added +1.3
- Tobacco -1.0
- Clothing +1.0
- Alcohol -1.0
- Liquor and tobacco -1.8

* Food, grocery and general merchandise categories (including categories impacted by trading restrictions, such as hot foods, deli and bakery products, but excluding liquor and tobacco and clothing)

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The Group mitigated the gross profit impact of Covid-19 trading restrictions through cost savings, efficiency gains and increased contribution from its supply chain, while providing greater value for customers.

Gross profit margin = \[
\text{Fed value} \times (1 - \text{Find CoS}) - \text{Drs value} \times (1 - \text{Fed CoS}) - \text{CSC savings} - \text{CSC wages} - \text{CSC transport} - \text{CSC other}\]

Pick n Pay, with centralised supply now close to 80%, delivered substantive progress in the optimisation of its distribution channel, meeting accelerated cost and efficiency targets. Pick n Pay rationalised its distribution centre operation through the appointment of two functional outsource partners. These strategic partnerships delivered greater skill and efficiency in operations, as well as stability in labour relations across its distribution facilities. The supply chain team also continued to improve the efficiency of its fleet, with fewer trucks on the road and fewer kilometres travelled, despite growing volumes being transported. The improvements in labour productivity and transport efficiency reduced and Pick n Pay's costs per km travelled and per tonne, and delivered an outstanding reduction in waste and shrink.

Boxer made further progress in centralising its supply chain. The opening of its new Polokwane distribution centre in September 2020 took its centralised supply to 55% as Boxer continues to explore supply chain efficiencies. Pick n Pay also moved quickly to serve their customers through safe and convenient home deliveries.

The importance of digital innovation was demonstrated by the success of Pick n Pay’s Smart Shopper loyalty programme, which is a key point of difference for the Group. The programme has 8.5 million active customers, and provides invaluable information for Pick n Pay and its suppliers. Pick n Pay extended its value proposition through its personalised Smart Shopper loyalty programme, providing Smart Shoppers with R3.5 billion in savings this year. Everyday Loyalty Smart Prices, alongside bi-weekly personalised discounts, have driven volumes and have been complemented by Pick n Pay’s delivery service, which now has 4,000 active drivers, up from 1,000 in the previous year. The Smart Shopper programme was recently recognised by the Sunday Times as South Africa’s favourite retail loyalty programme over the past decade.

The Group’s improved gross profit margin and the potential for further margin expansion

The Group delivered gross profit margin expansion to 19.8% of turnover (from 19.7% in FY20) – a highlight for retail analysts and shareholders, representing a significant improvement in the Group’s net profit compared with the high inflationary levels in the early part of fiscal 2020/21. The Group’s gross profit margin expansion is due to the combination of higher average selling prices, better costs of sales and lower distribution costs. The Group’s gross profit margin expansion is a result of the Group’s strong management of its supply chain and its ability to absorb costs of sales related to higher prices.

The Group’s gross profit margin expansion is driven by supply chain centralisation and supply chain optimisation. However, accelerating the growth of our own brand offer to provide our customers with more choice and greater value remains a strategic priority. The Group’s gross profit margin expansion is a result of the Group’s strong management of its supply chain and its ability to absorb costs of sales related to higher prices.

The increase also reflects a substantially reduced base in FY20, which benefited from a net R100 million reversal of share incentive costs related to the Group’s executive share plan.

The management team has indicated that it is pleased with the progress delivered against its Project Future ambitions – but these benefits and cost savings are not immediately apparent in the FY21 result because of the disruption of Covid-19. Is the Group on track to deliver its cost saving ambition of R18 billion over two years?

Pick n Pay was launched over a year ago to drive modernisation and efficiency across the business, enabling the Group to invest in lower prices, better service and improved customer experience. In FY21 the Group simplified its store, supply chain and support office infrastructure; drove productivity and efficiency gains across its operations and improved the overall quality and relevance of its store estate. The benefit of this work is evidenced in the FY21 result through the Group’s exceptional gross profit margin management, strong cost discipline and tight working capital management.

The Group’s gross profit margin expansion is driven by supply chain centralisation and supply chain optimisation. However, accelerating the growth of our own brand offer to provide our customers with more choice and greater value remains a strategic priority. The Group’s gross profit margin expansion is a result of the Group’s strong management of its supply chain and its ability to absorb costs of sales related to higher prices.

What were the drivers behind the strong sales growth in core food and grocery, and do you believe that the Group will be able to sustain this trend into the future?

Reflecting the Group’s strong performance in the face of severe disruption, the supply of goods and services in the face of severe disruption.

How important has the Group’s own brand strategy been in driving gross profit margin improvement?

The Group’s gross profit margin improvement has been driven by supply chain centralisation and supply chain optimisation. However, accelerating the growth of our own brand offer to provide our customers with more choice and greater value remains a strategic priority. The Group’s gross profit margin expansion is a result of the Group’s strong management of its supply chain and its ability to absorb costs of sales related to higher prices.

What were the drivers behind the strong sales growth in core food and grocery, and do you believe that the Group will be able to sustain this trend into the future?

Reflecting the Group’s strong performance in the face of severe disruption, the supply of goods and services in the face of severe disruption.
The Group’s property reset programme and the strategic intent around the conversion of certain franchise stores to company-owned stores

The Group has always exercised some flexibility in the composition of its store estate, and we are accustomed to seeing a small number of store conversions between brands and formats in any given year. However, under the Group’s property reset programme this year, the Group converted 34 franchise stores to company-owned Pick n Pay and Boxer stores. This feels like a significant move – does this signal a change in Group strategy towards franchise?

Our franchise partners are a valuable and strategically important part of the Group. There is no strategic move away from franchise, and the Group does not have a specific target for conversion. We have a large and valuable franchise estate comprising 761 stores – and many of our franchise stores remain among the strongest performers in our Group – with solid business plans.

The conversions from franchise stores to company-owned Pick n Pay and Boxer stores this year were part of our flexibility strategy and not a strategy to reduce franchise. Conversions are identified through a rigorous process undertaken by the Group’s central property and capital committees. The franchise stores converted to company-owned Boxer and Pick n Pay Value supermarkets this year were identified before the Covid-19 crisis hit, as part of the Group’s Project Future programme. The stores were under-performing against sales and margins expectations, some had growing trade debtor balances. The stores earmarked for conversion all traded in the value end of the market, where it can be more challenging to run a profitable franchise model due to tighter operating margins. The conversions required limited capital investment, and are delivering higher investment returns.

The Group has, and will continue to, deliver significant value for its stakeholders over the course of its long-term plan, building a strong and agile multi-format and omni-channel retail business, providing an increasingly tailored customer offer across a broad socio-demographic reach. The Group has targeted clear and consistent investment returns, within measured and considered risk parameters. The Group has funded sustained investment into its growing store portfolio and increasingly efficient operating infrastructure through strong free cash flow, and has maintained low levels of gearing for a number of years, with no long-term debt.

Lerena Olivier
Chief Finance Officer
27 May 2021

The Group does not have a specific target for conversion. We have a large and valuable franchise estate comprising 761 stores – and many of our franchise stores remain among the strongest performers in our Group – with solid business plans.
### Summary of Financial Performance

#### Turnover

<table>
<thead>
<tr>
<th>Description</th>
<th>52 weeks to 28 February 2021</th>
<th>Restated 52 weeks to 1 March 2020</th>
<th>% of turnover change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>Rm</td>
<td>Rm</td>
<td>%</td>
</tr>
<tr>
<td>Cost of merchandise sold</td>
<td>93 078.8 (74 657.5)</td>
<td>93 078.8 (74 657.5)</td>
<td>4.3 (89 281.5)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>18 421.7</td>
<td>18 421.7</td>
<td>19.8 (47 760.1)</td>
</tr>
<tr>
<td>Other income</td>
<td>1 580.9</td>
<td>1 580.9</td>
<td>17.0 (1 570.2)</td>
</tr>
<tr>
<td>Franchise fee income</td>
<td>432.7</td>
<td>412.7</td>
<td>0.4 (358.3)</td>
</tr>
<tr>
<td>Operating lease income</td>
<td>142.5</td>
<td>142.5</td>
<td>0.2 (140.7)</td>
</tr>
<tr>
<td>Commissions and other income</td>
<td>1 025.7</td>
<td>1 025.7</td>
<td>11.0 (1 031.2)</td>
</tr>
</tbody>
</table>

#### Earnings

<table>
<thead>
<tr>
<th>Description</th>
<th>52 weeks to 28 February 2021</th>
<th>Restated 52 weeks to 1 March 2020</th>
<th>% of turnover change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs</td>
<td>(7 959.0)</td>
<td>(7 959.0)</td>
<td>8.3 (7 368.2)</td>
</tr>
<tr>
<td>Occupancy</td>
<td>(2 427.1)</td>
<td>(2 427.1)</td>
<td>2.6 (2 245.0)</td>
</tr>
<tr>
<td>Operations</td>
<td>(4 144.4)</td>
<td>(4 144.4)</td>
<td>4.0 (3 836.0)</td>
</tr>
<tr>
<td>Merchandising and administration</td>
<td>(2 764.3)</td>
<td>(2 764.3)</td>
<td>3.0 (2 542.5)</td>
</tr>
<tr>
<td>Trading profit</td>
<td>2 707.8</td>
<td>2 907.8</td>
<td>3.1 (8.4)</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(1 233.6)</td>
<td>(1 233.6)</td>
<td>13.0 (1 300.4)</td>
</tr>
<tr>
<td>Leases</td>
<td>(117.7)</td>
<td>(117.7)</td>
<td>0.1 (114.0)</td>
</tr>
<tr>
<td>Interest and other costs</td>
<td>(165.9)</td>
<td>(165.9)</td>
<td>13.0 (1 186.4)</td>
</tr>
<tr>
<td>Share of associates' earnings excluding net monetary adjustments</td>
<td>109.2</td>
<td>109.2</td>
<td>23.1 (1 447.1)</td>
</tr>
<tr>
<td>Comparative profit before tax before capital items</td>
<td>1 583.4</td>
<td>1 783.4</td>
<td>19.0 (1 897.2)</td>
</tr>
<tr>
<td>Profit before tax before capital items</td>
<td>1 554.2</td>
<td>1 754.2</td>
<td>19.0 (1 940.0)</td>
</tr>
<tr>
<td>Loss on capital items</td>
<td>(145.9)</td>
<td>(145.9)</td>
<td>(204.4)</td>
</tr>
<tr>
<td>Loss on sale of assets</td>
<td>(214.5)</td>
<td>(214.5)</td>
<td>(185.8)</td>
</tr>
<tr>
<td>Impairment loss on assets</td>
<td>(141.2)</td>
<td>(141.2)</td>
<td>(165.1)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>1 408.3</td>
<td>1 608.3</td>
<td>17.0 (1 736.5)</td>
</tr>
<tr>
<td>Turnover</td>
<td>89 919.2</td>
<td>1 136.3</td>
<td>5.0 (85 628.3)</td>
</tr>
</tbody>
</table>

#### Other

- **Costs and Profitability**
  - Turnover growth of 4.3% reflects Covid-19 disruptions, with FY21 lost sales estimated at R4 billion. Market-leading growth in core food and grocery sales in South Africa, up 10.0%.

- **Other income**
  - All categories reflect the impact of Covid-19 disruption, with the additional impact of franchise store closures and conversions on franchise fee income earned over the period.

- **Impairment loss on assets**
  - Includes a R266.4 million impairment (FY20: R233.5 million) relating to the Group’s severance programmes undertaken under Project Future. The costs will not recur and will be fully recovered through labour efficiency savings next year.

- **Net funding costs**
  - Strong cash and liquidity management, alongside lower interest rates over the year, drives net bank interest down 51.0%.

- **Share of associate’s earnings**
  - Strong trading performance from TM Supermarkets in Zimbabwe – driving a 64% increase in the Rest of Africa segment’s comparable profit before tax [before the application of hyperinflation].

- **Comparative profit before tax (PBT)**
  - Down 6.6% year-on-year, just excluding the once-off costs of staff severance programmes, an exceptional performance in the face of significant economic and operational disruption.

- **Effective tax rate at 31.3%, in line with last year, reflecting lower levels of profitability in operations outside of South Africa. The tax rate is expected to remain above South Africa’s statutory tax rate of 28.0% for the foreseeable future, driven by hyperinflation in Zimbabwe and difficult trading conditions in Zambia.**

- **Comparative headline earnings per share**
  - Comparative headline earnings per share exclude the impact of hyperinflation in Zimbabwe.

- **Comparative headline earnings per share excluding once-off costs**
  - Comparative headline earnings per share excluding once-off costs (FY20: R237.9 million) include a R177.8 million (FY20: R144.3 million) net of 28% South African tax relating to the Group’s severance programmes undertaken under Project Future. The costs will not recur and will be fully recovered through labour efficiency savings next year.
SUMMARY OF FINANCIAL POSITION

ASSETS
Non-current assets
Intangible assets
Property, plant and equipment
Right-of-use assets
Net investment in lease receivables
Deferred tax assets
Investment in associate
Investment in insurance cell captive
Retail scheme assets
Operating lease assets
Trade and other receivables
Trade and other payables
Cash and cash equivalents
Net investment in lease receivables
Right-of-return assets
Deferred tax assets
Investment in lease receivables
Deferred revenue
Lease liabilities
Bank overdraft and other borrowings
Borrowings
Current tax liabilities
Derivative financial instruments
Total assets

Current assets
Inventory
Trade and other receivables
Cash and cash equivalents
Net investment in lease receivables
Right-of-return assets
Derivative financial instruments
Total current assets

ASSETS
Non-current assets
Intangible assets
Property, plant and equipment
Right-of-use assets
Net investment in lease receivables
Deferred tax assets
Investment in associate
Investment in insurance cell captive
Retail scheme assets
Operating lease assets
Trade and other receivables
Trade and other payables
Cash and cash equivalents
Net investment in lease receivables
Right-of-return assets
Deferred tax assets
Investment in lease receivables
Deferred revenue
Lease liabilities
Bank overdraft and other borrowings
Borrowings
Current tax liabilities
Derivative financial instruments
Total assets

Current assets
Inventory
Trade and other receivables
Cash and cash equivalents
Net investment in lease receivables
Right-of-return assets
Derivative financial instruments
Total current assets

SUMMARY OF CHANGES IN EQUITY

At 3 March 2019
Total comprehensive income for the period
Profit for the period
Foreign currency translations
Movement in cash flow hedge
Remeasurement in retirement scheme assets
Other reserve movements
Transactions with owners
Dividends paid
Share purchases
Net effect of settlement of employee share awards
Share-based payments expense

At 3 March 2019
Total comprehensive income for the period
Profit for the period
Foreign currency translations
Movement in cash flow hedge
Remeasurement in retirement scheme assets
Other reserve movements
Transactions with owners
Dividends paid
Share purchases
Net effect of settlement of employee share awards
Share-based payments expense

At 28 February 2021
Share capital
Treasury shares
Retained earnings
Other reserves
Foreign currency translation reserve
Total equity

Foreign currency translations
The positive movement in the foreign currency translation reserve of R29.4 million relates to the translation of the Group's foreign assets and liabilities into ZAR and includes a R20.9 million gain related to its TM investment in Zimbabwe, as a result of revaluation in the region.

Dividends paid
The Group paid its FY20 final dividend, alongside its FY21 interim dividend, in December 2020 – effectively maintaining an uncut dividend cycle over the Covid-19 crisis.

The Group's total FY21 dividend of 139.4 cents per share is down 16.7% on last year in line with the decrease in comparable headline earnings per share, maintaining a dividend cover of 1.3 times comparable headline earnings per share.

OUR PERFORMANCE

Our performance

Non-current assets
ASSETS
Current assets
Equity
Total assets
37 816.5
33 505.3

EQUITY AND LIABILITIES
Equity
Share capital
Treasury shares
Retained earnings
Other reserves
Foreign currency translation reserve
Total equity
37 816.5
33 505.3

1. THE BUSINESS
2. STRATEGIC OVERVIEW
3. OPERATING RESULTS
4. MANAGEMENT'S ANALYSIS
5. OTHER DISCLOSURES
6. RISK MANAGEMENT
7. GOVERNANCE
8. ENVIRONMENT, SOCIAL AND GOVERNANCE
9. RISK FACTORS
10. DIVIDENDS
11. GOVERNANCE"
### SUMMARY OF CASH FLOWS

<table>
<thead>
<tr>
<th>52 weeks to 28 February 2021</th>
<th>Restated 52 weeks to 1 March 2020</th>
<th>Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading profit</td>
<td>2 707.8</td>
<td>3 174.5</td>
</tr>
<tr>
<td>Adjusted for dividend income</td>
<td>(40.0)</td>
<td></td>
</tr>
<tr>
<td>Adjusted for non-cash items</td>
<td>3 407.4</td>
<td>2 940.0</td>
</tr>
<tr>
<td>Depreciation on property, plant and equipment</td>
<td>1 187.3</td>
<td>1 312.9</td>
</tr>
<tr>
<td>Depreciation on right-of-use assets</td>
<td>1 793.5</td>
<td>1 646.9</td>
</tr>
<tr>
<td>Amortisation on intangible assets</td>
<td>131.9</td>
<td>151.0</td>
</tr>
<tr>
<td>Share-based payments expense</td>
<td>318.4</td>
<td>25.7</td>
</tr>
<tr>
<td>Profit on termination of leases</td>
<td>(36.3)</td>
<td>(26.3)</td>
</tr>
<tr>
<td>Movement in operating lease assets</td>
<td>2.0</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Rent concessions</td>
<td>(54.9)</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Movement in right-of-use assets</td>
<td>66.4</td>
<td>13.9</td>
</tr>
</tbody>
</table>

**Cash generated before movements in working capital**

6 072.5
591.5
249.9

**Movements in trade and other payables and deferred revenue**

998.1
845.9
821.2

**Movements in inventory and right-of-use assets**

239.3
118.6

**Cash generated from trading activities**

6 664.0
6 365.4

**Other interest received**

240.4
275.6

**Other interest paid**

(296.3)
(389.6)

**Interest received on net investment in lease receivables**

205.9
183.3

**Interest paid on lease liabilities**

(1 194.4)
(1 312.4)

**Cash generated from operations**

5 284.6
5 122.6

**Dividends received**

571
–

**Dividends paid**

(934.7)
(1 125.7)

**Tax paid**

(425.2)
(481.7)

**Cash generated from operating activities**

3 991.8
3 509.8

**Cash flows from investing activities**

Investment in intangible assets

(81.2)
(91.5)

Investment in property, plant and equipment

(1 204.0)
(1 653.7)

Purchase of operations

(159.5)
(22.8)

Provisions on disposal of intangible assets | 0.7 | 0.9 |

Provisions on disposal of property, plant and equipment | 147.6 | 61.2 |

Principal net investment in lease receipts | 254.4 | 220.0 |

Lease incentives received

42.8
121.0

Loans repaid

34.9
15.4

Loans advanced

(7.5)

Cash utilised in investing activities

(1 144.7)
(1 350.1)
Reconciling EPS to comparable HEPS

<table>
<thead>
<tr>
<th>CENTS PER SHARE</th>
<th>FY21</th>
<th>FY20</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>202.52</td>
<td>250.90</td>
<td>(19.3)</td>
</tr>
<tr>
<td>Capital items</td>
<td>26.75</td>
<td>41.00</td>
<td></td>
</tr>
<tr>
<td>HEPS</td>
<td>229.31</td>
<td>291.90</td>
<td>(21.4)</td>
</tr>
<tr>
<td>Hyperinflation net monetary adj.</td>
<td>6.11</td>
<td>(9.08)</td>
<td></td>
</tr>
<tr>
<td>Comparable HEPS</td>
<td>235.42</td>
<td>282.82</td>
<td>(16.8)</td>
</tr>
<tr>
<td>Once-off compensation costs</td>
<td>30.16</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Comparable HEPS excl. once-off compensation costs</td>
<td>265.58</td>
<td>282.82</td>
<td>(6.1)</td>
</tr>
</tbody>
</table>

- Reported EPS includes the impact of hyperinflation in Zimbabwe and all items of a capital nature
- Reported HEPS excludes all capital items, but specifically includes hyperinflation net monetary adjustments in Zimbabwe
- Comparable HEPS excludes a R29.2m non-cash hyperinflation net monetary loss recognised in Zimbabwe over the period (FY20: R43.2m gain)
- Comparable HEPS, excluding the R200m once-off cost (R144m net of tax) of the Group’s staff severance programmes, is down 6.1% year-on-year
- Additional Covid-19 related costs of R500m have not been removed from comparable HEPS when assessing underlying performance, as a portion of these operating costs are expected to persist as a result of the Group’s strengthened health, safety and security protocols

FY22 Capital commitments

- R1.6bn of capital investments in FY21
  - 50% targeted at new stores
  - Investment in broad multi-format proposition during FY21
    - 55 new supermarkets
    - 22 new clothing stores
    - 47 new liquor stores
    - on-demand grocery acquisition
  - Strong store pipeline, with 130 owned and franchise stores planned for FY22, including
    - 20 Pick n Pay supermarkets
    - 25 Boxer supermarkets
    - 30 clothing stores and 40 liquor stores
  - Further investment in centralised supply chain
- Digitisation
  - ongoing investment in modern and flexible systems infrastructure
  - driving business efficiency and customer innovation
  - expanding the online contribution

![Capital investment focused on growth](chart.png)

- New stores
- Refurbishments
- Infrastructure and technology
<table>
<thead>
<tr>
<th>Performance measures</th>
<th>FY21</th>
<th>FY20</th>
<th>FY19</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparable turnover growth</td>
<td>4.3</td>
<td>4.7</td>
<td>7.1</td>
<td>5.1</td>
<td>7.0</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>19.8</td>
<td>19.7</td>
<td>19.1</td>
<td>19.0</td>
<td>18.9</td>
</tr>
<tr>
<td>Other trading income margin</td>
<td>1.7</td>
<td>1.8</td>
<td>1.7</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Trading expenses margin*</td>
<td>18.6</td>
<td>17.9</td>
<td>17.5</td>
<td>17.2</td>
<td>17.4</td>
</tr>
<tr>
<td>Comparable PBT growth*</td>
<td>(16.9)*</td>
<td>6.8</td>
<td>12.3</td>
<td>15**</td>
<td>26.2</td>
</tr>
<tr>
<td>Comparable PBT growth – excluding once-off compensation costs in FY21</td>
<td>(6.0)</td>
<td>6.8</td>
<td>12.3</td>
<td>19</td>
<td>26.2</td>
</tr>
<tr>
<td>Comparable PBT margin – excluding once-off compensation costs in FY21</td>
<td>19**</td>
<td>21</td>
<td>21</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Profit before tax growth</td>
<td>(16.0)</td>
<td>(6.0)</td>
<td>4.4</td>
<td>(13.3)</td>
<td>37.6</td>
</tr>
<tr>
<td>EBITDA (before capital items) growth*</td>
<td>(3.3)</td>
<td>5.5</td>
<td>14.5</td>
<td>16.5</td>
<td>211</td>
</tr>
<tr>
<td>Headline earnings growth*</td>
<td>(21.2)</td>
<td>3.2</td>
<td>6.2</td>
<td>12.0</td>
<td>42.6</td>
</tr>
<tr>
<td>Comparable headline earnings per share (HEPS)*</td>
<td>229.3</td>
<td>219.5</td>
<td>283.6</td>
<td>245.3</td>
<td>234.8</td>
</tr>
<tr>
<td>HEPS growth*</td>
<td>(21.4)</td>
<td>2.9</td>
<td>5.9</td>
<td>141</td>
<td>416</td>
</tr>
<tr>
<td>Comparable HEPS</td>
<td>235.4**</td>
<td>282.8**</td>
<td>283.6</td>
<td>245.5</td>
<td>234.8</td>
</tr>
<tr>
<td>Comparable HEPS growth</td>
<td>(16.8)</td>
<td>0.0</td>
<td>15.5</td>
<td>46</td>
<td>25.4</td>
</tr>
<tr>
<td>Comparable HEPS – excluding once-off compensation costs in FY21</td>
<td>265.6628</td>
<td>283.6</td>
<td>264.5</td>
<td>234.8</td>
<td></td>
</tr>
<tr>
<td>Comparable HEPS growth – excluding once-off compensation costs in FY21</td>
<td>6.1</td>
<td>0.0</td>
<td>15.5</td>
<td>46</td>
<td>25.4</td>
</tr>
<tr>
<td>Return on capital employed (ROCE)¹</td>
<td>769.9</td>
<td>776.2</td>
<td>786.7</td>
<td>738.1</td>
<td>698.3</td>
</tr>
<tr>
<td>WACC</td>
<td>10.3</td>
<td>12.0</td>
<td>12.4</td>
<td>12.0</td>
<td>13.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consolidated statement of comprehensive income</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>Rm</td>
<td>93 078.8</td>
<td>89 281.5</td>
<td>86 271.2</td>
<td>80 523.5</td>
</tr>
<tr>
<td>Comparable turnover</td>
<td>Rm</td>
<td>93 078.8</td>
<td>89 186.5</td>
<td>85 190.8</td>
<td>79 613.4</td>
</tr>
<tr>
<td>Other trading income</td>
<td>Rm</td>
<td>1 580.9</td>
<td>1 570.2</td>
<td>1 474.8</td>
<td>1 461.5</td>
</tr>
<tr>
<td>Trading expenses</td>
<td>Rm</td>
<td>17 294.8</td>
<td>15 997.4</td>
<td>16 058.9</td>
<td>18 879.3</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>Rm</td>
<td>1 408.3</td>
<td>1 376.0</td>
<td>1 781.8</td>
<td>1 707.1</td>
</tr>
<tr>
<td>Comparable PBT</td>
<td>Rm</td>
<td>1 583.4**</td>
<td>1 897.2**</td>
<td>1 776.1</td>
<td>1 581.2</td>
</tr>
<tr>
<td>Comparable PBT – excluding once-off compensation costs in FY21</td>
<td>Rm</td>
<td>1 763.4</td>
<td>1 897.2</td>
<td>1 776.1</td>
<td>1 581.2</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>Rm</td>
<td>1 906.3</td>
<td>1 924.7</td>
<td>1 349.7</td>
<td>1 525.2</td>
</tr>
<tr>
<td>Comparable profit for the period</td>
<td>Rm</td>
<td>996.3**</td>
<td>1 151.5**</td>
<td>1 349.7</td>
<td>1 252.8</td>
</tr>
<tr>
<td>EBITDA (before capital items)*</td>
<td>Rm</td>
<td>5 929.2</td>
<td>6 185.6</td>
<td>5 607.6</td>
<td>5 725.6</td>
</tr>
<tr>
<td>Headline earnings*</td>
<td>Rm</td>
<td>1 095.0</td>
<td>1 389.9</td>
<td>1 347.4</td>
<td>1 266.6</td>
</tr>
<tr>
<td>Comparable headline earnings</td>
<td>Rm</td>
<td>1 124.2**</td>
<td>1 346.7**</td>
<td>1 347.4</td>
<td>1 162.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consolidated statement of financial position</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>Rm</td>
<td>37 816.5</td>
<td>33 505.3</td>
<td>32 107.7</td>
<td>30 880.1</td>
</tr>
<tr>
<td>Ordinary shareholders’ equity</td>
<td>Rm</td>
<td>3 386.2</td>
<td>3 010.1</td>
<td>3 035.0</td>
<td>2 940.1</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Rm</td>
<td>34 430.3</td>
<td>30 495.2</td>
<td>29 072.7</td>
<td>27 940.0</td>
</tr>
</tbody>
</table>

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¹ 'Comparable' excludes the impact of hyperinflation accounting recognised in respect of the Group's investment in associate.

² 'Comparable' excludes the impact of hyperinflation accounting recognised in respect of the Group's investment in associate.

3 'Comparable' excludes the impact of hyperinflation accounting recognised in respect of the Group's investment in associate.

4 Excluding once-off compensation costs in respect of staff remuneration programmes undertaken in FY21, comparable return on capital employed for FY21 is 40%.

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**FIVE-YEAR REVIEW**

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**Stock exchange (JSE Limited) performance**

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY20</th>
<th>FY19</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares in issue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted average number of shares in issue</td>
<td></td>
<td>Rm</td>
<td>493.5</td>
<td>493.5</td>
<td>493.5</td>
</tr>
<tr>
<td>Total market capitalisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market capitalisation net of treasury shares</td>
<td></td>
<td>Rm</td>
<td>477.5</td>
<td>476.2</td>
<td>475.1</td>
</tr>
<tr>
<td>Price earnings ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price earnings ratio per share</td>
<td></td>
<td></td>
<td>24.7</td>
<td>26.4</td>
<td>32.9</td>
</tr>
<tr>
<td>Dividend per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend per share in Rm</td>
<td></td>
<td></td>
<td>19.7</td>
<td>21.9</td>
<td>24.4</td>
</tr>
<tr>
<td>Percent dividend per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent dividend per share in Rm</td>
<td></td>
<td></td>
<td>173.9</td>
<td>215.9</td>
<td>231.1</td>
</tr>
</tbody>
</table>

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**Definitions**

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**Exceptional items**

Exceptional items are determined by the remuneration committee and are non-recurring items of an exceptional size and nature.

**Comparable turnover**

Presented on a comparable basis, now excluding turnover earned from the sale of arm's, data and related purchases on a principal basis.

**Comparable profit before tax (PBT)**

Profit for the period, before tax and before capital items, and before exceptional items.

**Comparable profit for the period, before net interest, tax, depreciation, amortisation and capital items.**

**Headline earnings**

Net profit for the period adjusted for the after tax effect of certain capital items.

**Headline earnings per share (HEPS)**

Headline earnings divided by the weighted average number of shares in issue for the period.

**Comparable headline earnings**

Comparable headline earnings divided by average shareholders’ equity plus secured borrowings.

**Return on capital employed (ROCE)**

Comparable headline earnings divided by average shareholders’ equity plus secured borrowings.

**Net asset value per share**

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.

**Weighted average cost of capital (WACC)**

WACC is the average after tax cost of the Group’s debt funding excluding (IFRS 16 leases), which includes non-current borrowings and current liabilities, and the Group’s equity funding, with each source of funding included on a proportional basis.

**Market capitalisation**

The price per share at period-end multiplied by the number of shares in issue at period-end.

**Price earnings ratio**

The price per share at period-end divided by the comparable headline earnings per share.

**Comparable dividend cover**

Comparable headline earnings per share divided by the dividends per share which relates to those earnings.

**Dividends per share**

The interim dividend declared during the current financial period and the final dividend declared after period-end, in respect of the current financial year.

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The modernisation of the Group’s store estate reflects the global retail trend of convenience. Our new Pick n Pay Supermarkets are, on average, 30% smaller than the equivalent store five years ago, and we are accelerating the roll-out of our smaller Boxer and Pick n Pay Express and Market stores, meeting our customer needs for local convenience.

Our Performance 2021

The Group has created financial value of R11.0 billion (2020: R10.9 billion) during the financial period. The value-added statement illustrates how we have distributed this value to our stakeholders.

Turnover
Other income
Amounts paid for merchandise and expenses
Finance income*  
Total value created

- Rm
3 079.8
1 560.9
(83 917.3)
240.4
10 882.8

Distributed as follows:

- Employees
- Providers of capital
- Distributions to shareholders
- Finance costs*
- Government
- Taxation expense
- Retained for growth
Total value distributed

- Rm
7 959.0
1 231.0
934.7
296.3
441.2
1 351.6
10 882.8

* Excluding implied finance income and finance costs in respect of IFRS 16 Leases.
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 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 54 years. The Board of directors (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

In the 2021 financial period, efforts to curb the spread of Covid-19 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 remained proud to support consumers with vital access to essential consumer goods.

The regulatory environment in which businesses operated evolved continually as governments grappled with the best ways to control 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.

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 corporate governance charter, ensuring it was updated to align with best practice.
• 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 continues, with different illustrations of ethical behaviour being communicated to employees every month.
• The Board oversaw the Group’s response to the State of Disaster declared as a result of the Covid-19 pandemic:
  » The Group worked tirelessly with suppliers and staff to ensure that its stores remained open to provide essential products to consumers and a safe environment for staff and customers.
  » The Group established the Feed the Nation Foundation to assist in poverty alleviation.
  » The Group actively monitored the implementation of its policy of not seeking to profit from unjustifiable increases in prices of goods in demand.
  » The Group has offered to do whatever it can to assist in the efficient distribution of the Covid-19 vaccine when it becomes available.

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 Board’s various committees. Read more from page 80.
• The Board’s delegation of authority within its governance framework contributes to role clarity and the effective exercise of responsibilities across the Board’s various committees and within the broader business. Read more from page 89.
• 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.

We have well-entrenched structures within the Group to ensure that proper assurance and oversight are given to strategic and operational performance. The Board undertakes a number of discussions during the year related to strategy, performance, governance and risk management. The details of material issues discussed by the Board, as well as the decisions and actions arising, are set out in more detail in this overview.

The Board conducted its annual review of the corporate governance charter, ensuring it was updated to align with best practice.

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.
The Board is confident that the Group’s governance framework, supported by its Board committees and related administrative structures and 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 and transformation objectives

The Board committees

The Board is supported by the executive, audit, risk and compliance, remuneration, nominations, and corporate governance, corporate finance, 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. The charter is reviewed annually to ensure that the committee mandates remain current and effective and that the committee framework and related administrative structures and compliance processes, contributes to role clarity and the effective exercise of authority and responsibilities within the broader Group.

The Board operates with a governance framework that underpins all Group activities. The Board is confident that the Group’s governance framework, supported by its Board and its committees, is effective, appropriate and aligned with relevant local and international codes and best practices.

Board committees

The Board is supported by the executive, audit, risk and compliance, remuneration, nominations, and corporate governance, corporate finance, 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. 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.

Audit, risk and compliance committee

The committee provides independent oversight and assessment of the Group’s risk-management processes, legal and regulatory compliance, financial reporting, business and financial controls, and internal and external audit processes and acts as a beacon between the Board and external and internal auditors.

Members and attendance

J van Rooyen (Chair)* 2/2
M Cassim 5/5
D Friedland 5/5
H Herman 5/5
A Matsha 5/5
A van der Merwe 5/5

The nominations committee held frequent ad hoc meetings with all non-executive directors during the financial period to discuss and guide the CEO succession plan, as well as committee membership.

In October 2020, the Board combined the nominations committee with the corporate governance committee, and the inaugural meeting of the combined committee was held in February 2021. The combined committee is responsible for identifying and evaluating suitable candidates for possible appointment to the Board and its committees, and ensuring that the committee structures, practices and structures of the Board and its committees are effective, appropriate and aligned with relevant local and international codes and best practices.

Nominations and corporate governance committee

The nominations committee is tasked with implementing the strategy of the Board. It serves as the Chair Operating Decision Maker (CODM) of the Group, managing the day to day operations of the Group, to ensure sustainable value creation for all stakeholders. The CODM meets regularly.

Richard van Rensburg (CEO) retired and March 2021. His position on the executive committee and the Board will not be filled.

Richard Brasher (CEO) retired and April 2021. His successor, Peter Boone, joined the executive committee in January 2021.

Executive committee

The executive committee is tasked with implementing the strategy of the Board. It serves as the Chair Operating Decision Maker (CODM) of the Group, managing the day to day operations of the Group, to ensure sustainable value creation for all stakeholders. The CODM meets regularly.

Richard van Rensburg (CEO) retired and March 2021. His position on the executive committee and the Board will not be filled.

Richard Brasher (CEO) retired and April 2021. His successor, Peter Boone, joined the executive committee in January 2021.

Employee share incentive trust

The Group’s employee share incentive schemes are managed in a responsible and appropriate manner, with fair, market-related rewards aimed at attracting and retaining skilled employees who will deliver the objectives of the Group’s long-term strategy.

Hugh Herman retired from the trust at the close of the 2021 financial period on 28 February 2021.

Members and attendance

G Ackerman-Chief 2/2
H Herman 2/2
A Jakoet 2/2
A Matsha 2/2
J van Rooyen 2/2

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

Jeff van Rooyen, lead independent 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.

**February 2021**

<table>
<thead>
<tr>
<th>Independent non-executive directors</th>
<th>Non-executive directors (including our Chair)</th>
<th>Executive directors</th>
<th>Directors at the end of the 2020 financial period</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>3</td>
<td>5</td>
<td>15</td>
</tr>
</tbody>
</table>

**May 2021**

<table>
<thead>
<tr>
<th>Independent non-executive directors</th>
<th>Non-executive directors (including our Chair)</th>
<th>Executive directors</th>
<th>Directors at the date of this report</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>3</td>
<td></td>
<td>14</td>
</tr>
</tbody>
</table>

The non-executive directors are independent of any academic qualifications, business experience, gender and race, resulting in a balanced Board. Read more from page 96.

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 perform valuable and long executive roles alongside the executive committee, focused on corporate social investment, transformation and customer relations.

### Controlling shareholder representation on the Board

The non-executive Chair 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 92 years’ experience in the Group. Their wealth of retail knowledge assists the Group in making decisions for the benefit of all stakeholders.

Our long-standing independent non-executive director is Hugh-McGregor, who has indicated his intention to retire from the Board at the 2022 annual general meeting. While the Board will miss their wisdom and experience, succession planning has ensured that, following recent appointments to the Board, there will remain sufficient capacity to fulfill Board functions, including that of the LID.

The Board has composed the non-executive directors in line with King IV, with at least a third of the independent non-executive directors resigning at each annual general meeting, including long-serving directors who serve one-year terms.

### Board development focus areas for the 2022 financial period

- Risk management in general, with a specific focus on cyber security
- The effectiveness of information technology, particularly in effectively serving customers
- ESG reporting

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 long term.

### Board director tenure

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of years</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5</td>
<td>3</td>
</tr>
<tr>
<td>5 – 10</td>
<td>3</td>
</tr>
<tr>
<td>10 – 15</td>
<td>10</td>
</tr>
<tr>
<td>&gt; 15</td>
<td>6</td>
</tr>
</tbody>
</table>

The Board has established a good balance between the experience of long-standing directors and the fresh insights from more recently appointed directors. There is a balance of knowledge, skills, experience, diversity and independence.

### Director appointment and rotation

At least a third of non-executive directors resign at each annual general meeting, including long-serving directors who serve one-year terms.

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.

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. Consideration will be given to raising the diversity percentages in the coming year.
OUR GOVERNANCE STRUCTURE (continued)

Independence of non-executive directors

At the end of each term of office, whether one year or three years, the independent non-executive directors and the Chair jointly evaluate directors’ independence.

1 year

3 years

The Company Secretary distributes an annual questionnaire, which gauges the independence of each non-executive director.

The questionnaire is completed by each non-executive director and submitted to the Chair for consideration.

Following a discussion between the Chair and each director, the Chair reports to the nominations and corporate governance committee as to independence.

The committee interrogates the Chair’s report before making a recommendation to the Board for a final decision regarding the independence of each non-executive director.

If so agreed, that director will be nominated for re-election by shareholders at the Company’s annual general meeting.

We consider factors such as:

- The director’s involvement with other companies
- External directorships held
- Relationships with material suppliers and competitors
- Material contracts with the Group, if any
- Whether the director had been employed by the Group in an executive capacity during the preceding three years
- Whether the director’s fees represented a material part (10% or more) of their wealth or income

By mutual consent the director may be considered for re-election.

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 his or her capacity to act in an independent manner.

2020

2021

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. For detail on Board reaction to some shareholder concerns, please read from page 101. 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 longer prospects.

Please refer to the message from our Chair on page 7 and our Corporate Governance Report for further information on the Board’s key focus areas this year.
Non-executive directors

Gareth Ackerman (63)
Chair
BSc(Si), CMS and AMP (Dipl)
• Appointed 1990
• Years of service to the Group: 37
• Years of service on the Board: 31
• Chair of the nominations and corporate governance committee
• Chair of 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 1993 as an executive director, until becoming a non-executive director in 1999. From 2002 to 2010, Gareth was Chair 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 Chair of Pick n Pay Stores Limited.

Among his other involvements, Gareth is co-chair of the Consumer Goods Council of South Africa and is a previous co-chair of the international Consumer Goods Forum. He is also a trustee of the Massianne Fund and was a member of the international board of the Young Presidents’ Organization (YPE). He chairs the Ackerman Family interests.

David Robins (67)
Chair
BBa (University of Stellenbosch), CA(SA)
• Appointed 2002
• Years of Service to the Group: 27
• Years of Service on the Board: 19

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 Chair of the Group, as an executive director. During 2018, he retired from his executive position. He remains on the Board as a non-executive director and as a representative of the controlling shareholder.

Following his 34-year career in the finance team of the Group, Baker retired as CFO and executive director 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 capacity as a non-executive director.

Baker is deputy chair of the UCT finance committee.

Lerena Olivier (45)
Chief Executive Officer (CEO)
BA
• Appointed 2020
• Years of service on the Board: 8
• Years of service to the Group: 10

Lerena joined the Group ten years ago, taking responsibility for financial reporting and the finance team in the Pick n Pay Group’s finance division. During her 19 years of experience in JSE-listed companies in the retail sector, Lerena has gained expertise in finance, risk management, strategy, accounting and tax.

Lerena is the CEO of Systemic Logic Group, a global financial innovation, data and technology disruptor, specializing in emergent business models. A leader with extensive knowledge of the African and global markets, spanning across various business domains including group strategy, talent design, marketing and communication as well as data, technology and innovation. Prior to Systemic Logic Group, Aja was the head of inclusive banking at Standard Bank Group. She is the Chair of the Africa Business Angel Network, an Africa-wide umbrella organization for all African business angels. She has been recognized as one of Africa’s 1,000 most powerful women.

Hugh Herman (BO)
Chief Financial Officer
BA (University of Cape Town), CA(SA)
• Appointed 1976
• Years of service on the Board: 45

Hugh was a partner at law firm Sonnenberg Hoffmann Galombik before joining the Group in 1976. He was managing director of Pick n Pay from 1986, before joining Investec in 1993. Hugh was appointed group chair of Investec Bank Limited in 1994, a position from which he retired in 2011. Hugh remains chair of Ninety One Africa (previously Investec Asset Management Limited).

Independent non-executive directors

Susanne Ackerman-Berman (56)
Executive Director
BA, Fellow: Aspen Business Institute, First Movers
• Appointed 2010
• Years of service on the Group: 26
• Years of service on the Board: 11
• Chair of the social and ethics committee

Following broad executive experience in the Group, Susanne was appointed Director of Transformation in 2007. In addition to her executive contribution to the Group, she was appointed to the Board as a representative of the contingent shareholder in March 2010.

Susanne is active in many areas of philanthropy across different sectors of society. In particular, she is a passionate proponent of enterprise development. She formed the Feed the Nation Foundation in response to the COVID-19 pandemic; is a chair of the Ackerman Pick n Pay Foundation and heads the Pick n Pay Enterprise Development Division. Susanne is a trustee of the TMF Foundation for Young Children.

Mariaam Cassim (39)
Non-executive director
CASASA, MBA
• Appointed 2020
• Years of service on the Board: 1

Mariaam is the Chief Executive Officer of Vodacom Financial and Digital Services and a member of the Vodacom Group’s Executive Committee. Mariaam’s professional experience includes Corporate Finance and Deal Structuring, Mergers and Acquisitions, Debt Structuring and Commercial Evaluation. Her expertise for innovation, disruption and new development allows Mariaam to generate creative business solutions, which have a strong purpose element and thereby benefit as well as society. Mariaam served on the Board of Super Group Limited until December 2020.

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.

David Friedland (67)
Managing Director
CASASA
• Appointed 2013
• Years of service on the Board: 8
• Other listed company directorships: Investec Limited, Investec Asset Management Limited

David is the CEO of SystemsLogic Group, a global financial innovation, data and technology disruptor, specializing in emergent business models. A leader with extensive knowledge of the African and global markets spans across various business domains including group strategy, talent design, marketing and communication as well as data, technology and innovation. Prior to SystemsLogic Group, Aja was the head of inclusive banking at Standard Bank Group. She is the Chair of the Africa Business Angel Network and the Numeric Board of Africa. She also sits on the boards of Nordic Female Business Angel Network and the Numeric Board of Africa. She is a Fellow of the Africa Leadership Initiative member of the International Women’s Forum and has been named one of Africa’s 1,000 most powerful women.

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 and Commercial Evaluation. Her expertise for innovation, disruption and new development allows Mariam to generate creative business solutions, which have a strong purpose element and thereby benefit as well as society. Mariam served on the Board of Super Group Limited until December 2020.
Independent non-executive directors (continued)

Haroon Bhorat (52)
PhD in Economics
• Appointed 2010
• Years of service on the Board: 11
• Other listed company directorships: Sygnia Asset Management [Independent non-executive Chair]

Haroon is Professor of Economics and Director of the Development Policy Research Unit at the University of Cape Town. He is currently a member of the Presidential Economic Advisory Council (REAC), established in 2015 by President Ramaphosa to generate new ideas for economic growth, job creation and addressing poverty in South Africa. Haroon is the Independent Non-Executive Chair of Sygnia and is also Chair of the Nimbble Group. Haroon is a Non-Resident Senior Fellow at the Brookings Institution in Washington, DC – the world’s leading global think tank. He was recently invited to join the UCT College of Fellows. He was a member of the World Bank’s Advisory Board of the Commission on Global Poverty and is a member of the Programme Committee of the 2021 International Economic Association World Congress. His career appointments include serving as an economic advisor to former Minister of Finance Pravin Gordhan and as former presidents Thabo Mbeki and Kgalema Moloanto, formerly serving on the Presidential Economic Advisory Panel.

Jeff van Rooyen (71)
BCom (SA), Honours BCompt, CA(SA)
• Appointed 2007
• Years of service on the Board: 14
• Lead independent director (LID)
• Chair of the audit, risk and compliance committee and corporate finance committee
• Other listed company directorships: Exxaro Resources Limited [Independent non-executive Chair]

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, chair 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 chair of the Financial Reporting Standards Council, executive officer of the Financial Services Board, member of the Advisory Committee, Faculty of Economics and Management Sciences of the University of Pretoria and director of MTN Group Limited. Jeff stood down as Chair of Exxaro Resources Limited at the AGM held in May 2021.

Annamarie van der Merwe (57)
B.Juris, LLB, LLM, EMP
• Appointed 2020
• Years of service on the Board: 1
• Other listed company directorships: Engta Africa and IAMGOLD Corp

Annamarie is the Executive Chair of the FluidRock Governance Group, a business that she co-founded approximately 16 years ago. Annamarie has been a corporate lawyer and company secretary of companies in the listed environment for more than 30 years. She was until recently 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 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 16 years and currently chairs the board of the Bureau of Food and Agricultural Policy NPC (BFAP).

Debra Muller (59)
Company Secretary
BA LLB
• Appointed 2010
• Years of service to the Group: 15

Debra was admitted as an attorney in 1988. From 1994 she assisted the Group as a legal consultant, taking a permanent position as in-house legal advisor in 2008, working with contracts, compliance and disputes. Appointed as Company Secretary to the 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.

Honorary life presidents

Raymond Ackerman
Years of service: 54

Wendy Ackerman
Years of service: 54

Sector experience

Corporate social responsibility
Legal compliance
Logistics
Climate change
Risk management
Retail
Human resources
Sales and marketing
Finance
Information technology
Governance
Strategy

Members of:

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

Refer to page 91 for insight into the Board’s overall sector experience.
The Group has an ambition to build the most skilled and talented retail business in southern Africa. In order to do so, we need to be the employer of choice for anyone looking to build a career in the retail industry.

The year in review

The Board is exceptionally proud of the dedication and hard work of our Pick n Pay and Boxer colleagues across the country, and in the rest of Africa, who have embraced their responsibility as frontline essential workers throughout the Covid-19 crisis. Our teams, under the stewardship of Richard Brasher and his senior executive team, have not only kept our stores open, safe, and fully stocked of essential food and groceries, but have remained keenly focused on delivering progress against the Group’s long-term strategic objectives.

It has been a year of unprecedented disruption, resilience and resolve. The FY21 financial results reflect the significant impact of the Covid-19 pandemic on Group sales and earnings, mitigated by the actions of a strong and agile management team. The remuneration committee’s role to balance the interests of the business, its staff and its shareholders has never been more important. The committee has exercised careful and considered judgment in its remuneration decisions throughout the year, ensuring that its policies have remained fair and relevant under exceptional circumstances.

The remuneration committee met more regularly during the year to understand the short and longer term impact of the Covid-19 pandemic on Group earnings, and to deliberate the significance of the earnings impact for the Group’s remuneration policies. The following issues were addressed:

- Exceptional circumstances
- Recognition of the more vulnerable employees
- Setting short-term and long-term performance targets which appropriately reflect the earnings impact of Covid-19 trading restrictions and all related costs
- Appreciation bonuses: frontline employees
- Pay freeze: non-executive and executive directors, and all senior and middle management employees
- Salary increases: recognising the more vulnerable employees at lower income levels
- Reward: setting short-term and long-term performance targets which appropriately reflect the earnings impact of Covid-19 trading restrictions and all related costs
- Retention: ensuring variable incentives are adequate to achieve the retention of key personnel under exceptional circumstances

Implementation of the Group’s remuneration policies during the year, and remuneration paid to executive and non-executive directors

The Group’s remuneration philosophy, policy and framework

In accordance with the requirements of King IV, the remuneration report is divided into the following three sections:

Section 1: Committee Chair’s report

Chair’s background statement in respect of the remuneration committee’s focus areas, deliberations and decisions taken during the year

Section 2: Overview of remuneration policy

The Group’s remuneration philosophy, policy and framework

Section 3: Implementation of remuneration policy

Implementation of the Group’s remuneration policies during the year, and remuneration paid to executive and non-executive directors

The role and responsibility of the remuneration committee

The remuneration committee assists the Board to formulate and administer an effective remuneration strategy that:

- meets all legislative and regulatory requirements
- delivers on the Group’s commitment to fair, transparent and responsible remuneration
- is balanced in the best short- and long-term interests of the Group and its stakeholders
- is aligned with the Group’s long-term strategic objectives

The remuneration committee is mandated by the Board to ensure that the Group’s remuneration policy achieves its key objective of sustainable value creation over the short-, medium- and long-term.

The Group’s remuneration policy incentivises performance that delivers on the Group’s strategic plan. Performance is measured against clear individual and Group performance targets. Remuneration paid to executive directors and senior management must be appropriate, fair and reasonable, designed to attract, motivate and retain a diverse and high-performance 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 specific focus on executive directors, senior management and non-executive directors.

Members and attendance at meetings

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.

The remuneration committee comprises the independent non-executive directors and the non-executive directors:

- Audrey Mothupi (Chair)*
- Haroon Bhorat**
- Gareth Ackerman
- Hugh Herman (Retired Chair)*
- Aboubakar Jakoet
- Jeff van Rooyen
- Marlon Bhengu

* Audrey Mothupi was appointed as Chair of the remuneration committee on 1 March 2021, replacing Hugh Herman who resigned from the committee effective 28 February 2021.
** Haroon Bhorat was appointed to the remuneration committee in August 2020.

Independent external advisors

The remuneration committee ensures that the Group remains up to date with evolving legislation and remuneration practices across the retail industry through ongoing training, research and monitoring. Independent and objective expert advice is obtained as required, including in respect of industry benchmarking and the fair and transparent structure of variable short-term and long-term benefits in order to drive performance and achieve retention.

We attract staff by providing competitive pay and benefits, access to skills training and development, career advancement and recognition for a job well done.
### Key focus areas for the remuneration committee this year

The remuneration committee’s deliberations this year were dominated by the financial and operational impacts of the Covid-19 pandemic, and the committee’s clear objective of providing staff at all levels of the business with fair and responsible remuneration under difficult circumstances, with a keen focus on the retention of key talent over the longer term.

The following were the key focus areas of the remuneration committee during the year:

- The fair and considered application of voluntary and structured severance programmes, implemented to further the Group’s productivity and efficiency objectives under the Group’s modernisation programme, Project Future
- The review of the Group’s performance against its employment equity and gender targets, including an analysis of underlying statistical data to ensure race and gender pay parity across all levels of the business
- Reviewed and approved FY21 salary freezes for executive and senior management, and fair and responsible increases for staff at lower income levels
- Reviewed and approved the FY21 short-term incentive targets
- Reviewed and approved the Group’s 2020 cash retention scheme (CRS) award to key members of middle-management
- Revised the long-term incentive targets for the Group’s outstanding forfeitable share plan awards, as a consequence of the financial impact of the Covid-19 pandemic
- Reviewed and approved the 2020 award of long-term share incentives to executive and senior management under the Group’s restricted share plan (RSP), with deferred dividend rights, and appropriate long-term performance targets
- Formulated appropriate retirement packages for CEO Richard Brasher and CIO Richard van Rensburg, including the early delivery of long-term share incentives and the payment of retirement gratuities. The remuneration committee extends its sincere thanks to Richard Brasher and Richard van Rensburg for their valuable contributions, and particularly to CEO Richard Brasher for his incredible leadership over the Covid-19 crisis. The committee wishes them well in their retirement.

As required by King IV and the JSE Listings Requirements, Section 2 and Section 3 will be presented separately to our shareholders for non-binding votes at the AGM on 28 June 2021. In the event that either the remuneration policy or the implementation report receives 25% or more dissenting votes, the Group will take the following steps:

1. Issue a SENS announcement regarding the outcome of the AGM voting results
2. Schedule collective and/or individual shareholder engagements as appropriate to determine the reasons for the dissenting votes, and take all reasonable steps to resolve legitimate shareholder concerns
3. Provide participating shareholders with a formal response, noting all the concerns raised and providing detailed responses where changes will be made to address concerns

The remuneration committee values open and constructive engagement with shareholders. We encourage shareholders to engage with management and the committee on all material remuneration concerns to ensure that shareholders are fully informed when voting on the Group’s remuneration policy and the application thereof. Please direct all comments and queries to our Company Secretary via email at demuller@pnp.co.za

### AGM and shareholder engagement

The Group’s FY20 remuneration policy, remuneration implementation and directors’ fees were approved by shareholders at the AGM held on 4 August 2020 as follows:

<table>
<thead>
<tr>
<th>Advisory vote 1</th>
<th>Advisory vote 2</th>
<th>Special resolution 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>83.2%</td>
<td>76.8%</td>
<td>78.4%</td>
</tr>
<tr>
<td>Endorsement of remuneration policy</td>
<td>Endorsement of implementation report</td>
<td>Approval of non-executive directors’ remuneration</td>
</tr>
</tbody>
</table>

A small number of shareholders engaged with the remuneration committee before and after the AGM held on 4 August 2020 around the following issues:

<table>
<thead>
<tr>
<th>Shareholder concerns raised</th>
<th>Committee response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair’s fee</td>
<td>The Chair’s fee reflects the active role the Chair plays in formulating and steering the Group’s overarching corporate governance framework, with a particular focus on environmental and social responsibility. Please refer to page 113 for further information.</td>
</tr>
<tr>
<td>The tenure of long-serving directors</td>
<td>The Group has established a good balance between the wisdom and experience of long-standing directors, and the fresh insights from more recent appointees. However, the Board acknowledges that long tenures can create concerns around director independence. Hugh Herman retired as remuneration committee Chair at the end of the year, and relinquished all other committee memberships. Hugh remains as a highly skilled and valued member of the Board.</td>
</tr>
<tr>
<td>Disclosure of variable incentive scheme performance targets</td>
<td>The remuneration committee could not disclose FY21 short-term and long-term management performance targets in its report to shareholders last year, as the sales and earnings impact of the Covid-19 pandemic was not reasonably known at the time of the publication of the report. Performance targets have since been determined and are disclosed from page 110.</td>
</tr>
<tr>
<td>Minimum shareholding requirement (MSR) for executive directors</td>
<td>The Group’s long-term share incentive schemes have been effective to date in aligning the interests of executive directors with those of shareholders. An MSR has been included in the CEO contract for Pieter Boone, requiring Pieter to retain 50% of the shares delivered to him under the Group’s share incentive schemes, after the settlement of tax. The Group is currently considering an appropriate MSR policy for its broader executive team.</td>
</tr>
<tr>
<td>Employee loans</td>
<td>The Group provides employees with access to low-interest loans from the Group, under specific responsible lending requirements, primarily to assist with the acquisition of residential property. The Group acknowledges the governance concerns around the provision of financial assistance to employees; however, this broad-based incentive reflects the Group’s commitment to the economic upliftment of its employees.</td>
</tr>
</tbody>
</table>

In the below instances, engagement resulted in changes to the remuneration policy in 2021:

<table>
<thead>
<tr>
<th>Shareholder concerns raised</th>
<th>Committee response and rationale for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive share option awards</td>
<td>The remuneration committee replaced the share option scheme with a cash retention scheme (CRS) during the year. There will be no further share option awards. The CRS is targeted at the retention of key middle-management personnel with a specific focus on transformation, and no awards will be made to executive or senior management. Please refer to page 107 for further information.</td>
</tr>
<tr>
<td>Dividend rights under the forfeitable share plan (FSP)</td>
<td>The Group received shareholder approval at the 2020 AGM to amend the rules of the Group’s forfeitable share plan (now referred to as the restricted share plan), to allow for greater discretion around participant dividend rights. The remuneration committee used this discretion in its 2020 award of deferred dividend rights until the successful vesting of the scheme. Please refer to page 108 for further information.</td>
</tr>
</tbody>
</table>

### Future focus areas

We will continue to differentiate reward in terms of performance and address under-performance – this includes undertaking a thorough review of our performance appraisal process.

Our focus on the development and retention of key successors will continue, as emphasised by the CRS.

Diversity among senior leaderships remains critical, with a focus on gender and race.

We will continue to ensure fair and equitable remuneration practices.

Audrey Mothupi
Chair Remuneration committee
27 May 2021

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**Endorsement of remuneration policy**

- **Endorsement of remuneration policy**
  - **For**: 96.8%
  - **Against**: 3.2%

**Advisory vote 1**

- **Endorsement of implementation report**
  - **For**: 76.8%
  - **Against**: 23.2%

**Advisory vote 2**

- **Approval of non-executive directors’ remuneration**
  - **For**: 78.4%
  - **Against**: 21.6%
SECTION 2 Overview of remuneration policy

Remuneration philosophy

The Group’s remuneration philosophy is to build a diverse and high-performance team, that is fairly rewarded and incentivised to deliver on the Group’s strategic objectives over the short, medium and long-term. The Group’s framework of remuneration policies is designed to provide our employees with fair and balanced reward that recognises the attainment of short-term goals, while incentivising long-term sustainable value creation.

The interests of our team are aligned with those of our shareholders through governance practices, which include the following key principles:

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Developing diversity and talent

- The Group provides equal opportunities to people from all walks of life, to ensure our team adequately reflects the communities we serve.
- Remuneration packages at all levels are designed to attract, develop, motivate and retain the most talented staff in the retail industry.

Employment equity participation – %

<p>|</p>
<table>
<thead>
<tr>
<th>FY21</th>
<th>FY20</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive and top management</td>
<td>44</td>
<td>74</td>
</tr>
<tr>
<td>Senior and middle management</td>
<td>93</td>
<td>77</td>
</tr>
<tr>
<td>Professionally qualified junior management</td>
<td>74</td>
<td>77</td>
</tr>
<tr>
<td>Skilled technical junior management</td>
<td>26</td>
<td>23</td>
</tr>
</tbody>
</table>

Efficient and productive workforce

- The Group is committed to building a high-performance culture that rewards efficiency and productivity.
- Regular reviews are undertaken to ensure operational efficiency and cost discipline is achieved through ongoing improvements in employee structures, employee scheduling and the centralisation of support services.
- Group and individual performance targets increasingly focus on key measures of employee efficiency and productivity.

Responsible executive remuneration

- Executive directors are fairly rewarded for creating and delivering sustainable shareholder value over the short, medium and longer-term, in line with the Group’s strategic objectives.
- The executive team is not unduly rewarded where performance does not meet expectations.
- The remuneration committee strives to find a reasonable balance to retain key executives and attract quality executives from outside the business, to ensure delivery against the Group’s strategic objectives.
- Long-term share incentive schemes align executive and shareholder interest and promote a culture of executive share ownership.

Fair and equitable remuneration

- The Group provides a fair wage for all members of staff to help our people succeed both in and outside of work.
- Guaranteed pay and variable benefits are benchmarked against industry norms to ensure our staff are rewarded competitively in relation to the broader employment market, and the retail industry specifically.
- Independent experts assist with remuneration benchmarking to ensure that decisions are objective and fair. Advisors include PWC, REMchannel and DS Capital.
- Remuneration is generally positioned at the market median, with key or scarce skills remunerated in the upper quartile of the market.
- The Group is committed to furthering the economic empowerment and well-being of employees and as such the provision of retirement and health care benefits is a key part of our employee value proposition, alongside opportunities for ongoing skills development, bursaries and study grants.
- Comprehensive statistical analysis is performed on an ongoing basis at all levels of staff with reference to the scale of each role and the experience and tenure of each staff member to identify and correct any differential pay rates based on either race or gender, and to ensure employees are always rewarded fairly in relation to their peers, in adherence to the principle of equal pay for equal value.
- There is equal opportunity across the Group for growth and development and staff are recognised and advanced based 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.

Our commitment to employees:

- We take deliberate action to achieve employment equity and gender targets
- We are equitable in our recruitment
- We guarantee equal pay for equal work
- Everybody has the opportunity to progress in the Group
Remuneration framework

The Group’s remuneration framework, for management employees, is designed to develop and retain a high-performance team – providing fair and balanced reward that recognises the attainment of short-term goals, while motivating sustainable value creation, strongly aligned with the Group’s strategy and the long-term interests of shareholders.

Variable pay – aligned with the delivery of Group strategy

The Group’s variable remuneration policies are strongly aligned with the Group’s long-term plan, designed to incentivise the delivery of the Group’s financial and operational objectives over one- and three-year periods. The Group’s progress against its long-term strategy has been clearly and consistently reported against six strategic pillars. Please refer to page 50 for further information.

Primary targets – sales, profit before tax and exceptional items (PTAE) and comparable headline earnings per share – contained within the short-term bonus scheme and long-term executive share plan align management interests with those of shareholders.

Secondary targets drive management performance against a balanced score-card of financial, operational, transformation and good business targets (linked to the long-term environmental, social and governance objectives of the business), and include:

- Sales growth
- Margin expansion
- Investment returns
- Working capital targets
- Customer service improvements
- Growth in online sales and improved availability
- Expanded loyalty programmes
- Increase in commissions and other income
- Sales growth
- Low cost operating model
- Range and working capital targets
- Currency risk mitigation
- Social investment
- Reduction in food and other waste
- B-BBEE performance
- Resource efficiency

Pick n Pay
SA’s most trusted retailer

Boxer
Africa’s favourite discounter

Efficiency
Bearing down on costs

Innovation
Value-added services

Afri mandor
Profitable footprint in the rest of Africa

Doing good is good business

The basis for calculating STIs and LTIs are formulaic in nature. However, participation in variable incentive schemes is always at the discretion of the remuneration committee. The committee may exercise discretion to award ex gratia payments where extraordinary value has been created or elect to withhold incentives where individual performance does not warrant award.

The Group benchmarks its guaranteed pay and benefits against a broad list of listed and unlisted comparator companies. These include Shoprite Holdings, Woolworths Holdings, Massmart Holdings, The Foschini Group, Clicks Group, and Pepkor Holdings.

Remuneration mix

Remuneration is balanced between guaranteed remuneration and variable short- and long-term incentives in order to align employee and shareholder interests over the long term. In order to achieve a high-performance culture, a higher proportion of variable remuneration is applied to senior management personnel to drive performance, with a greater emphasis on guaranteed pay (GP) for middle and junior management.

Variable remuneration consists of short-term incentives (STIs) and long-term incentives (LTIs) and is considered “at risk pay” as it is dependent on the attainment of performance targets, closely aligned to the Group’s long-term strategic plan. Performance targets are set within the Group’s overall risk appetite, with the objective of being challenging but realistic within the broader context of the Group’s economic and trading environments. The value of STI and LTI remuneration increases as targets are met and exceeded, in order to encourage the attainment of stretch targets.

The table below presents the potential remuneration mix for the Group’s executive and top management (including CEO and CFO) against agreed performance targets, based on a multiple of basic cash monthly salary.

<table>
<thead>
<tr>
<th>Target Level</th>
<th>GP 45%</th>
<th>STI 25%</th>
<th>LTI 30%</th>
<th>GP 55%</th>
<th>STI 25%</th>
<th>LTI 35%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stretch</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threshold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Assumes the threshold target is not met and no STI cash bonus is awarded and no LTI shares are allocated.

Guaranteed pay

Fixed salaries and benefits across the Group are set at levels that are competitive with the rest of the market. This enables the Group to attract, motivate and retain the right calibre of diverse people to achieve our strategic business objectives.

Variable pay

Variable incentives are designed to reward and incentivise performance over one- to three-year periods. Variable benefits are closely linked to the achievement of Group, divisional operating units and individual performance objectives.

Base pay

- Tailored to reflect the relative skill, experience, and individual contribution of each employee
- Remuneration is directly linked to formal annual performance assessments
- Annual increases reflect the projected consumer price index and comparable increases in the general and retail market

Benefits

- Vehicle allowances
- Healthcare benefits
- Retirement funding
- Leave
- Training
- Bursaries and study grants
- Long-service awards

Short-term incentives (STI)

- Annual cash bonus – rewards qualifying employees based on the attainment of key performance targets
- Other, more frequent bonuses are paid to qualifying staff at store level

Long-term incentives (LTI)

- Cash retention scheme (CRI) – retention and reward aimed at talented middle-management
- Restricted share plan (RSP) – retention and reward aimed at key top and senior management

RSP  CRI
Short-term incentives (STI)

The annual short-term bonus scheme aims to drive short-term performance in a measured and sustainable way. The scheme incentivises the achievement of the Group’s financial and non-financial targets as set out in the Group’s one-year plan, while retaining key skill and talent over the longer term.

The Group follows a formulaic approach to the calculation of the short-term bonus:

- The Group must first attain the threshold target set by the remuneration committee for profit before tax and exceptional items (PBTAE) before any bonus is payable to the management team. This gatekeeper PBTAE target is applied at Group or divisional level as appropriate.
- The PBTAE target determines the maximum value of the short-term bonus pool based on a formal and transparent pay-out multiple linked to participants’ basic monthly salary.
- The bonus pool increases as threshold, target and stretch PBTAE hurdles are met.
- The value of the short-term bonus paid to each participant is determined through a balanced scorecard of Group performance and individual key performance indicators (KPIs). Performance targets are determined and communicated to participants annually in advance.

Other short-term bonuses

Other, more frequent incentive bonuses are paid to qualifying staff at store level. These incentives are linked directly to staff at store level. These incentives are linked directly to stockholdings, shortages and waste.

Long-term incentives (LTI)

The Group maintains a long-term cash retention scheme for middle-management employees and a long-term cash incentive scheme for our senior management team. Long-term incentives are an integral part of the Group's remuneration philosophy, to ensure the long-term retention of skilled and promising talent at all levels of management and align the interests of senior executives with those of shareholders.

Cash retention incentive scheme (CRI)

The Group introduced the CRI scheme during the year, which replaced the historic share option scheme. Please refer to page 112 for further information. The objective of the scheme is the recognition and retention of key talent at senior and middle-management levels, while advancing the Group’s employment equity and gender equity targets. The cash award is based on a fixed multiple of each participant’s monthly salary, and vests after a period of three years. Retention in a highly contested retail environment is the primary objective of the scheme and, as such, no performance conditions are attached. Vested is only dependent on the employee remaining in the employment of the Group over the specified vesting period. If a participant leaves the employment of the Group before the end of the vesting period, all unvested cash awards will lapse (subject to good leaver provisions). Participants are identified through the Group’s formal performance appraisal process, and awards are made on an annual basis – allowing for participants to receive rolling annual awards as they progress through the Group.

Restricted share plan (RSP)

The Group’s RSP plan recognises executive and top management employees who have a significant role in delivering Group strategy and ensuring the growth and sustainability of the Group. Through the attachment of performance conditions, the RSP incentivises participating employees to deliver long-term earnings growth in line with the objectives set out in the Group’s long-term strategic plan. An award of shares may also be used to attract talented prospective employees, and progress the Group’s transformation strategy.

The RSP is a modernisation of the Group’s (previously named) forfeitable share plan, following shareholder approval received at the AGM in August 2020 for the remuneration committee to utilise greater discretion in respect of dividend rights granted to participants. Please refer to page 112 for further information.

Eligibility

- The remuneration committee awards zero-strike RSP shares to participants. The value of the award is calculated as a multiple of each participant’s basic salary.
- The number of shares awarded to participants reflects recognised market benchmarks, each participant’s individual contribution to long-term value creation, and other relevant retention and attraction considerations.

Vesting

- The shares are held by a Central Securities Depository Participant (CSDP) on behalf of participants over the time of the vesting period.
- Participants cannot dispose of the shares before the vesting date.
- If a participant leaves the Group before the completion of the vesting period, all shares are forfeited (subject to good leaver provisions).

Performance conditions

- Performance conditions are linked to the Group’s financial performance, with growth in comparable headline earnings per share, adjusted for exceptional items as appropriate, as the primary performance measure.
- Performance conditions are applied on a linear, rising scale, once the threshold target has been met.

Gatekeeper clause

- To ensure that the RSP is aligned with the best interests of the Group and its shareholders, the performance conditions are subject to an overriding gatekeeper condition.
- ROCE must be greater than WACC (excluding any impact from IFRS 16 liabilities) over the vesting period before any RSP shares can vest. This ensures that the Group generates a real return for shareholders before rewarding its management team.

Ownership rights

- Participants have full voting rights over the vesting period.
- Dividend rights are at the discretion of the remuneration committee, and are currently deferred until vesting date.

Legacy share option scheme

The Group’s legacy share option scheme (the 1997 employee share option scheme) was replaced by the cash retention incentive scheme [CRI] in the year under review. Please refer to page 111 for further information. The scheme remains in operation and all outstanding share options previously awarded under the scheme will vest in participants over the next 3, 5 and 7 years, under the original terms and conditions of the awards. No further share options will be awarded under this scheme.

Funding of share incentive schemes

Shareholders have authorised the Board to utilise up to 63.9 million Pick n Pay Stores Limited (PKP) shares to manage the Group’s employee share option and restricted share schemes, representing 13% of issued share capital.

Outstanding share incentives held by employees:

<table>
<thead>
<tr>
<th>Share options</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSP 2018</td>
<td>22</td>
</tr>
<tr>
<td>FSP 2019</td>
<td>19</td>
</tr>
<tr>
<td>FSP 2020</td>
<td>12</td>
</tr>
<tr>
<td>RSP 2020</td>
<td>37</td>
</tr>
</tbody>
</table>

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 PKP.
Implementation of remuneration policy

The implementation report details the key focus areas of the remuneration committee this year, including the important decisions taken to provide fair and balanced remuneration to staff across the business in a year severely disrupted by the Covid-19 pandemic. The remuneration policies applied are consistent with the need for change made to the Group’s long-term share incentive schemes as a result of engagement with shareholders. Please refer to page 101 for further information. No deviations were made in applying the remuneration policy during the year, except for the accelerated vesting of certain share awards on the retirement of executive directors, as detailed on page 113. Tables are provided at the close of this section for a summary of the remuneration packages paid to executive and non-executive directors.

Executive directors and senior management

The remuneration committee evaluated the overall value and composition of guaranteed pay and variable incentives in respect of the CEO, CFO and all other executive directors and senior managers. Executive and senior management remuneration is considered fair and competitive against market benchmarks, and appropriately reflects the role, experience and performance of each individual member of the Group’s senior management team.

CEO salary – Richard Brasher

The CEO basic salary of R10.8 million is unchanged from last year, in line with the pay freeze taken by all members of executive and senior management in FY21. The remuneration committee is satisfied that Richard’s benchmarked basic salary is fair in relation to the market, and fairly reflects his extensive retail expertise and his exceptional contribution to the Group to date. Richard Brasher retired from the Group at the end of April, after a thorough and structured 4-month handover period with new CEO Pieter Boone.

CEO salary – Pieter Boone

Following a comprehensive local and international search, Pieter Boone was appointed as CEO-designate in January 2021 and took over as CEO in May 2021. Pieter is the former Chief Operating Officer of international retail Group Metro AG. A Dutch national, Pieter has broad global experience in the retail, food service and wholesale sectors, and has a strong record of delivering retail growth in challenging and emerging market economies. The remuneration committee has set Pieter Boone’s base salary at R10.8 million for the FY22 financial year and is confident that this is an appropriate market-related salary and a fair reflection of the extensive skill and experience that Pieter brings to the Board and to the Group. The remuneration committee has agreed to award Pieter Boone the following RSP shares as part of his sign-on remuneration package, and to further align his interests with shareholders:

- Award date: June 2021
- Shares: 500 000
- Vesting date: June 2024
- June 2026

The shares are in addition to the Group’s annual programme of incentivisation. Performance conditions will apply linked to growth in comparable headline earnings per share – which will align with the conditions contained within the annual awards to top management.

Annual salary increases

In light of the economic disruption of Covid-19, the remuneration committee agreed a salary freeze for executive directors and all members of the Group’s senior and middle management team in the FY21 financial year. The savings were directed towards increases for frontline staff and colleagues at all junior management grades.

Looking forward to FY22, the Group will continue to provide junior, entry level and non-management staff with higher salary increases relative to more senior colleagues, in recognition of the impact the tough economic climate has on many of our employees.

The average increase for NMBU employees in FY21, as governed by labour union agreements was between 4% and 8% (FY20: 7% – 10%).

Short-term incentive: FY21 annual performance bonus

The remuneration committee determines annual financial performance targets in advance of the Group’s short-term incentive bonus scheme for the coming financial year. As a result of the unprecedented disruption caused by the Covid-19 pandemic at the beginning of the FY21 financial year, the committee postponed its deliberations on short-term performance targets until the full impact of the pandemic on FY21 Group sales and earnings could reasonably be known.

The remuneration committee’s assessment of appropriate short-term performance targets for the FY21 financial year took place over July to October 2020, and took the following material factors into account:

- The government’s risk adjusted strategy to slow the spread of the Covid-19 virus, including the duration and extent of trading restrictions over the sale of non-essential goods and services
- The direct sales and margin impact of those trading restrictions, which impacted up to 20% of the Group’s turnover during the more severe levels of lockdown
- The impact of additional measures taken by the Group to protect the safety of its staff and customers, including reduced trading hours, limits on the numbers of customers in-store, and temporary store closures

Non-executive director remuneration framework

Directors’ fees

- Chair: R1.5 million
- Executive directors: R825 000
- Top management: R150 000
- Senior management: R125 000
- Middle management: R95 000
- Junior management: R65 000
- Other: R50 000

Consultancy fees

- Should 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, considering the nature and scope of the services rendered.

Other benefits

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

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Dover Governance 06

Integrated Annual Report 2021
of the effectiveness of the scheme, which highlighted the following concerns:

- The remuneration committee agreed to discontinue the Group’s long-standing employee share option scheme, following a detailed evaluation of the performance bonus scheme.
- The Group did not meet its primary PBTAE performance target in FY20 and as such no short-term bonuses were paid.
- Richard Brasher CEO 24 times monthly salary
- Short-term bonuses were allocated to executive directors as follows:

The Group delivered PBTAE of R1 583.4 million in FY21, a 16.5% decrease on the prior year, and ahead of the required stretch target of -45%. As a result, a short-term bonus was awarded to all qualifying management personnel, in recognition of the dedication shown in managing and mitigating the impact of the Covid-19 pandemic, and enabling the Group to deliver significant progress in a very difficult year.

As described in Section 2 of this report, the Group’s formal methodology in determining the value of the short-term bonuses paid to participating executives, is based on a balanced scorecard of Group and individual performance. The Group’s primary PBTAE threshold target must be met for a short-term bonus to be considered. Therefore, the short-term bonus is expressed as a multiple of the executive’s monthly salary, allocated on a formulaic basis, based on each executive’s delivery of relevant secondary performance targets as evaluated through a formal performance appraisal process. Please refer to page 107 for further information.

The remuneration committee carefully deliberated appropriate short-term incentive targets for the Group’s management team, within the context of the significant financial impact of Covid-19, and particularly the government-imposed trading restrictions which affected up to 20% of the Group’s revenue in hard lock-down.

The Group delivered PBTAE of R1 583.4 million in FY21, a 16.5% decrease on the prior year, and ahead of the required stretch target of -45%.

The short-term bonuses were allocated to executive directors as follows:

- Executive director
- Designation
- Bonus multiple
- FY21 Rm
- FY20 Rm

Richard Brasher CEO
24 times monthly salary
20.0
–

Richard van Rensburg
CISO
10 times monthly salary
4.0
–

Suzanne Ackerman-Berman Transformation director
8 times monthly salary
3.4
–

Jonathan Ackerman
Customer director
8 times monthly salary
2.0
–

2 The Group did not meet its primary PBTAE performance target in FY20 and as such no short-term bonuses were paid.
3 Lenovo Oliver met her individual super stretch targets for the year, and was awarded an additional 2 times monthly salary in recognition of her performance in respect of funding and liquidity management.

Short-term incentive: FY22 annual performance bonus

The remuneration committee will set new and appropriate short-term performance targets for the FY22, which will take into account all relevant macro-economic conditions, including ongoing uncertainty and volatility related to Covid-19.

Long-term incentives:

Share option scheme

The remuneration committee agreed to discontinue the Group’s long-standing employee share option scheme, following a detailed evaluation of the effectiveness of the scheme, which highlighted the following concerns:

- Alignment with shareholder interests – shareholders expressed concern at the inclusion of senior and executive management in the broad-based retention scheme, without performance conditions attached to the share options awarded.
- Reduced value of the scheme – the sustained under-performance of the South African equity market over the past five years had led to 65% or 15 million of the outstanding share options held by employees having little or no value at the end of FY20; notwithstanding the solid earnings performance delivered by the Group over the same period. The lack of value within the scheme rendered it ineffective as a retention mechanism.

- Simplicity – employees at lower levels of management have demonstrated a preference for cash incentives over more complex share-based incentives.

- Cost of the scheme – the scheme was more costly for the Group than a cash-incentive scheme, without delivering the commensurate value to participants.
- Volatility in the Group’s tax rate – the significant reduction in the value of the Group’s employee share option obligations over recent years had resulted in the reversal of related deferred tax assets, and a material increase in the Group’s tax rate.

The introduction of a more modern and cost-effective cash retention scheme, aimed at the retention of key members of middle management, addresses the issues highlighted above.

No further share options will be awarded. Outstanding share options previously awarded under the Group’s employee share option scheme will vest in participants over the next 3, 5 and 7 years, under the original terms and conditions of the scheme.

Three-year comparable HEPS growth target

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Number of shares</th>
<th>Number of participants</th>
<th>FY20</th>
<th>Base year</th>
<th>Revised three-year comparable HEPS growth target</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSP 2018</td>
<td>2.2m 107</td>
<td>FY18</td>
<td>4%</td>
<td>(4%)</td>
<td>June 2021</td>
</tr>
<tr>
<td>FSP 2019</td>
<td>1.9m 115</td>
<td>FY19</td>
<td>3%</td>
<td>(3%)</td>
<td>June 2022</td>
</tr>
<tr>
<td>FSP 2020</td>
<td>12m 1</td>
<td>FY18</td>
<td>2%</td>
<td>2%</td>
<td>March 2022</td>
</tr>
</tbody>
</table>

The Group delivered comparable HEPS of 235.42 cents in FY21, and 265.58 cents excluding once-off staff compensation costs, exceeding the stretch target set for the 2018 FSP award. As such, 2.2 million shares will be delivered to participants at the end of June 2021.

Long-term incentives:

Executive award under the Group’s restricted share plan (RSP)

At the AGM in August 2020, shareholders approved an amendment to the rules of the Group’s fortable share plan (FSP), allowing the remuneration committee discretion to defer the participants’ rights to dividends under the scheme. The scheme is now referred to as the Group’s restricted share plan (RSP). In issuing RSP 2020, the remuneration committee exercised its discretion and will only be paid to participants on the successful vesting of the scheme, in direct proportion to the number of shares which vest. Going forward, the remuneration committee will annually consider if dividends will be withheld on shares which ultimately do not vest.

The remuneration committee awarded the following RSP shares to executive directors and senior management during the FY21 financial year. The shares are held by a CSSD on behalf of the participants, and do not vest dependent on the attainment of performance targets linked to the growth in headline earnings per share.
Executive retirement – CEO Richard Brasher

Acceleration of share incentives

CEO Richard Brasher did not participate in the Group’s FSP 2019 award as a result of his planned retirement. Given Richard’s unwavering commitment to the Group in the postponement of his retirement, and his exceptional leadership throughout the Covid-19 crisis, the remuneration committee awarded him 12 million FSP shares in 2020. Following the appointment of his successor, allowing Richard to retire in April 2021, the remuneration committee accelerated the vesting of FSP 2020. The shares will vest in full in June 2021.

Retirement gratuity

The remuneration committee awarded Richard Brasher an award of R 5.0 million on his retirement in April 2021. The award was in recognition of the key role Richard Brasher has played in the expansion of the Group’s online offer.

Non-executive directors

The remuneration committee reviewed and recommended non-executive director remuneration to the Board, for shareholder approval at the AGM on 28 June 2021.

In light of the impact that Government measures, intended to contain the spread of the Covid-19 pandemic, had on the Group’s trading environment, coupled with the significant financial impact of the pandemic on customers and staff, the Chair of the Board and all non-executive directors waived their right to CPI-linked and shareholder-approved fee increases in the FY21 year. All FY21 non-executive director remuneration was left unchanged from that received in FY20.

Chair of the Board

In setting the Chair’s proposed annual fee of R49.9 million in respect of FY22, the remuneration committee considered the active role the Chair plays in the corporate governance of the Group and in formulating overarching strategy for the individual subsidiary companies within the Group. The Chair 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. Gareth Ackerman is recused from all discussions in respect of his annual remuneration.

Non-executive directors

Shareholders approved the FY22 directors’ fees at the AGM held in August 2020, agreeing that the FY21 fees be increased by CPI for the 2022 annual financial period.

Non-executive director fees (excluding value-added tax) for the current and proposed periods are as follows:

<table>
<thead>
<tr>
<th>Proposed 2022</th>
<th>Actual 2021</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair of the Board</td>
<td>48 993</td>
<td>46 000</td>
</tr>
<tr>
<td>Lead independent non-executive director</td>
<td>152</td>
<td>145</td>
</tr>
<tr>
<td>Non-executive director</td>
<td>457</td>
<td>435</td>
</tr>
<tr>
<td>Chair of the audit, risk and compliance committee</td>
<td>354</td>
<td>375</td>
</tr>
<tr>
<td>Member of the audit, risk and compliance committee</td>
<td>152</td>
<td>145</td>
</tr>
<tr>
<td>Chair of the remuneration committee</td>
<td>210</td>
<td>200</td>
</tr>
<tr>
<td>Member of the remuneration committee</td>
<td>99</td>
<td>94</td>
</tr>
<tr>
<td>Member of the nominations and corporate governance committee</td>
<td>94</td>
<td>90</td>
</tr>
<tr>
<td>Member of the social and ethics committee</td>
<td>94</td>
<td>90</td>
</tr>
<tr>
<td>Chair of the corporate finance committee</td>
<td>210</td>
<td>200</td>
</tr>
<tr>
<td>Member of the corporate finance committee</td>
<td>142</td>
<td>135</td>
</tr>
<tr>
<td>Trustee of the employee share purchase trust</td>
<td>144</td>
<td>42</td>
</tr>
</tbody>
</table>

1 The nominations and corporate governance committee is chaired by the Chair of the Board, who does not receive an additional fee for chairing this committee.
2 The Chair of the social and ethics committee is an executive director and does not receive an additional fee for chairing this committee.
3 The corporate finance committee is an ad hoc committee. The fees payable are determined in relation to the number of meetings held during the financial period but will not be more than the annual proposed fee.

Malus and claw-back

No incidents were identified in the FY21 financial year.

Total remuneration of executive directors and prescribed officer

Director Designation

<table>
<thead>
<tr>
<th>FY21</th>
<th>R'000</th>
<th>FY20</th>
<th>R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard Brasher1 CEO</td>
<td>10 838</td>
<td>10 690</td>
<td>981.6</td>
</tr>
<tr>
<td>Lonnie Olivier CISO</td>
<td>4 660</td>
<td>3 984</td>
<td>337.2</td>
</tr>
<tr>
<td>Richard van Rensburg2 CISO</td>
<td>5 040</td>
<td>4 365</td>
<td>327.6</td>
</tr>
<tr>
<td>Suzanne Ackerman Transformation director Customer Ackerman director</td>
<td>3 024</td>
<td>281</td>
<td>285.7</td>
</tr>
<tr>
<td>Jonathan CISO</td>
<td>1 512</td>
<td>270.7</td>
<td>278.6</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>24 572</td>
<td>23 682</td>
<td>1 540.0</td>
</tr>
</tbody>
</table>

1 Richard Brasher retired at the end of April 2021 and was succeeded by Pieter Boone who was appointed as CEO designate in January 2021.
2 Aboubakar Jakoet retired as an executive director and was appointed as a non-executive director of Pick n Pay Stores Limited on 6 September 2019.

Pick n Pay Stores Limited

Rating: Baa2

Integrated Annual Report 2021
### Total remuneration of non-executive directors

<table>
<thead>
<tr>
<th>Director</th>
<th>FY21</th>
<th>Total remuneration R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gareth Ackerman</td>
<td>4 660.0</td>
<td>8 430.1</td>
</tr>
<tr>
<td>Hanro Bhorat</td>
<td>362.5</td>
<td>145.0</td>
</tr>
<tr>
<td>Mariam Casim</td>
<td>362.5</td>
<td>145.0</td>
</tr>
<tr>
<td>David Friedland</td>
<td>435.0</td>
<td>145.0</td>
</tr>
<tr>
<td>Hugh Herman</td>
<td>435.0</td>
<td>145.0</td>
</tr>
<tr>
<td>Aboubakar Jakot</td>
<td>435.0</td>
<td>145.0</td>
</tr>
<tr>
<td>Alex Mathole</td>
<td>181.3</td>
<td>75.4</td>
</tr>
<tr>
<td>Audri Mathupi</td>
<td>435.0</td>
<td>145.0</td>
</tr>
<tr>
<td>David Robins</td>
<td>435.0</td>
<td>145.0</td>
</tr>
<tr>
<td>Annamarie van der Merwe</td>
<td>253.8</td>
<td>131.3</td>
</tr>
<tr>
<td>Jeff van Rooyen</td>
<td>435.0</td>
<td>145.0</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>8 430.1</td>
<td>10 908.5</td>
</tr>
</tbody>
</table>

### Share awards held by executive directors

<table>
<thead>
<tr>
<th>Director</th>
<th>Share options</th>
<th>cliff date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard Brasher</td>
<td>2017 nil</td>
<td>400 000</td>
</tr>
<tr>
<td>2018 nil</td>
<td>1 000 000</td>
<td>-</td>
</tr>
<tr>
<td>2020 nil</td>
<td>-</td>
<td>1 200 000</td>
</tr>
<tr>
<td>Total share plan</td>
<td>1 400 000</td>
<td>1 080 000</td>
</tr>
<tr>
<td>Lenera Olivier</td>
<td>2019 58.05</td>
<td>80 000</td>
</tr>
<tr>
<td>2019 58.05</td>
<td>60 000</td>
<td>-</td>
</tr>
<tr>
<td>2019 58.05</td>
<td>60 000</td>
<td>-</td>
</tr>
<tr>
<td>Total share plan</td>
<td>2018 nil</td>
<td>20 000</td>
</tr>
<tr>
<td>2019 nil</td>
<td>100 000</td>
<td>-</td>
</tr>
<tr>
<td>2020 nil</td>
<td>-</td>
<td>120 000</td>
</tr>
<tr>
<td>Restricted share plan</td>
<td>2020 nil</td>
<td>-</td>
</tr>
<tr>
<td>Total share plan</td>
<td>380 000</td>
<td>60 000</td>
</tr>
<tr>
<td>Richard van Rensburg</td>
<td>2016 31.14</td>
<td>487 464</td>
</tr>
<tr>
<td>2017 nil</td>
<td>140 000</td>
<td>(98 000)</td>
</tr>
<tr>
<td>2018 nil</td>
<td>30 000</td>
<td>-</td>
</tr>
<tr>
<td>2019 nil</td>
<td>150 000</td>
<td>-</td>
</tr>
<tr>
<td>Total share plan</td>
<td>2018 nil</td>
<td>1 000 000</td>
</tr>
<tr>
<td>2019 nil</td>
<td>8 000 000</td>
<td>-</td>
</tr>
<tr>
<td>2020 nil</td>
<td>-</td>
<td>30 000</td>
</tr>
<tr>
<td>Total share plan</td>
<td>2019 nil</td>
<td>110 000</td>
</tr>
</tbody>
</table>

1. The Group did not meet its three-year comparable HEPS target required for the full vesting of the 2017 FSP award, and as such a portion of the outstanding shares were forfeited at the discretion of the remuneration committee.
2. The Group delivered three-year performance target for the successful delivery of the 2018 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
3. The Group delivered three-year performance target for the successful delivery of the 2019 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
4. The Group delivered three-year performance target for the successful delivery of the 2018 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
5. The Group delivered three-year performance target for the successful delivery of the 2018 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
6. The Group delivered three-year performance target for the successful delivery of the 2017 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
7. The Group delivered three-year performance target for the successful delivery of the 2018 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
8. The Group delivered three-year performance target for the successful delivery of the 2018 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
9. The Group delivered three-year performance target for the successful delivery of the 2018 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
10. The Group delivered three-year performance target for the successful delivery of the 2018 FSP award. All shares will be delivered to participants at the end of June 2021. Please refer to page 112 for further information.
### Directors’ interest in ordinary shares

<table>
<thead>
<tr>
<th>Director</th>
<th>Balance held at 1 March 2020</th>
<th>Additions/ grants</th>
<th>Disposals</th>
<th>Forfeits</th>
<th>Balance held at 28 February 2021</th>
<th>Beneficial/ non-beneficial interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY21</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gareth Ackerman</td>
<td>direct</td>
<td>309</td>
<td>–</td>
<td>–</td>
<td>309</td>
<td>Beneficial</td>
</tr>
<tr>
<td>indirect</td>
<td>1704 200</td>
<td>8 906</td>
<td>–</td>
<td>–</td>
<td>1713 106</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Ackerman Pick n Pay Foundation</td>
<td>indirect</td>
<td>19 762</td>
<td>–</td>
<td>–</td>
<td>19 762</td>
<td>Non-beneficial</td>
</tr>
<tr>
<td>Ackerman Investment Holdings Proprietary Limited</td>
<td>indirect</td>
<td>101 900</td>
<td>–</td>
<td>–</td>
<td>101 900</td>
<td>Non-beneficial</td>
</tr>
<tr>
<td>Jonathan Ackerman</td>
<td>indirect</td>
<td>1 931</td>
<td>–</td>
<td>–</td>
<td>1 931</td>
<td>Beneficial</td>
</tr>
<tr>
<td>David Friedland</td>
<td>direct – FSP</td>
<td>1 243 307</td>
<td>–</td>
<td>–</td>
<td>1 243 307</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Richard van Rensburg</td>
<td>indirect</td>
<td>122 888</td>
<td>–</td>
<td>–</td>
<td>122 888</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Lorenzo Oliver</td>
<td>direct – FSP/RSP</td>
<td>8 100</td>
<td>32 400</td>
<td>–</td>
<td>40 500</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Richard Brasher</td>
<td>direct</td>
<td>1 240 000</td>
<td>1 200 000</td>
<td>(280 000)</td>
<td>1 220 000</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Jonathan Ackerman</td>
<td>indirect</td>
<td>122 888</td>
<td>–</td>
<td>–</td>
<td>122 888</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Suzanne Ackerman-Berman</td>
<td>direct</td>
<td>120 528</td>
<td>–</td>
<td>–</td>
<td>120 528</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Aboubakar Jalooet</td>
<td>direct – FSP/RSP</td>
<td>758 764</td>
<td>–</td>
<td>–</td>
<td>758 764</td>
<td>Beneficial</td>
</tr>
<tr>
<td>David Fredland</td>
<td>indirect</td>
<td>41 688</td>
<td>10 000</td>
<td>–</td>
<td>51 688</td>
<td>Beneficial</td>
</tr>
<tr>
<td>David Robins</td>
<td>direct</td>
<td>975</td>
<td>–</td>
<td>–</td>
<td>975</td>
<td>Beneficial</td>
</tr>
<tr>
<td>indirect</td>
<td>90 436</td>
<td>–</td>
<td>–</td>
<td>90 436</td>
<td>Non-beneficial</td>
<td></td>
</tr>
<tr>
<td>Hugh Herman</td>
<td>direct</td>
<td>30 000</td>
<td>–</td>
<td>–</td>
<td>30 000</td>
<td>Beneficial</td>
</tr>
<tr>
<td>indirect</td>
<td>256</td>
<td>–</td>
<td>–</td>
<td>256</td>
<td>Beneficial</td>
<td></td>
</tr>
</tbody>
</table>

1. 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.
2. 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.
3. Non-beneficial interest represents an interest in shares in which a person will not benefit directly as a result of holding those shares.
4. The indirect non-beneficial interest in the Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacities as trustees and/or potential beneficiaries.
5. 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 in their capacity as trustees and/or potential beneficiaries.
6. This disposal of shares relates to minor children of the director achieving the age of majority. These shares are therefore no longer held indirectly by the director.
7. There have been no changes in the directors’ interests in B shares since 28 February 2021 up to the date of the approval of this report.

### Directors’ interest in B shares

<table>
<thead>
<tr>
<th>Director</th>
<th>Balance held at 1 March 2020</th>
<th>Disposals</th>
<th>Balance held at 28 February 2021</th>
<th>Beneficial/ non-beneficial interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY21</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gareth Ackerman</td>
<td>direct</td>
<td>522</td>
<td>–</td>
<td>522</td>
</tr>
<tr>
<td>indirect</td>
<td>3 227 861</td>
<td>–</td>
<td>3 227 861</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Newshelf 1321 Proprietary Limited</td>
<td>indirect</td>
<td>39 140</td>
<td>–</td>
<td>39 140</td>
</tr>
<tr>
<td>Mistral Trust</td>
<td>indirect</td>
<td>5 349 559</td>
<td>–</td>
<td>5 349 559</td>
</tr>
<tr>
<td>Jonathan Ackerman</td>
<td>direct</td>
<td>243 307</td>
<td>–</td>
<td>243 307</td>
</tr>
<tr>
<td>indirect</td>
<td>119 509</td>
<td>–</td>
<td>119 509</td>
<td>Beneficial</td>
</tr>
<tr>
<td>Suzanne Ackerman-Berman</td>
<td>indirect</td>
<td>233 767</td>
<td>–</td>
<td>233 767</td>
</tr>
<tr>
<td>David Robins</td>
<td>direct</td>
<td>1 931</td>
<td>–</td>
<td>1 931</td>
</tr>
<tr>
<td>indirect</td>
<td>179 118</td>
<td>–</td>
<td>179 118</td>
<td>Non-beneficial</td>
</tr>
</tbody>
</table>

1. 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.
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SHAREHOLDERS’ INFORMATION

121 Analysis of ordinary shareholders
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123 Shareholders’ information
18 Corporate information
### SHAREHOLDER SPREAD

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>%</th>
<th>Number of shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 1 000 shares</td>
<td>68.6</td>
<td>2 589 635</td>
<td>0.5</td>
</tr>
<tr>
<td>1 001 – 10 000 shares</td>
<td>23.4</td>
<td>12 943 599</td>
<td>2.6</td>
</tr>
<tr>
<td>10 001 – 100 000 shares</td>
<td>6.0</td>
<td>33 956 180</td>
<td>6.9</td>
</tr>
<tr>
<td>100 001 – 1 000 000 shares</td>
<td>1.6</td>
<td>78 137 276</td>
<td>15.8</td>
</tr>
<tr>
<td>1 000 001 shares and over</td>
<td>0.4</td>
<td>365 823 631</td>
<td>74.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>493 450 321</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

### PUBLIC/NON-PUBLIC SHAREHOLDERS

<table>
<thead>
<tr>
<th>Number of shareholders</th>
<th>%</th>
<th>Number of shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-public shareholders</td>
<td>0.1</td>
<td>1 547 301 550</td>
<td>29.9</td>
</tr>
<tr>
<td>Newshelf 1321 Proprietary Limited</td>
<td>0.0</td>
<td>124 677 237</td>
<td>25.3</td>
</tr>
<tr>
<td>Ackerman Investment Holdings Proprietary Limited</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Ackerman Pick n Pay Foundation</td>
<td>0.0</td>
<td>101 900</td>
<td>0.0</td>
</tr>
<tr>
<td>Mistral Trust</td>
<td>0.0</td>
<td>2 800 000</td>
<td>0.6</td>
</tr>
<tr>
<td>Directors of Pick n Pay Stores Limited</td>
<td>0.1</td>
<td>4 453 720</td>
<td>0.9</td>
</tr>
<tr>
<td>Shares held on behalf of FSP/RSP participants</td>
<td>0.2</td>
<td>9 004 500</td>
<td>1.8</td>
</tr>
<tr>
<td>Pick n Pay Retailers Proprietary Limited</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Boxer Holdings Proprietary Limited</td>
<td>0.0</td>
<td>4 400</td>
<td>0.0</td>
</tr>
<tr>
<td>Pick n Pay Employee Share Purchase Trust</td>
<td>0.0</td>
<td>6 230 123</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Public shareholders</strong></td>
<td><strong>99.9</strong></td>
<td><strong>346 148 771</strong></td>
<td><strong>70.1</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>493 450 321</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

### BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newshelf 1321 Proprietary Limited</td>
<td>124 677 237</td>
</tr>
<tr>
<td>Government Employees Pension Fund</td>
<td>69 897 440</td>
</tr>
<tr>
<td>Fidelity Series Emerging Markets Opportunities Fund</td>
<td>30 962 844</td>
</tr>
<tr>
<td>Alexander Forbes Investments</td>
<td>14 369 648</td>
</tr>
<tr>
<td>Shares held on behalf of FSP/RSP participants</td>
<td>9 004 500</td>
</tr>
<tr>
<td>Pick n Pay Employee Share Purchase Trust</td>
<td>6 230 123</td>
</tr>
<tr>
<td>Old Mutual Life Assurance Company SA</td>
<td>6 197 659</td>
</tr>
<tr>
<td>FIM Group Trust For Employee Benefit Plans</td>
<td>6 052 756</td>
</tr>
<tr>
<td>Prudential SA Equity Fund</td>
<td>6 289 563</td>
</tr>
<tr>
<td>Allan Gray Balanced Fund</td>
<td>5 025 846</td>
</tr>
</tbody>
</table>

### Analysis of Ordinary Shareholders

- **South Africa**: 79.9%
- **Great Britain**: 4.2%
- **United States of America**: 2.2%
- **Other countries**: 13.7%

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.
Annual general meeting – 28 June 2021
The 53rd 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 live AGM webcast will be held at 08:30 on 28 June 2021, through the following link – www.smartagm.co.za.

The minutes of the previous year’s AGM held on 4 August 2020 are available on our investor relations website at www.picknpayinvestor.co.za.

FY22 results announcements
Interim to 29 August 2021: October 2021
Final to 27 February 2022: April/May 2022

Publication of annual financial statements
2021: May 2021
2022: June 2022

Publication of Integrated Annual Report and Corporate Governance Report
2021: May 2021
2022: June 2022

Publication of Sustainable Living Report (every two years)
2021: June 2021
2023: June 2023

Pick n Pay Stores Limited
Registration number: 1968/008034/06
JSE share code: P KP
ISSN: ZA0000005443

Board of directors
Executive directors
Pieter Boone (CEO)
Lorena Olivier (CFO)
Suzanne Ackerman-Berman
Jonathan Ackerman

Non-executive
Gareth Ackerman (Chair)
Aboubakar Jakoet
David Roberts

Independent non-executive
Haroon Bhorat
Mamim Cassam
Hugh Horman
Audrey Motupi
Annamaria van der Merwe
Jeff van Rooyen

Registered office
Pick n Pay Office Park
101 Rosmead Avenue
Kensington
Cape Town 7708
Tel: +27 21 797 7700
Fax: +27 21 797 7710

Postal address
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Claremont
Cape Town 7735

Registrar
CompuShare Investor Services Proprietary Limited
Rosenbank Towers
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Rosenbank 2196
Tel: +27 11 370 5000
Fax: +27 11 370 5001

Postal address
Private Bag X9000
Saxonwold 2132

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
Daisia Muller
Email address: demuller@pnp.co.za

Promotion of Access to Information Act
informationofficer@pnp.co.za

Investor relations
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Investor relations: www.picknpayinvestor.co.za

Customer careline
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Email address: custmercare@pnp.co.za

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Email address: custmercare@boxer.co.za

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www.picknpay.com

Engage with us on
www.picknpay.com