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Corporate governance report
Pick n Pay Stores Limited

INTRODUCTION

The Pick n Pay Group of companies (the Group) is committed to uphold the highest standards of ethics, transparency and good governance, while pursuing profitable growth. This report applies to Pick n Pay Stores Limited and, where applicable, to Pick n Pay Holdings Limited. Pick n Pay Holdings Limited and Pick n Pay Stores Limited are investment holding companies. Pick n Pay Holdings Limited's sole purpose is the holding of the controlling shareholding in Pick n Pay Stores Limited. Pick n Pay Stores Limited, through its subsidiaries and associates, operates in the retail sector on the African continent. The Board takes overall responsibility for the Group, selecting the management team, overseeing corporate strategy and performance, and acting as a resource for management in matters of planning and policy. To ensure effective decision-making, directors are encouraged to ask difficult questions of management. With the aim of achieving balanced economic, social and environmental performance, the Board supports the long-term sustainability of the business. Legitimate stakeholder involvement is kept in mind at all times.

It is the responsibility of the Board to ensure the application of the principles contained in King III, while maintaining the Group's focus on sustainable performance. Where the directors of the Board have deemed that recommended practices are not in the best interests of Pick n Pay, this report follows King III in explaining the reasons for an alternative approach to, and application of, governance.

Summary of the application of King III principles

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

Key

Applied	✓
Not applied	✗
Partially applied	#

Chapter and principle	Application	Comments
Chapter 1 – Ethical leadership and corporate citizenship		
The Board should provide effective leadership based on an ethical foundation.	✓	Refer to the Pick n Pay mission statement and values on page 2.
The Board should ensure that the Company is and is seen to be a responsible corporate citizen.	✓	
The Board should ensure that the Company's ethics are managed effectively.	✓	
Chapter 2 – Board and directors		
The Board should act as the focal point for and custodian of corporate governance.	✓	The responsibilities of the Board are set out in the Board charter. The charter aligns with the recommendations of King III, and establishes the responsibilities and mandates of the Board and its directors, as well as the roles of the Board committees. An updated charter was approved by the Board in October 2012. A copy of this document is to be found on our website, www.picknpay-ir.co.za.
The Board should appreciate that strategy, risk, performance and sustainability are inseparable.	✓	The Group recognises the importance of incorporating sustainability into our business strategy.
The Board and its directors should act in the best interests of the Company.	✓	All directors submit a list of all companies in which they hold directorships or positions of influence. These lists are updated regularly and are reviewed bi-annually. This assists in ensuring that disclosure is current, transparency is maintained, and potential conflicts of interest are avoided.
The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the Company is financially distressed as defined in the Companies Act 2008.	✓	Not relevant during the 2013 annual financial period.
The Board should elect a Chairman of the Board who is an independent non-executive director. The CEO of the Company should not also fulfil the role of Chairman of the Board.	✗	Refer to note 1 on page 35.
The Board should appoint the CEO and establish a framework for the delegation of authority.	#	Refer to note 2 on page 35.

Corporate governance report continued

Pick n Pay Stores Limited

Chapter and principle	Application	Comments
Chapter 2 – Board and directors continued		
The Board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	#	Refer to note 3 on pages 35 and 36.
Directors should be appointed through a formal process.	✓	Refer to the details on the nominations committee on page 38.
The induction and ongoing training and development of directors should be conducted through formal processes.	✓	A copy of the Board charter is given to each director upon induction, as is the Memorandum of Incorporation, which also addresses certain responsibilities of the directors. In addition, directors are provided with relevant material regarding statutory and regulatory developments.
The Board should be assisted by a competent, suitably qualified and experienced Company Secretary.	✓	The Company Secretary of the Group ensures that all directors have full and timely access to the information that helps them to perform their duties and obligations properly, enabling the Board to function effectively. The Company Secretary is not a director of any of the Group's operations and accordingly maintains an arm's-length relationship with the Board and its directors. The Company Secretary reports to the Chief Finance Officer and has a direct channel of communication to the Chairman and the CEO. The Company Secretary is responsible for the functions specified in section 88 of the Companies Act. Annual consideration is given by the Board to the competence, qualification and experience of the Company Secretary. At the Board meeting held in February 2013, following consideration, the appointment was affirmed.
The evaluation of the Board, its committees and the individual directors should be performed every year.	#	Refer to note 4 on page 36.
The Board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	✓	The following committees were active during 2013: ■ Social and ethics committee ■ Audit committee ■ Remuneration committee ■ Nominations committee ■ Corporate governance committee ■ Corporate finance committee Each committee has a formal charter which is reviewed annually by the Board. Information on each of the committees is available on www.picknpay-ir.co.za and on page 38 of this report.
A governance framework should be agreed between the Group and its subsidiary boards.	✓	Refer to the diagram on page 37.
Companies should remunerate directors and executives fairly and responsibly.	✓	Non-executive directors have no fixed terms of appointment and no employment contracts with Pick n Pay. Their fees are not linked to the Group's financial performance, nor do they receive share options or bonuses. Executives are remunerated in terms of the remuneration policy set out on pages 41 to 47.
Companies should disclose the remuneration of each individual director and prescribed officer.	✓	Refer to the remuneration committee report on pages 41 to 47.
Shareholders should approve the Company's remuneration policy.	✓	Shareholders approved the policy at the AGM on 15 June 2012.
Chapter 3 – Audit committee		
The Board should ensure that the Company has an effective and independent audit committee.	✓	Refer to the audit committee report on pages 39 and 40.
The audit committee members should be suitably skilled and experienced independent non-executive directors.	✓	Refer to CVs on pages 16 to 18.
The audit committee should be chaired by an independent non-executive director.	✓	
The audit committee should oversee integrated reporting.	✓	
The audit committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.	#	Refer to note 5 on page 36.

Chapter and principle	Application	Comments
Chapter 3 – Audit committee continued		
The audit committee should satisfy itself of the expertise, resources and experience of the Company's finance function.	✓	Refer to the audit committee report on pages 39 and 40.
The audit committee should be responsible for overseeing of internal audit.	✓	
The audit committee should be an integral component of the risk management process.	✓	
The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	✓	
The audit committee should report to the Board and shareholders on how it has discharged its duties.	✓	
Chapter 4 – The governance of risk		
The Board should be responsible for the governance of risk.	✓	Refer to the risk management report on pages 49 and 50.
The Board should determine the levels of risk tolerance.	✓	
The risk committee or audit committee should assist the Board in carrying out its risk responsibilities.	✓	
The Board should delegate to management the responsibility to design, implement and monitor the risk management plan.	✓	
The Board should ensure that risk assessments are performed on a continual basis.	✓	
The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	✓	
The Board should ensure that management considers and implements appropriate risk responses.	✓	
The Board should ensure continual risk monitoring by management.	✓	
The Board should receive assurance regarding the effectiveness of the risk management process.	✓	
The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	✓	
Chapter 5 – The governance of information technology		
The Board should be responsible for information technology (IT) governance.	✓	Refer to note 6 on page 36. The Board, through its audit committee, risk management and executive reporting, takes responsibility for IT governance. The management of IT systems has been delegated to the Deputy CEO.
IT should be aligned with the performance and sustainability objectives of the Company.	✓	IT systems at Pick n Pay are aligned with the strategy, objectives and reporting requirements of the Company.
The Board should delegate to management the responsibility for the implementation of an IT governance framework.	✓	The management of IT governance has been delegated to the Deputy CEO who implements governance structures, systems and controls through the IT governance function.
The Board should monitor and evaluate significant IT investments and expenditure.	✓	The Board annually considers and approves all IT investment and expenditure.
IT should form an integral part of the Company's risk management.	✓	Pick n Pay's IT systems form part of the internal and annual external audit programme, which also considers risks to the Group. The IT systems governance function is developing a risk management framework to focus and manage IT-specific risks.

Corporate governance report continued

Pick n Pay Stores Limited

Chapter and principle	Application	Comments
Chapter 5 – The governance of information technology continued		
The Board should ensure that information assets are managed effectively.	✓	Pick n Pay has policies and procedures to manage the storage, control, monitoring and confidentiality of all data. Policies and procedures are continually monitored and improved where necessary.
A risk committee and audit committee should assist the Board in carrying out its IT responsibilities.	✓	IT audit items and risks are regularly reported to the Group audit committee, which reviews these risks according to the Group's risk appetite.
Chapter 6 – Compliance with laws, rules, codes and standards		
The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	✓	Refer to the legal report on page 51.
The Board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the Company and its business.	✓	
Compliance risk should form an integral part of the Company's risk management process.	✓	
The Board should delegate to management the implementation of an effective compliance framework and processes.	✓	
Chapter 7 – Internal audit		
The Board should ensure that there is an effective risk-based internal audit.	✓	Refer to the audit committee report on pages 49 and 50.
Internal audit should follow a risk-based approach to its plan.	✓	
Internal audit should provide a written assessment of the effectiveness of the Company's system of internal controls and risk management.	✓	
The audit committee should be responsible for overseeing internal audit.	✓	
Internal audit should be strategically positioned to achieve its objectives.	✓	
Chapter 8 – Governing stakeholder relationships		
The Board should appreciate that stakeholders' perceptions affect a Company's reputation.	✓	Refer to engaging with our stakeholders on pages 10 and 11.
The Board should delegate to management to proactively deal with stakeholder relationships.	✓	
The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the Company.	✓	
Companies should ensure the equitable treatment of shareholders.	✓	
Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	✓	
The Board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	✓	
Chapter 9 – Integrated reporting and disclosure		
The Board should ensure the integrity of the Company's integrated report.	✓	The audit committee reviews the annual financial statements, and the Integrated Report makes a recommendation to the Board for approval.
Sustainability reporting and disclosure should be integrated with the Company's financial reporting.	✓	
Sustainability reporting and disclosures should be independently assured.	✗	Refer to note 5 on page 36.

NOTES TO KING III PRINCIPLES

Note 1

Chairman

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

The Ackerman family currently owns 51% of the shares in the holding company, Pick n Pay Holdings Limited, giving them a holding of 27.3% in the Group. Chairman, Gareth Ackerman, is not independent by virtue of his indirect shareholding. Perceptions of conflicts of interest may arise regarding his decisions relating to Pick n Pay and its shareholders. Due to the resignation of the previous CEO of the Group in February 2012, Gareth Ackerman adopted a temporary executive role while the search for a new CEO was undertaken.

Hugh Herman has been appointed as lead independent director (LID) (see note 3 in relation to independence of non-executive directors). The main function of the LID is to provide leadership and advice to the Board when the Chairman has a conflict of interest, without detracting from the authority of the Chairman. The LID provides an important point of contact for the broader investment and stakeholder community should they have concerns with the running of the Company or potential conflicts of interest. All members of the Board have unfettered access to the LID when required. With the executive role of acting CEO being temporarily fulfilled by Gareth Ackerman in the 2013 annual financial period, the Board relied on the guidance of the LID to ensure that it fulfilled its mandate.

Consistent with the King III guidelines, Gareth Ackerman:
- Is not a member of the audit committee;
- Does not chair the remuneration committee, but is a member; and
- Is not a member of the social and ethics committee.

Note 2

Chief Executive Officer

The 2013 financial period was unusual for Pick n Pay in that Gareth Ackerman, previously non-executive Chairman of Pick n Pay Stores Limited, assumed the role of executive Chairman. He ran the day-to-day administration of the Group together with Richard van Rensburg, deputy CEO, until the CEO position was filled. The CEO vacancy arose as a result of the resignation of Nick Badminton at the end of the 2012 annual financial period. After a worldwide search, Richard Brasher was appointed CEO to the Group, effective 23 January 2013. Accordingly, Gareth has reverted to his position as non-executive Chairman.

Note 3

Board composition

The Board consists of 11 directors. Of the 6 non-executive directors, 5 are independent. The remaining 5 directors are executive. Full curricula vitae of all directors are set out on pages 16 and 17.

The Company has appointed independent, tough-minded non-executive directors, all of whom are successful and experienced professionals in their respective fields, have personal integrity, do not depend financially on the directors' fees they receive from the Company, and strive to preserve their reputation for independence and governance in corporate South Africa.

The composition of the Board is continually reviewed to ensure the correct balance is achieved. The nominations committee is looking for a suitable candidate to replace Alex Mathole as an independent non-executive director. Alex resigned in order to avoid a possible conflict of interest arising as a result of her new executive position with a major supplier to the Group. In addition, to promote succession planning on the Board, the nominations committee is considering additional candidates. Consideration is given to candidates who will ensure a balance of skills and experience on the Board. Strength of character is a key consideration, to negate any perception that the controlling shareholder dominates any decision making, to promote rigorous debate, to reduce the possibility of conflicts of interest and to promote objectivity.

Board function

The Board debates issues vigorously and decisions are usually made by consensus. All Board members, including those who are not independent, are well aware of corporate governance requirements, and are conscious of their obligation to act with integrity as representatives of all stakeholders in the Group.

Controlling shareholder representation on the Board

As representatives of the controlling shareholder, Gareth Ackerman, Suzanne Ackerman-Berman, Jonathan Ackerman and David Robins were nominated and elected by the shareholders at the AGM to the Board. Between them they have 59 years' executive experience in the Group. Suzanne and Jonathan are executive directors, while David was an executive for 14 years and has been a non-executive director since 2008. The Chairman, Gareth Ackerman, has been with the Group for 20 years, the last 14 (other than an 11-month period during the last financial period) in a non-executive capacity. Their experience, as well as their strategic overview, assists the Group in making long-term decisions for the benefit of all stakeholders in the Group.

Corporate governance report continued

Pick n Pay Stores Limited

***Note 3* continued**

Executive representation on the Board

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

Non-executive representation on the Board

Of the 6 non-executive directors on the Board during the 2013 annual financial period, 5 are independent. Hugh Herman has been appointed as LID (see note 1).

Annual assessment of independence

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

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

The assessment is undertaken by the Chairman in individual interviews. He presents his findings to each non-executive director for them to confirm, or to provide further evidence supporting their independence. If necessary, the Company Secretary will solicit external legal opinion regarding the status of a non-executive director. Following this assessment, the Chairman makes a recommendation to the Board as to independence. The Board interrogates the recommendations before a final decision is made.

All directors submit a list of their directorships and commercial interests to the Company Secretary, which are regularly updated, and distributed bi-annually 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 their ability to act in an independent manner.

Length of service

The Board has found that length of service does not automatically preclude a director from exercising independence in decision-making. It is our experience that our long-serving non-executive directors have translated their loyalty into a pursuit of the best interests of all the stakeholders of the Company. The Company values the balance achieved between the fresh insights from new directors and the wisdom derived from the experience of the long-serving directors.

Conclusion as to independence

At the time of the last assessment, all Pick n Pay's independent non-executive directors met the criteria for independence as established by King III, the Companies Act and the JSE Listings Requirements. The Chairman and the Board are satisfied that, although Hugh Herman and Ben van der Ross have long-running relationships with the Company, their contributions remain unbiased, objective and vigorous.

Note 4

An evaluation of the Board's effectiveness was undertaken in March 2013. Previous evaluations were conducted in 2007, 2009 and 2011. Individual performance evaluations of directors are undertaken annually by the Chairman of the Board. The results allow the Board to determine whether or not it has delivered on its mandate. It also measures and, where possible, enhances the Board's overall efficiency and each director's individual contribution to the Board. If improvements are indicated, the necessary measures are implemented.

Note 5

The Board and audit committee are currently working with a qualified, independent third party to assist with developing and implementing a comprehensive combined assurance approach, to ensure the integrity of financial and non-financial data contained within the report.

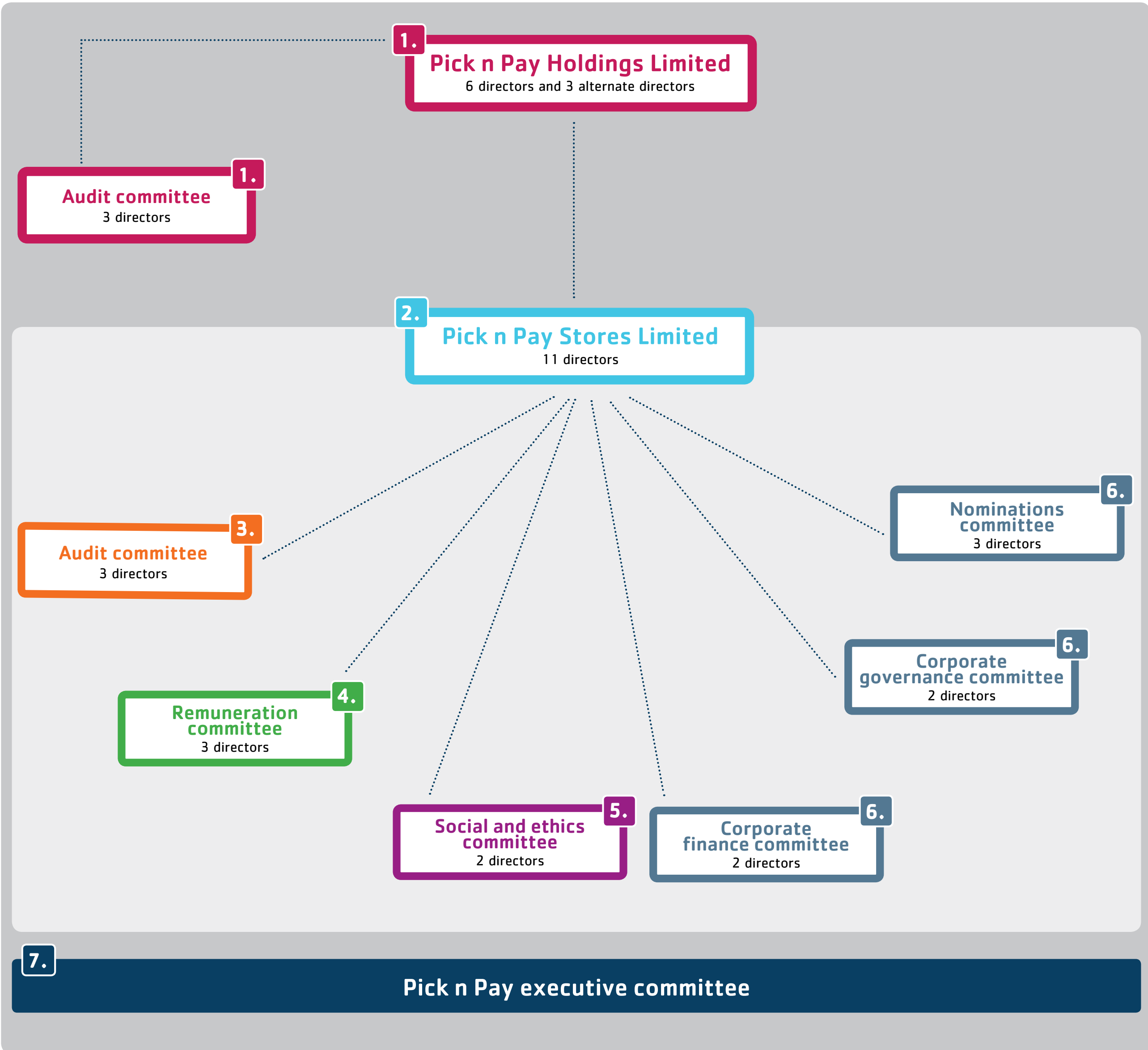
Note 6

During the past annual financial period an IT services governance function was established within the IT division. The IT governance management is implementing various initiatives in order to achieve compliance with King III where feasible.

The Group aligns its practices and processes to COBIT 5, which is the latest edition of ISACA's globally accepted framework, providing an end-to-end business view of the governance of enterprise IT.

GOVERNANCE STRUCTURE

The Board governs decision-making and gives leadership through its committee structure. The committees operate within Board mandates, ensuring that strategy is implemented through the operations of the Group. Progress is reported to the Board.



1. Refer to the Pick n Pay Holdings Limited corporate governance report on pages 52 to 54 and Board of directors on page 18.
2. Refer to the Pick n Pay Stores Limited corporate governance report on pages 31 to 38.
3. Refer to the audit committee report on pages 39 and 40.
4. Refer to the remuneration committee report on pages 41 to 47.
5. Refer to the social and ethics committee report on page 48.
6. Refer to page 32 for composition of committees.
7. The Pick n Pay executive committee for the 2013 annual financial period consisted of Gareth Ackerman (for 11 months), Richard Brasher (CEO) (for 1 month), Richard van Rensburg (Deputy CEO) and Bakar Jakoet (CFO).

Corporate governance report continued
Pick n Pay Stores Limited

Directors' attendance at Board meetings

The Board convenes a minimum of 4 times per year for formal meetings, with additional meetings scheduled when necessary. The table below details each director's Board meeting attendance during the past annual financial period:

Director	16 April 2012	15 June 2012	22 and 23 October 2012	19 February 2013	AGM 15 June 2012
Gareth Ackerman (Chairman)	P	P	P	P	P
Richard Brasher (CEO)*	—	—	—	P	—
Richard van Rensburg (Deputy CEO)	P	P	P	P	P
Bakar Jakoet (CFO)	P	P	P	P	P
Suzanne Ackerman-Berman	A	P	P	P	P
Jonathan Ackerman	P	P	P	P	P
Hugh Herman (LID)	P	P	P	P	P
Ben van der Ross	P	P	A	P	P
Jeff van Rooyen	P	P	P	P	P
Lorato Phalatse	P	P	P	P	P
Alex Mathole**	P	P	P	P	P
David Robins	A	P	P	P	P

P = present
A = apologies
* *Appointed in 2013.*
** *Alex Mathole resigned with effect from 28 February 2013 to take up an executive position with a major supplier to the Group.*

Board subcommittees

The Board is assisted by 6 subcommittees as set out below:

Committee	Roles and responsibilities
Audit committee	For details on this committee, please refer to the audit committee report on pages 39 and 40.
Remuneration committee	For details on this committee, please refer to the remuneration report on pages 41 to 47.
Nominations committee	The nominations committee is chaired by Gareth Ackerman, as a representative of the controlling shareholder. The majority of the members, Lorato Phalatse and Ben van der Ross, are independent non-executive directors. Checks in place include the fact that the majority of members are independent non-executive directors, that the Board retains the authority to appoint directors recommended by the committee, and that all directors appointed by the Board are referred for election by shareholders at the earliest opportunity. The committee is responsible for identifying and evaluating suitable candidates for possible appointment to the Board. Requirements include independence, integrity, tough-mindedness and respect for the values and principles of the Group. The committee meets on an ad hoc basis. The committee identifies a list of candidates to be considered, and establishes availability, willingness and suitability. The authority to appoint directors remains with the Board. Candidates identified by the committee are interviewed by all the non-executive directors before the potential appointment is referred to the Board for a decision. Given the importance to the Group of the search for a new CEO, in this instance the nominations committee was expanded to include all non-executive directors on the Board.
Corporate governance committee	The corporate governance committee reviews and evaluates the governance practices and structures of the Group, and recommends any changes to the Board for a decision. The focus is on implementing King III's recommendations and ensuring that the Group complies with the code of corporate practices and conduct. In addition, international standards of corporate governance are considered alongside local practices. The committee comprises Gareth Ackerman, as Chairman, and Jeff van Rooyen. The Chairman is not independent. Checks in place include the Company's commitment to conduct its affairs in accordance with the highest standards of corporate governance, and the self-evident desire to uphold the proud record of the Ackerman family in the history of South African corporate governance and social responsibility. The committee meets with the Company Secretary and relevant members of the Board and management, as required, ensuring that corporate governance structures are appropriate and effective.
Corporate finance committee	The Company has formed the corporate finance committee to ensure that the interests of all shareholders are taken into account when investment decisions are made. Authority to accept or reject investment opportunities remains with the Board. Meeting on an ad hoc basis, this committee assists the Board in assessing investment opportunities for the Pick n Pay Group. Chaired by Jeff van Rooyen, the committee comprises independent non-executive directors.
Social and ethics committee	For details on this committee, please refer to the social and ethics committee report on page 48.

Audit committee report

Pick n Pay Stores Limited

The audit committee is pleased to present this report as required by the Companies Act, 2008. The audit committee is a formal committee of the Board and functions within an approved charter and complies with all relevant legislation, regulation and governance codes.

ROLE OF THE COMMITTEE

The audit committee has an independent role with accountability to both the Board and to shareholders. The committee's responsibilities include the statutory duties prescribed by the Companies Act 2008, activities recommended by King III and the responsibilities assigned by the Board.

The committee's main responsibilities are as follows:

Integrated and financial reporting

- Review the annual financial statements, interim report, preliminary results announcement, summarised annual financial statements and the Integrated Annual Report, and ensure compliance with International Financial Reporting Standards and the Companies Act 2008.
- Review and approve the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls.
- Perform a review of the Group's integrated reporting function and progress and consider factors and risks that could impact the integrity of the Integrated Annual Report.
- Review the sustainability disclosure in the Integrated Annual Report and ensure that it is consistent with financial information reported.
- Recommend the approval of the Integrated Annual Report to the Board.

Finance function

- Consider the expertise and experience of the Chief Finance Officer.
- Consider the expertise, experience and resources of the Group's finance function.

Internal audit

- Review and approve the internal audit charter and audit plans.
- Evaluate the independence, effectiveness and performance of the internal audit function and compliance with its mandate.
- Review the Group's systems of internal control, including financial controls, ensuring that management is adhering to and continually improving these controls.
- Review significant issues raised by the internal audit process.
- Review policies and procedures for preventing and detecting fraud.

External audit

- Act as a liaison between the external auditors and the Board.
- Nominate the external auditor for appointment by shareholders.
- Determine annually the scope of audit and non-audit services which the external auditors may provide to the Group.
- Approve the remuneration of the external auditors and assess their performance.
- Assess annually the independence of the external auditors.

Risk management

- Ensure that management's processes and procedures are adequate to identify, assess, manage and monitor enterprise-wide risks.
- Review tax and technology risks, in particular how they are managed.

General

- Receive and deal appropriately with any complaint relating to the accounting practices and internal audit of the Group or to the content or auditing of its financial statements, or to any related matter.
- Perform other functions as determined by the Board.

COMPOSITION OF THE COMMITTEE

This committee is chaired by and comprises only independent non-executive directors. In accordance with the requirements of the Companies Act 2008, members of the committee are appointed annually by the Board for the ensuing financial period and in compliance with King III are appointed by shareholders at the annual general meeting.

The committee has a charter which is reviewed and approved by the Board annually.

The composition of the committee and meeting attendance is as follows:

Committee member	Status	16 April 2012	15 October 2012
Jeff van Rooyen (Chairman)	Independent non-executive director	P	P
Hugh Herman	Independent non-executive director	P	P
Alex Mathole*	Independent non-executive director	P	P
Ben van der Ross	Independent non-executive director	P	A

P = present
A = apologies
** Resigned on 28 February 2013.*

Audit committee report continued
Pick n Pay Stores Limited

The committee discharges its Board responsibilities by:

- Meeting at least twice a year to review the Group's financial results, to receive and review reports from both the internal and external auditors, and to meet with management to review their progress on identifying and addressing key risk areas within the business;
- Reporting to the Board at the next meeting, which is always held within a week of the respective committee meeting;
- Meeting separately with the internal and external auditors to confirm they are receiving the full co-operation of management; and
- The committee Chairman meets regularly with key executives to keep abreast of emerging issues.

The committee discharges all audit committee responsibilities of all the subsidiary companies within the Group. To help it discharge this responsibility, financial review committees, chaired by the Chief Finance Officer, reviews, in detail, the results of all material operating subsidiary companies with the external auditors and management of the respective subsidiary. These review committees report their findings to the Group audit committee.

The external and internal auditors have unrestricted access to the committee and all of its members throughout the period.

INDEPENDENCE OF EXTERNAL AUDITORS

The audit committee is satisfied as to the independence of the Group's external auditors, KPMG Inc., and its respective audit partners. The committee nominates KPMG as external auditor for the appointment by shareholders at the annual general meeting.

POLICY ON NON-AUDIT SERVICES

All non-audit services provided by the Group's external auditors are pre-approved by the audit committee. The total fee for non-audit services provided should not, under normal circumstances, exceed 50% of the total auditor's remuneration.

EXPERTISE AND EXPERIENCE OF CHIEF FINANCE OFFICER AND FINANCE FUNCTION

The audit committee is satisfied that Bakar Jakoet has the appropriate expertise and experience for his position of Chief Finance Officer of the Group. In addition, the committee is also satisfied that the composition, experience and skills of the finance function meet the Group's requirements.

APPROVAL OF THE AUDIT COMMITTEE REPORT

The committee confirms that it has functioned in accordance with its charter for the 2013 financial period and that its report to shareholders has been approved by the Board.

Jeff van Rooyen
Chairman: Audit committee

22 April 2013

Remuneration committee report

Pick n Pay Stores Limited

This report sets out the Group's remuneration policy, the role of the remuneration committee, the remuneration structure of the Group, the remuneration and benefits granted to key executives during the 2013 annual financial period as well as the procedures followed in ensuring that remuneration practices adhere to appropriate corporate governance principles and in ensuring alignment with the Group's strategy. This report and the recommendations of the remuneration committee have been approved by the Board and will be submitted to shareholders for consideration at the AGM to be held on 25 June 2013.

REMUNERATION POLICY

The Group's remuneration policy is aimed at attracting, retaining and motivating employees and executives, while at the same time aligning their remuneration with shareholder interests and best practice. The remuneration policy is based on the following underlying principles:

- Remuneration at all levels is benchmarked to ensure that it is fair and just;
- An independent expert attends remuneration committee meetings to assist in benchmarking;
- Employees and executives are rewarded for meeting key performance targets;
- Remuneration levels for executive directors take into account remuneration policies and practices of comparable companies;
- Executive remuneration must be balanced between long-term and short-term incentives; and
- Non-executive directors do not receive remuneration or incentive awards related to share price or corporate performance.

REMUNERATION COMMITTEE

The remuneration committee, which meets at least twice a year, is chaired by an independent non-executive director and comprises mainly non-executive directors. The committee operates in terms of a Board-approved charter and its key responsibilities are to:

- Determine the remuneration packages of executive directors and to review the remuneration packages of senior management and key employees;
- Propose fees for non-executive directors, subject to shareholder approval;
- Approve performance-related short-term incentives as well as long-term share-based incentives; and
- Review the Group's remuneration philosophy and policies to ensure alignment with market practices.

Remuneration activities and decisions taken during the 2013 annual financial period

The main items considered and approved by the remuneration committee during the 2013 annual financial period were:

- Executive and non-executive director remuneration benchmarking;
- Annual salary increases for executives;
- Remuneration package for the incoming CEO;
- Remuneration package for the non-executive Chairman for the 2014 annual financial period;
- Review of the Group's short-term incentive scheme;
- Review and approval of the Group's remuneration policy and report; and
- Review and approval of proposed non-executive directors' fees for the 2014 annual financial period.

The composition of the committee and meeting attendance is as follows:

Director	Status	12 April 2012	20 October 2012
Hugh Herman (Chairman)	Independent non-executive director	P	P
Gareth Ackerman	Chairman	P	P
Ben van der Ross	Independent non-executive director	P	P

P = present

Remuneration structure

Remuneration comprises the following elements:

Base pay

Executive directors

Executive directors' base pay is benchmarked to information disclosed in the remuneration reports of comparative organisations. The annual remuneration of executive directors is directly related to individual performance ratings and is reviewed in April each year. The performance of the CEO is assessed by the Chairman and the Board, while the performance of the other executive directors is evaluated by the CEO and reviewed by the remuneration committee.

Management and employees

The remuneration committee reviews the salaries of senior management annually. Remuneration reflects the relative skill, experience, contribution and performance of the individual. Base pay is set at levels which are competitive with the rest of the market so that the Group can attract, motivate and retain the right calibre of people to achieve the Group's strategic business objectives. Annual increases in base pay are determined with reference to the scope of the employee's role, the competence and performance of the employee as well as the projected consumer price index (CPI) figures. If approved, annual increases are effective in June each year.

Retirement and medical

Pick n Pay contributes a total of 17.35% of salary towards retirement funding of executive directors and employees. In addition, the Company also contributes towards medical aid. For further details please refer to pages 94 and 95 of the annual financial statements where retirement benefits are disclosed.

Company car allowances

Executive directors and management are granted a travel allowance or the use of a Company vehicle which includes service maintenance, fuel and insurance.

Low-interest housing loans

Salaried employees are granted low-interest loans for the purpose of acquisition of residential property. Interest rates average 3.3%.

The value of executive directors' low interest loans at period end is R0.4 million.

Short-term incentive scheme (profit-sharing scheme)

Executives and management participate in the Group's short-term incentive scheme. Bonuses awarded to executives and management are linked to the achievement of net profit growth hurdles as well as individual performance as measured through the Group's annual

Remuneration committee report continued

Pick n Pay Stores Limited

performance appraisal process. Bonuses are paid as a multiple of basic monthly salary, with multiples varying at the various hurdle levels. Bonuses awarded to executives are capped at 2 times annual basic salary.

The short-term incentive scheme mitigates the risk that management focus attention on managing the share price rather than the business, thus protecting the dividend flow for all shareholders.

All bonuses paid to management and executives are subject to approval by the remuneration committee. No bonuses were paid during the 2013 annual financial period as the Group did not meet its targets.

Long-term incentive scheme (Employee Share Scheme)

The Group operates the 1997 Employee Share Option Scheme (the Scheme) in order to facilitate broad-based employee share ownership and to foster trust and loyalty among employees. The Scheme incentivises key management and employees by providing them with an opportunity to acquire shares in the Group, thereby aligning interests with shareholders and encouraging employee retention.

The long-term incentive scheme ensures that interests are aligned with shareholders relating to capital growth in share value.

Long-service share options – are granted to all permanent employees who have been with the Group for 5 years and further options are granted every 5 years thereafter. Long-service share options may be taken up immediately on granting.

During the financial period under review 3.1 million Pick n Pay Holdings Limited (PWK) share options were granted to employees in respect of long service, and at period end 13.9 million PWK share options are held by employees amounting to 2.6% of shares in issue.

Status share options – are granted to employees who attain manager status and further options are granted at each promotion to higher levels of management. In order to encourage employee retention, status shares vest in 3 tranches as follows:
40% after 3 years
30% after 5 years
30% after 7 years

During the financial period under review 6 million Pick n Pay Stores Limited (PIK) options were issued to management, and at period end 52.8 million PIK share options are held by employees amounting to 11% of shares in issue.

Binary shares – are granted to key executives. These 3- to 5-year options may only be taken up when prescribed performance conditions linked to the growth of the PIK share price are met. If the conditions are not met, these options are automatically forfeited. Should further performance hurdles be achieved, discounted grant prices may apply. There are currently 3 binary share schemes in issue. The first was issued in October 2010 to senior executives, the second in October 2011 to deputy CEO Richard van Rensburg and the third to CEO Richard Brasher.

October 2010 binary issue – The salient features are as follows:

Grant date:	October 2010
Grant price:	R41.23

Exercise date	May 2014	Annual compound growth rate	Exercise price
Eligibility hurdle	R65.28	12%	R41.23
Performance hurdle 1	R78.87	18%	R20.62
Performance hurdle 2	R97.25	25%	R1.00

If the 20-day volume weighted average share price (VWAP) up to 23 May 2014 is R65.28 or greater, the options can be exercised at the full grant price of R41.23. Should this 20-day VWAP be less than R65.28, then the options will lapse. Thereafter, if performance hurdles are met, the discounted grant prices will apply on exercise.

Binary issue to deputy CEO Richard van Rensburg – The salient features are as follows:

Grant date:	October 2011
Grant price:	R36.55

Exercise date	May 2015	Annual compound growth rate	Exercise price
Eligibility hurdle	R73.11	20%	R36.55
Performance hurdle 1	R93.07	30%	R18.28
Performance hurdle 2	R121.56	40%	R1.00

If the 20-day volume weighted average share price (VWAP) up to 23 May 2015 is R73.11 or greater, the options can be exercised at the full grant price of R36.55. Should this 20-day VWAP be less than R73.11, then the options will lapse. Thereafter, if performance hurdles are met, the discounted grant prices will apply on exercise.

Binary issue to CEO Richard Brasher – The salient features are as follows:

Grant date	November 2012
Grant price:	R42.24

Exercise date	November 2017	Annual compound growth rate	Exercise price
Eligibility hurdle	R68.03	10%	R42.24
Performance hurdle 1	R84.96	15%	R21.12
Performance hurdle 2	R128.91	25%	R1.00

If the 20-day volume weighted average share price (VWAP) up to 14 November 2017 is R68.03 or greater, the options can be exercised at the full grant price of R42.24. Should this 20-day VWAP be less than R68.03, then the options will lapse. Thereafter, if performance hurdles are met, the discounted grant prices will apply on exercise.

Share options granted to directors

	Calendar year granted	Option grant price R	Balance held at 1 March 2012	Granted during the period	Balance held at 3 March 2013	Available for take-up
Jonathan Ackerman	2005	20.70	6 441		6 441	Now
	2006	28.00	14 286		14 286	Now
	2007	31.15	14 446		14 446	Now
	2008	26.56	9 414		9 414	Now
		26.14	25 000		25 000	Aug 2015
		26.14	25 000		25 000	Aug 2016
		26.14	25 000		25 000	Aug 2017
		26.14	25 000		25 000	Aug 2018
	2009	28.20	6 207		6 207	Now
		28.20	2 660		2 660	Apr 2013
	2010	42.27	624		624	Now
		42.27	468		468	Apr 2013
		42.27	468		468	Apr 2014
		41.23	400 000*		400 000*	May 2014
			555 014		**555 014**	
Suzanne Ackerman-Berman	2004	21.00	10 000		10 000	Now
	2006	31.15	60 000		60 000	Now
		31.15	60 000		60 000	Apr 2014
	2007	31.15	2 408		2 408	Now
	2008	26.56	2 259		2 259	Now
		26.56	2 260		2 260	Now
		26.14	25 000		25 000	Aug 2015
		26.14	25 000		25 000	Aug 2016
		26.14	25 000		25 000	Aug 2017
		26.14	25 000		25 000	Aug 2018
	2009	28.20	6 207		6 207	Now
		28.20	2 660		2 660	Apr 2013
	2010	42.27	569		569	Now
		42.27	426		426	Apr 2013
		42.27	426		426	Apr 2014
		41.23	400 000*		400 000*	May 2014
			647 215		**647 215**	
Richard Brasher	2012	42.24	—	333 334	333 334	Nov 2015
		42.24	—	333 333	333 333	Nov 2017
		42.24	—	333 333	333 333	Nov 2019
		42.24	—	1 000 000*	1 000 000*	Nov 2017
			—	**2 000 000**	**2 000 000**	

* *The exercising of these binary options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option. If the share price performance criteria are not met, the options are forfeited.*

Remuneration committee report continued

Pick n Pay Stores Limited

Share options granted to directors continued

	Calendar year granted	Option grant price R	Balance held at 1 March 2012	Granted during the period	Balance held at 3 March 2013	Available for take-up
Bakar Jakoet	2003	12.00	250 000		250 000	Now
	2007	31.15	5 779		5 779	Now
	2008	26.55	3 954		3 954	Now
		26.55	3 953		3 953	Now
		26.14	60 000		60 000	Now
		26.14	45 000		45 000	Aug 2013
		26.14	45 000		45 000	Aug 2015
	2009	28.20	8 689		8 689	Now
		28.20	3 724		3 724	Apr 2013
	2010	42.28	719		719	Now
		42.28	540		540	Apr 2013
		42.28	540		540	Apr 2014
		41.23	500 000*		500 000*	May 2014
	2011	41.70	200 000		200 000	Apr 2014
		41.70	300 000		300 000	Apr 2016
			1 427 898		**1 427 898**	
Richard van Rensburg	2011	36.55	400 000*		400 000*	May 2015
			400 000		**400 000**	

* *The exercising of these binary options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option. If the share price performance criteria are not met, the options are forfeited.*

Directors' interest in shares – all held beneficially

2013	How held**	Balance held at 1 March 2012	Additions during the period	Average purchase price per share R	Disposals during the period	Average selling price per share R	Balance held at 3 March 2013
Gareth Ackerman	direct	43					**43**
Jonathan Ackerman	direct	43					**43**
Suzanne Ackerman-Berman	direct	2 500					**2 500**
	indirect	4 651					**4 651**
Bakar Jakoet	direct	500 000					**500 000**
David Robins	direct	74 108			(74 108)	40.23	—
	indirect	224 000			(224 000)	40.34	—

2012	How held**	Balance held at 1 March 2011	Additions during the period	Average purchase price per share R	Disposals during the period	Average selling price per share R	Balance held at 29 February 2012
Gareth Ackerman	direct	43					**43**
Jonathan Ackerman	direct	43					**43**
Suzanne Ackerman-Berman	direct	2 500					**2 500**
	indirect	4 651					**4 651**
Nick Badminton‡	direct	630 000	149 478	43.30			**779 478**
	indirect	350 000					**350 000**
Bakar Jakoet	direct	500 000					**500 000**
David Robins	direct	74 108					**74 108**
	indirect	333 604			(109 604)	46.07	**224 000**

** *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a family trust of which the director is a trustee.*

‡ *Resigned 29 February 2012.*

Remuneration and benefits awarded to directors

2013	Fees for board meetings R'000	Fees for committee and other work R'000	Remuneration R'000	Retirement and medical contributions R'000	Fringe and other benefits R'000	Total R'000	Expense relating to share options granted R'000
Non-executive directors							
Gareth Ackerman*	349.7					349.7	
Hugh Herman	300.0	459.0				759.0	
Alex Mathole**	300.0	100.0				400.0	
Lorato Phalatse	300.0	165.0				465.0	
David Robins	300.0					300.0	
Ben van der Ross	300.0	294.0				594.0	
Jeff van Rooyen	300.0	400.0				700.0	
	2 149.7	**1 418.0**	**—**	**—**	**—**	**3 567.7**	**—**
Executive directors							
Gareth Ackerman*	1.5		3 100.3		254.4	3 356.2	
Jonathan Ackerman	1.5		2 170.2	333.6	47.2	2 552.5	969.0
Suzanne Ackerman-Berman	1.5		2 202.3	325.2	16.0	2 545.0	1 057.4
Richard Brasher***	1.5		838.9	134.5	140.0	1 114.9	413.7
Bakar Jakoet	1.5		2 551.0	409.6	227.2	3 189.3	1 900.2
Richard van Rensburg	1.5		3 940.8		49.2	3 991.5	1 603.3
	9.0	**—**	**14 803.5**	**1 202.9**	**734.0**	**16 749.4**	**5 943.6**
Total remuneration	**2 158.7**	**1 418.0**	**14 803.5**	**1 202.9**	**734.0**	**20 317.1**	**5 943.6**

2012							
Non-executive directors							
Gareth Ackerman	3 000.0					3 000.0	
Hugh Herman	280.0	336.5				616.5	
Alex Mathole	280.0	145.0				425.0	
Lorato Phalatse	280.0	116.3				396.3	
David Robins	280.0					280.0	
Ben van der Ross	280.0	181.5				461.5	
Richard van Rensburg□	220.2					220.2	
Jeff van Rooyen	280.0	285.0				565.0	
	4 900.2	**1 064.3**	**—**	**—**	**—**	**5 964.5**	**—**
Executive directors							
Jonathan Ackerman	1.5		1 868.2	311.7	252.8	2 434.2	985.5
Suzanne Ackerman-Berman	1.5		2 006.4	298.6	29.2	2 335.7	1 190.2
Nick Badminton^	1.5		3 919.6	646.3	10 392.3	14 959.7	3 683.7
Dennis Cope#	1.5		400.0		30.6	432.1	77.1
Bakar Jakoet¥	1.5		1 947.9	311.1	732.7	2 993.2	1 233.1
Richard van Rensburg			1 400.0			1 400.0	1 900.0
	7.5	**—**	**11 542.1**	**1 567.7**	**11 437.6**	**24 554.9**	**9 069.6**
Total remuneration	**4 907.7**	**1 064.3**	**1 1542.1**	**1 567.7**	**11 437.6**	**30 519.4**	**9 069.6**

* *Performed a dual role of Chairman and acting CEO until the appointment of Richard Brasher.*
** *Resigned 28 February 2013.*
*** *Appointed to the Board as CEO during 2013 and received remuneration from this date. Prior to this appointment, Richard Brasher received contractor fees of R897 489 and the Group paid for his relocation costs of R971 447. Both these costs are not included in his remuneration.*
□ *Appointed as deputy CEO, effective 1 October 2011; received remuneration as an executive director from this date.*
^ *Resigned 29 February 2012. Fringe and other benefits include a restraint of trade payment of R10.1 million.*
# *Retired 29 April 2011.*
¥ *Appointed 29 April 2011 – remuneration included from this date.*

No performance bonuses were paid due to the performance of the Group.

Remuneration committee report continued

Pick n Pay Stores Limited

Remuneration of Chief Executive Officer

Richard Brasher was appointed as CEO of the Group in 2013. He will be paid an annual base salary of R7 million, will receive a company car allowance and the Company will contribute towards the medical aid scheme on his behalf. He will also take part in the Group's short-term and long-term incentive schemes as disclosed on pages 41 and 42. In deciding on Richard Brasher's base pay, the remuneration committee took into account the following factors:

- Over 26 years of experience in the retail industry;
- Former CEO of Tesco UK/Republic of Ireland; and
- Instrumental in transforming Tesco into the market share leader in the United Kingdom and into a global retailer.

The remuneration committee benchmarked our new CEO's base salary against similar sized South African companies and his salary is considered fair in relation to the market and his expertise.

Prescribed officers

The Board is wholly responsible for the formulation, development and effective implementation of Group strategy. In turn, the Board delegates operational strategy implementation and general executive management of the business to its executive directors. As such, in terms of section 38 of the Companies Act 2008, the executive directors of the Board are identified as prescribed officers, and their remuneration is detailed on page 45.

Top 3 earners

In accordance with King III, we disclose below the top 3 earners of the Group, excluding executive directors, identified by the total remuneration awarded including the IFRS 2 value of share options granted.

2013	Remune-ration R'000	Retirement and medical contributions R'000	Bonus* R'000	Fringe and other benefits R'000	Cash total R'000	Expense relating to share options granted R'000
Executive 1	3 002.3	459.0	—	12.4	3 473.7	570.9
Executive 2	2 691.2	391.0	—	61.3	3 143.5	985.6
Executive 3	2 668.4	375.9	—	37.3	3 081.6	1 450.4
Total remuneration	**8 361.9**	**1 225.9**	**—**	**111.0**	**9 698.8**	**3 006.9**
2012						
Executive 1	1 899.0	347.9	1 540.0	260.9	4 047.8	1 206.4
Executive 2	2 681.1	429.4	—	177.6	3 288.1	628.7
Executive 3	2 604.0	67.7	382.0	70.0	3 123.7	—
Total remuneration	**7 184.1**	**845.0**	**1 922.0**	**508.5**	**10 459.6**	**1 835.1**

** The bonus relates to the amount provided in the financial periods.*

Non-executive directors' fees

In respect of non-executive directors, the remuneration committee proposes fees to be paid for the membership of Board and Board committees. Such fees are market-related, commensurate with the time required to undertake their duties and must be approved by the Board and shareholders. Approved fees are set for the annual financial period. Fees are not subject to attendance at meetings as attendance at Board meetings is generally very good.

Remuneration is not linked to the performance of the Group or share performance. Non-executive directors do not receive performance-related bonuses and are not granted share options. The fees for the 2013 annual financial period were approved by shareholders at the AGM held on 15 June 2012. The proposed fees for the 2014 annual financial period will be submitted to shareholders for approval at the AGM to be held on 25 June 2013.

Remuneration of non-executive Chairman for the 2014 annual financial period

Gareth Ackerman received a fee of R3 450 000 in his role as Chairman and acting CEO for the 2013 annual financial period while the Group conducted its search for a new CEO. The remuneration committee has proposed that his fee remain unchanged for the 2014 annual financial period. His role has reverted to that of non-executive Chairman for the 2014 annual financial period. Gareth is active in corporate governance issues and the overarching strategy for the companies in the Group. He is not involved in the day-to-day executive administration of the business, but holds himself available to contribute to the executive team if they request his advice. In addition, Gareth is ensuring that the CEO enjoys a smooth transition into the business.

Fees for the current and proposed periods are unchanged, as follows:

	Proposed 2014 R	2013 R
Chairman of the Board	3 450 000	3 450 000
Lead non-executive director	100 000	100 000
Member of the Board	300 000	300 000
Chairman of the audit committee	250 000	250 000
Member of the audit committee	100 000	100 000
Chairman of the remuneration committee	130 000	130 000
Member of the remuneration committee	65 000	65 000
Member of the nominations committee	60 000	60 000
Member of the social and ethics committee	65 000	65 000
Member of the corporate finance committee	100 000	100 000
Trustee of employee share purchase trust	29 000	29 000

Risk management and remuneration practices

The remuneration committee ensures that corporate governance aspects and legal requirements are met when existing remuneration policies are reviewed and new remuneration plans and policies are put in place. In doing so the committee ensures that shareholder interests are protected and reward systems and remuneration policies are aligned to the Company's risk profile.

Hugh Herman
Chairman: Remuneration committee

22 April 2013

Social and ethics committee report

Pick n Pay Stores Limited

In accordance with the provisions of the Companies Act 2008, the Group has established a social and ethics committee. The committee reports to the Board and conducts its affairs within its approved charter. It performs an oversight and monitoring role with the aim of further entrenching the culture of ethical behaviour within the Group. The Group's principle of "doing good is good business" is the cornerstone of the work done by the committee.

ROLE OF THE COMMITTEE

The committee has the following responsibilities:

- To monitor the Group's activities with regard to social and economic development, environment, health and public safety, consumer relationships, and labour and employment;
- To draw matters within its mandate to the attention of the Board as required; and
- To report to the shareholders at the Company's annual general meeting on the matters within its mandate.

The committee meets quarterly and focuses, amongst other subjects, on the following:

- Best practice examples for social and ethics committees;
- Ethics policies;
- Whistleblowing structures;
- BBBEE;
- Employment equity;
- Corporate social investment;
- Ethical treatment of animals;
- Local ethical procurement; and
- Integrity of food products and ingredients.

As a result of our commitment to doing business in a sustainable manner, the Group has been included on the Socially Responsible Investment Index of the JSE.

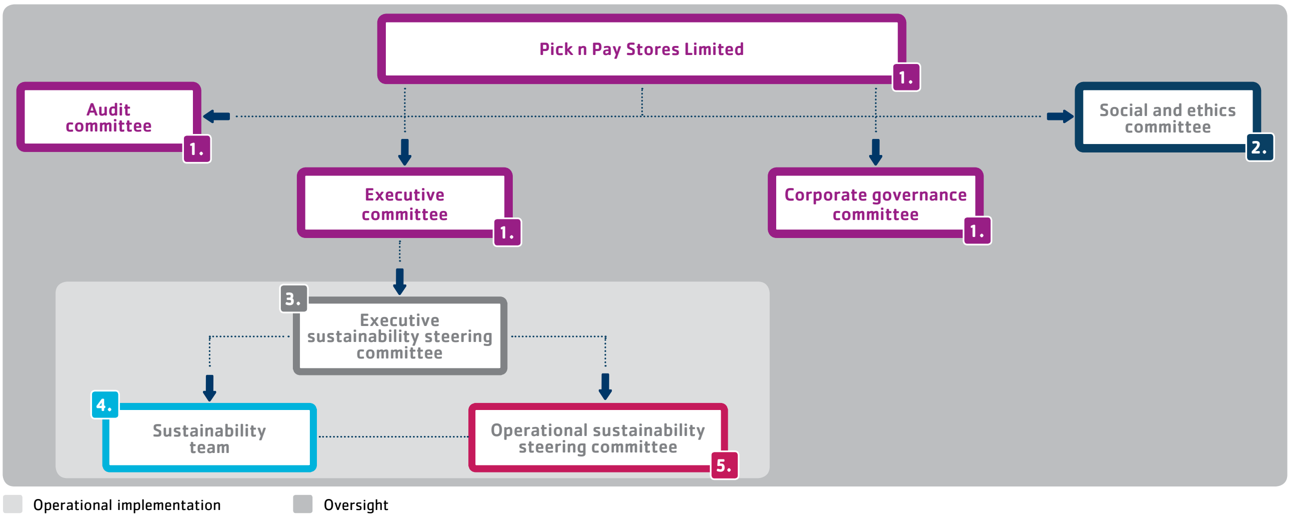
COMPOSITION OF THE COMMITTEE

The committee is chaired by executive director, Suzanne Ackerman-Berman. Her positions as Director of Transformation, Chairman of the Ackerman Pick n Pay Foundation and head of the Pick n Pay Small Business Incubator, as well as her philanthropic work, ensures that Suzanne is uniquely qualified to chair the committee. Other committee members comprise non-executive director, Lorato Phalatse, senior management and technical experts on areas of mandate. Care has been taken to ensure that management is representative of the organisation across all levels and areas of expertise.

Director representation	Status	11 June 2012	27 August 2012	28 November 2012	21 February 2013
Suzanne Ackerman-Berman	Chairman and executive director	P	P	P	P
Lorato Phalatse	Independent non-executive director	P	P	P	P

P = present

Sustainability governance structure



1. Refer to page 37 for composition of committees.
2. The social and ethics committee provides ongoing governance and management review.
3. The executive sustainability steering committee meets on a quarterly basis to ensure alignment with the business strategy. The Board is represented on the steering committee by Suzanne Ackerman-Berman and Richard Brasher.
4. The sustainability team is tasked with co-ordinating Pick n Pay's response to ESG challenges across all of the Company's operations.
5. The operational sustainability steering committee consists of senior management representing each of the focus areas set out in the sustainability summary, and is responsible for implementation of the sustainability strategy.

Suzanne Ackerman-Berman
Chairman: Social and ethics committee
22 April 2013

Risk management report
Pick n Pay Stores Limited

The Board has recognised the importance of an effective risk management process and has adopted an enterprise-wide approach to risk management. Risks identified are captured and rated in the Group's risk register.

The Board is responsible for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor key business risks. The Board is assisted in its responsibilities by the audit committee, whose objective is to monitor, develop and communicate the process for managing risk across all divisions in the Group. The day-to-day responsibility for identifying, evaluating and managing risk resides with management. The risk management process, which is regularly assessed by the audit committee, involves a formalised system to identify and assess risk, both at a strategic and operational level. Mitigating controls, and other assurances in identifying and assessing the risks, are continuously evaluated.

The Group's assets are insured against loss, with cover being taken out above predetermined self-insurance levels. In a disaster recovery circumstance, business continuity plans will ensure the business continues with the least amount of disruption, both from an information technology and operational viewpoint. These plans are reviewed and updated regularly.

A summary of major risks and mitigation strategies is presented in the table below:

Risk	Risk mitigation
Strategic and market risk	
Damage to brand and reputation	The Group's governance philosophy seeks to protect and enhance our brand and reputation. Pick n Pay strives to maintain ethical business practices, and to achieve the highest levels of compliance and integrity.
Increasing competition	The Group continuously monitors market trends and sets its strategy accordingly, with the aim of ensuring that Pick n Pay remains the retailer of choice.
Ability to implement and execute strategy	All Group strategies are formally documented. Strategic progress reports are reviewed and evaluated monthly by the executive committee and bi-annually at Board level.
Ability to manage the impact of potential differentials in markets identified for expansion	The Group has a measured approach to expansion into non-South African markets. The regulatory environment and economic stability of the selected countries are carefully evaluated. Care is taken to ensure that good relationships are developed and maintained with key government and regulatory authorities.
Increased awareness of green/ethical issues	Levels of customer expectations on green/ethical issues are tracked via the smartshopper survey. The Group consistently retains a leading position in respect of "green retail" and is committed to addressing sustainability issues. Employee awareness initiatives include energy usage and saving initiatives such as the use of natural refrigerants over synthetic substances to reduce greenhouse-emitting gases. World-class sustainability features, tested in our "green store", PnP-on-Nicol, are being implemented where appropriate throughout the Group.
Sustainable food supply	The Group continues its analysis of the potential effects of climate change on food supply, and is actively involved in sustainable food supply initiatives in at-risk product areas. A comprehensive supply chain ESG risk analysis process was initiated in 2013. Understanding of these risks will increasingly inform supply chain decision-making. The Group continues to monitor the potential effect on food supply of wage disputes among agricultural labour forces.

Risk management report continued

Pick n Pay Stores Limited

Risk	Risk mitigation
Financial risk	
Volatility of profit margins	Market conditions and their effect on profitability are continuously reviewed by management and the Board. Unit sales growth and cost efficiencies are the primary drivers to protect profit margins. Unit sales growth depends on high levels of customer satisfaction.
Going-concern status	The going concern of the Group is reviewed by the Board at least twice a period and includes a review of adequate levels of capital to continue operations and implement strategy.
Liquidity and credit risk	The Group maintains a strong capital base (represented by total shareholders' equity) so as to maintain investor, creditor and market confidence and to sustain future development of the business.
Operational risk	
Product quality and third-party liability	Product safety and quality are carefully scrutinised by our internal quality control and food safety technicians. Where any indications exist of a product flaw, the product is immediately uplifted and returned to the supplier. Merchandise is purchased from reputable suppliers. The safety and quality of house brands are carefully scrutinised by food safety technicians. Appropriate levels of insurance are in place.
Safeguarding of assets	Group assets are insured against loss. Business continuity plans are in place. All stores and distribution centres have surveillance cameras in place which are monitored to assist in the safe keeping of assets.
Security of supply	Pick n Pay places much emphasis on forging good relationships with suppliers to ensure that the partnership is mutually beneficial to both parties. Electronic data interchange (EDI) is in process to improve delivery and communication levels between Pick n Pay and suppliers. Central distribution is in place to assist with improving lead times and minimising out of stocks.
Reliance on information systems	The information systems division evaluates and decides on appropriate technology for the Group. Further details on information systems risks are on pages 33 and 34.
Energy security and utilities	Resource use is a key focus of our optimisation drive. The Group has consistently reduced energy usage for the past 3 years and significant savings will enable further investment in reducing fuel and electricity consumption.
Legislative risk	
Compliance with legislation	Pick n Pay has an in-house compliance office to monitor and assess the impact of legislation on the business. Use is made of external specialists and advice where necessary.

Legal report
Pick n Pay Stores Limited

COMPLIANCE

The compliance framework rests on the Group's comprehensive set of policies. These are regularly updated to reflect governance best practice and the evolving legal environment. All Group companies and employees are obliged to comply with these policies.

The Group has created a set of compliance questionnaires that are distributed bi-annually to the relevant departments. The compliance questionnaires indicate levels of compliance to statutes that impact the retail industry such as the Consumer Protection Act, the Competition Act and the Companies Act 2008. Statutory developments are regularly monitored to establish the compliance regime, and we are currently reviewing what is needed to establish compliance with the provisions of the Protection of Personal Information Bill.

Compliance questionnaires are also used to educate employees in the requirements of statutory and regulatory compliance in the retail sector, and staff members are trained in sessions dealing with important legal issues such as the provisions of the Consumer Protection Act.

The questionnaires are regularly audited internally to ensure accurate reporting.

No judgments, damages, penalties or fines were recorded and/or levied against any Group company, directors, officers or employees during the period under review for non-compliance with any legislation.

Each year, the executive directors and senior managers are required to declare in writing that to the best of their knowledge they, and the companies they serve, have complied with all relevant statutes and regulations. The most recent of these exercises was completed during April 2013, and no incidents of contravention of the policies or the statutes were reported.

COMPETITION COMMISSION

In August 2012, a subsidiary company received a summons from the Competition Commission regarding an investigation into whether or not long-term exclusive lease agreements, as entered into between landlords and various South African national retail chains, are anti-competitive. Pick n Pay is co-operating fully with the Competition Commission in providing all information requested, and remains convinced that no anti-competitive behaviour exists.

In February 2013, a subsidiary company received notification of a complaint laid against it with the Competition Commission by a small number of Pick n Pay franchisees relating to the sourcing of suppliers and the centralised buying system. Pick n Pay co-operated fully with the Competition Commission in providing all information requested. After reviewing all documentation, the Competition Commission declined to refer the complaint to the Competition Tribunal.

Following the recent statutory changes to, inter alia, the Competitions Act 2008, the Consumer Protection Act and the Companies Act, our franchise agreement was thoroughly reviewed by both commercial and competition lawyers, and was amended to ensure that Pick n Pay and our franchisees remain compliant with all statutory requirements.

LITIGATION MATTERS

The Company and its subsidiaries are not involved, and have not in the 2013 annual financial period been involved, in any legal or arbitration proceedings which may have or have had a material effect on the financial position of the Pick n Pay Group of Companies, nor is the Company aware of any such proceedings that are pending or threatened.

Corporate governance report

Pick n Pay Holdings Limited

INTRODUCTION

This report deals with the corporate governance of Pick n Pay Holdings Limited, the investment holding company of Pick n Pay Stores Limited. Pick n Pay Holdings Limited's sole purpose is the holding of the controlling shareholding in Pick n Pay Stores Limited and the Company therefore has minimal operating activities. Only principles specific to Pick n Pay Holdings Limited are included in this report as most principles have been addressed in the Pick n Pay Stores Limited corporate governance report (see pages 31 to 38).

DIRECTORS

The Board comprises 6 non-executive directors of which 3 are independent. In addition, there are 3 alternate directors who are available to step in for Raymond Ackerman, Wendy Ackerman and Gareth Ackerman should the need arise. The alternate directors have a standing invitation to attend all board meetings, but only vote in the absence of the director for whom they alternate. As the Chairman, Raymond Ackerman is not independent, Hugh Herman has been appointed as the lead independent non-executive director (LID). All members of the Board have unfettered access to the LID when required.

APPOINTMENT OF DIRECTORS

The appointment of all directors and alternate directors to the Board requires shareholder approval at the annual general meeting (AGM). On appointment to the Board new directors are required to retire and offer themselves for re-election by shareholders at the first AGM following their appointment.

INDEPENDENCE OF DIRECTORS

Of the 3 independent non-executive directors, Hugh Herman and René de Wet have held their positions for longer than 9 years. Their independence has been thoroughly scrutinised by the Chairman and discussed by the Board given their years of service on the Board. The Board is satisfied that, despite their length of service, they remain independent, tough-minded individuals with personal integrity, and they translate their experience in the Group into meaningful interrogation of the Group's implementation of its strategy. All 3 independent directors meet the criteria for independence as established by King III, the Companies Act and the JSE Listings Requirements. The Ackerman family members are not independent given their indirect controlling shareholding of the Group.

BOARD SUB-COMMITTEES

Pick n Pay Holdings has an audit committee consisting of independent non-executive directors, but it does not have separate remuneration, risk, nomination, corporate governance and social and ethics committees as the tasks relating to these committees are undertaken by Pick n Pay Stores Limited for the Group.

REMUNERATION REPORT

No separate remuneration report is presented as the only remuneration paid by the Company is non-executive directors' remuneration which is approved by the Board as a whole.

Fees proposed for next year for Board members not serving on the Pick n Pay Stores Board, are unchanged as follows:

	Proposed 2014	2013
Total fee	R57 000	**R57 000**

Share options granted to directors

	Calendar year granted	Option grant price R	Balance held at 1 March 2012	Balance held at 3 March 2013	Available for take-up
Jonathan Ackerman (alternate director)	2010	16.00	1 000	1 000	Now
			1 000	**1 000**	
Suzanne Ackerman-Berman (alternate director)	2011	15.35	400	400	Now
			400	**400**	
Directors of Pick n Pay Stores Limited					
Bakar Jakoet	2006	11.50	400	400	Now
	2009	11.33	600	600	Now
	2010	16.00	400	400	Now
			1 400	**1 400**	
Richard van Rensburg	2011	15.18	1 000 000	1 000 000	Oct 2014
			1 000 000	**1 000 000**	

Directors' interest in shares

2013	How held*	Balance held at 1 March 2012 000's	Additions during the period 000's	Average purchase price per share R	Balance held at 3 March 2013 000's	Beneficial/ non-beneficial interest
Directors' holdings						
Raymond Ackerman	direct	1 269.4			1 269.4	Beneficial
Gareth Ackerman	direct	0.5			0.5	Beneficial
	indirect	3 153.0			3 153.0	Non-beneficial
Ackerman Investment Holdings Proprietary Limited**	indirect	254 896.0	121.6	17.99	255 017.6	Non-beneficial
Mistral Trust**	indirect	5 308.2			5 308.2	Non-beneficial
Hugh Herman	direct	80.0			80.0	Beneficial
	indirect	65.0			65.0	Beneficial
Alternate directors						
Jonathan Ackerman	direct	252.0			252.0	Beneficial
	indirect	1 089.6			1 089.6	Beneficial
Suzanne Ackerman-Berman	direct	242.1			242.1	Beneficial
	indirect	811.3			811.3	Beneficial
David Robins	direct	886.7			886.7	Beneficial
Directors of Pick n Pay Stores Limited						
Bakar Jakoet	direct	250.0			250.0	Beneficial

2012	How held*	Balance held at 1 March 2011 000's	Additions during the year 000's	Average purchase price per share R	Balance held at 29 February 2012 000's	Beneficial/ non-beneficial interest
Directors' holdings						
Raymond Ackerman	direct	1 019.4	250.0	17.37	1 269.4	Beneficial
Gareth Ackerman	direct	0.5			0.5	Beneficial
	indirect	3 072.0	81.0	17.77	3 153.0	Non-beneficial
Ackerman Investment Holdings Proprietary Limited**	indirect	254 896.0			254 896.0	Non-beneficial
Mistral Trust**	indirect	5 201.5	106.7	17.25	5 308.2	Non-beneficial
Hugh Herman	direct	62.5	17.5	16.09	80.0	Beneficial
	indirect	65.0			65.0	Beneficial
Alternate directors						
Jonathan Ackerman	direct	252.0			252.0	Beneficial
	indirect	1 089.6			1 089.6	Beneficial
Suzanne Ackerman-Berman	direct	242.1			242.1	Beneficial
	indirect	781.2	30.1	16.38	811.3	Beneficial
David Robins	direct	886.7			886.7	Beneficial
Directors of Pick n Pay Stores Limited						
Nick Badminton***	direct	880.6			880.6	Beneficial
Bakar Jakoet	direct	250.0			250.0	Beneficial

* *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a family trust of which the director is a trustee.*

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

*** *Resigned 29 February 2012.*

Corporate governance report continued

Pick n Pay Holdings Limited

KING III

Dispensation by JSE

- Pick n Pay has been granted a dispensation by the JSE from the King III requirement to have a minimum of 2 executive directors, given that the Company has no material operating activities other than the receipt of and payment of dividends, and assessment of the carrying value of its only investment in Pick n Pay Stores Limited.
- Pick n Pay Holdings Limited has applied for dispensation from the requirement to appoint a social and ethics committee, as this function is fulfilled by the social and ethics committee formed by the Board of Pick n Pay Stores Limited.
- Pick n Pay Holdings Limited has been granted dispensation from the JSE Listings Requirements of having separate remuneration, risk, nominations and corporate governance committees, as this function is fulfilled for the Group by the Board committees formed by Pick n Pay Stores Limited.

Notes on King III

The Board comprises an equal number of independent and non-independent directors, while King III recommends that a board comprises a majority of independent directors. The structure of the Board was extensively reviewed. It was concluded that the existing structure of the Group is currently in the best interests of all shareholders.

Directors' attendance at meetings

Board meetings

Director	16 April 2012	23 October 2012	19 February 2013	AGM 15 June 2012
Raymond Ackerman (Chairman)	P	P	P	P
Gareth Ackerman	P	P	P	P
Wendy Ackerman	P	P	P	P
René de Wet	P	P	P	P
Hugh Herman (LID)	P	P	P	P
Jeff van Rooyen	P	P	P	P
Jonathan Ackerman (alternate director)	P	P	P	P
Suzanne Ackerman-Berman (alternate director)	A	P	P	P
David Robins (alternate director)	A	P	P	P

P = present
A = apologies

Fees for board meetings

Non-executive directors	2013 R'000	2012 R'000
Raymond Ackerman	**57.0**	53.0
Wendy Ackerman	**57.0**	53.0
René de Wet	**57.0**	53.0
	171.0	159.0

Audit committee report
Pick n Pay Holdings Limited

The audit committee is pleased to present this report as required by the Companies Act, 2008. The audit committee is a formal committee of the Board and functions within an approved charter and complies with all relevant legislation, regulation and governance codes.

ROLE OF THE COMMITTEE

The audit committee has an independent role with accountability to both the Board and to shareholders. The committee's responsibilities include the statutory duties prescribed by the Companies Act 2008, activities recommended by King III and the responsibilities assigned by the Board.

COMPOSITION OF THE COMMITTEE

This committee is chaired by and comprises only independent non-executive directors. In accordance with the requirements of the Companies Act 2008, members of the committee are appointed annually by the Board for the ensuing financial period and in compliance with King III are appointed by shareholders at the annual general meeting.

The committee has a charter which is reviewed and approved by the Board annually.

The composition of the committee and meeting attendance is as follows:

Committee member	16 April 2012	15 October 2012
René de Wet (Chairman)	P	P
Hugh Herman	P	P
Jeff van Rooyen	P	P

P = present

The committee discharges its Board responsibilities by:

- Meeting at least twice a year to review the Group's financial results;
- Receiving and reviewing reports from the Pick n Pay Stores audit committee;
- Reviewing the carrying value of its investment in Pick n Pay Stores Limited; and
- Reporting to the Board at the next meeting.

The committee's main responsibilities are discharged by the audit committee elected for Pick n Pay Stores Limited. The Pick n Pay Holdings audit committee reviews the report of the Pick n Pay Stores Limited audit committee and assesses the carrying value of its investment in Pick n Pay Stores Limited.

INDEPENDENCE OF EXTERNAL AUDITORS

The audit committee is satisfied as to the independence of the Group's external auditors, KPMG Inc., and its respective audit partners. The committee nominates KPMG as external auditor for the appointment by shareholders at the annual general meeting.

POLICY ON NON-AUDIT SERVICES

All non-audit services provided by the Group's external auditors are pre-approved by the audit committee. The total fee for non-audit services provided should not, under normal circumstances, exceed 50% of the total auditor's remuneration.

EXPERTISE AND EXPERIENCE OF CHIEF FINANCE OFFICER AND FINANCE FUNCTION

The audit committee is satisfied that Bakar Jakoet has the appropriate expertise and experience for his position of Chief Finance Officer of the Group. In addition, the committee is also satisfied that the composition, experience and skills of the finance function meet the Group's requirements.

APPROVAL OF THE AUDIT COMMITTEE REPORT

The committee confirms that it has functioned in accordance with its charter for the 2013 annual financial period and that its report to shareholders has been approved by the Board.

René de Wet

René de Wet
Chairman: Audit committee

22 April 2013