

PEPKOR

Holdings Limited



CORPORATE GOVERNANCE REPORT 2019

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The board of directors (board) of Pepkor Holdings Limited (Pepkor or the company) holds ultimate responsibility for governance, the setting of strategy and the monitoring of the implementation of strategy through the setting of short- to medium-term operational objectives for executive management. The board also holds the responsibility for setting Pepkor’s ethical tone and the creation of an ethical and compliant culture. The board and the executive management team are committed to the adoption and effective implementation of policies and practices that ensure a culture of integrity and compliance, and that meets high levels of transparency and disclosure.

Pepkor was listed in 2017. The year under review was more settled than the previous reporting period, following disruptions arising from well-documented events at Steinhoff International Holdings N.V. in late 2017 and 2018. The board met on five occasions, compared to 18 meetings in the previous year. The board engaged in communication and strategic discussions with executive management over two days in addition to the board meetings. This more stable environment allowed the board, and consequently executive management, to focus on providing direction to the group and its decentralised businesses.

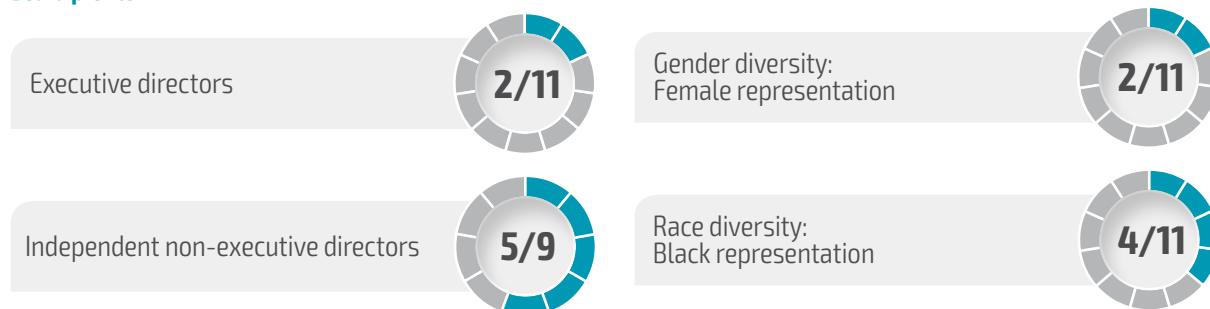
The board's function is assisted and supplemented by an audit and risk committee, a human resources and remuneration committee, a social and ethics committee and a nomination

committee. An investment committee meets as and when appropriate, on an ad hoc basis. Relevant reports from some of these committees appear in the integrated reporting suite, where appropriate.

Although only relatively recently listed, Pepkor has a long and distinguished history featuring embedded practices created by its employees, suppliers, customers and other stakeholders. It is widely recognised in the market for its integrity, superior performance and effective leadership.

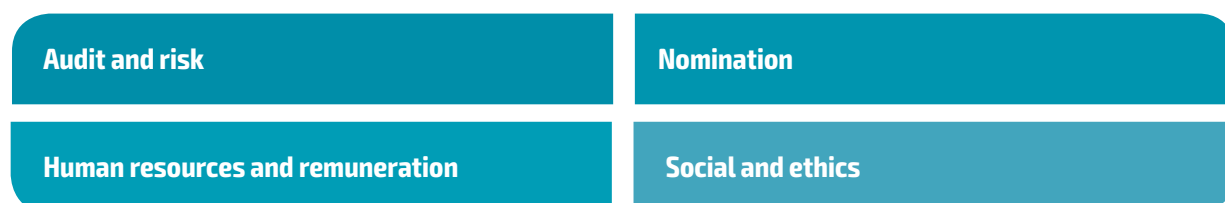
GOVERNANCE FRAMEWORK

Board profile



Board committees

The governing body should ensure that its arrangement for delegation within its own structures promotes independent judgement and assists with the balance of power and effective discharge of its duties.



Board meetings and attendance

During the period from 1 October 2018 to 30 September 2019, the board met five times, four of which were scheduled. The attendance at such meetings is set out below. Should circumstances so require, directors may meet without the executive directors being present. Directors declare their interests in contracts and other appointments at all board meetings. Meetings are conducted according to a formal agenda, ensuring that the board properly addresses and follows up on all substantive matters.

Board meeting attendance

	2018	2019				Total attendance
	23/11*	19/02*	18/03	27/05*	17/09*	
J Naidoo (Chairman)						5/5
JB Cilliers						5/5
PJ Dieperink (Resigned 1 September 2019)						4/4
LJ du Preez						4/5
RG Hanekom						5/5
MJ Harris						5/5
LM Lourens						5/5
SH Müller						5/5
F Petersen-Cook						5/5
DM van der Merwe (Resigned 28 May 2019)						4/4
JD Wiese						4/5
TL de Klerk (Appointed 29 May 2019)						1/1
PJ Erasmus (Resigned 29 January 2019)						1/1
WYN Luhabe (Appointed 1 January 2019)						3/4

Audit and risk committee

	2018	2019				Total attendance
	20/11*	15/02*	23/05*	13/09*		
JB Cilliers (Chairman)						4/4
SH Müller						4/4
F Petersen-Cook						4/4

Human resources and remuneration committee

	2018	2019				Total attendance
	19/11*	18/02*	22/05*	13/09*		
SH Müller (Chairman)						4/4
J Naidoo						4/4
DM van der Merwe (Resigned 28 May 2019)						3/3
LJ du Preez (Appointed 29 May 2019)						1/1
MJ Harris						4/4

Nomination committee

	2018	Total attendance
	19/11*	
J Naidoo (Chairman)		1/1
JB Cilliers		1/1
DM van der Merwe (Resigned 28 May 2019)		1/1
LJ du Preez (Appointed 29 May 2019)		0/0

Social and ethics committee

	2019			Total attendance
	18/02*	13/05*	19/08*	
F Petersen-Cook (Chairman)				3/3
LM Lourens				3/3
WYN Luhabe (Appointed 1 January 2019)				3/3
RG Hanekom (Resigned 31 December 2018)				0/0

■ Pre-appointment
 ■ Attended
 ■ Apology
 ■ Post-resignation
 # Scheduled meeting

Changes to the composition of the board

During the year under review, Ms WYN Luhabe was appointed as an independent non-executive director, with effect from 1 January 2019, and Mr PJ Erasmus resigned on 29 January 2019. Mr DM van der Merwe resigned on 28 May 2019 and Mr TL de Klerk was appointed as a non-executive director on 29 May 2019. Mr PJ Dieperink resigned as a non-executive director on 1 September 2019, reducing representation of Pepkor's controlling shareholder from three to two board members.

Board and committees

The board charter and its committees' terms of reference are reviewed on a regular basis. The board charter is available on the company's website, www.pepkor.co.za.

The board of directors

The board charter

The board is responsible for governance and its duties include the appointment and dismissal of the CEO. The board's primary responsibility is to provide effective strategic guidance and direction of the group's affairs for the benefit of its shareholders, creating sustainable stakeholder value by balancing the interests of all constituencies, including customers, employees, shareholders, suppliers and local communities. In this regard, the board amended its dividend policy from a dividend cover of two times headline earnings cover to three times. The board is guided by a formal charter that sets out duties and responsibilities. The detailed responsibilities of the board as set out in the charter will be reviewed on a regular basis. The charter, which is aligned to the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™), the JSE Listings Requirements and the Companies Act, No. 71 of 2008, as amended (Companies Act) is available on the company's website, www.pepkor.co.za. It sets out the powers of the board and provides a clear separation of responsibilities and the accountability of board members and management.

Details of the board of directors, including a brief curriculum vitae for each director, are included in the integrated report.

The directors, individually and collectively, assist the group to realise its strategic objectives, to manage the risks that could threaten the group's ability to provide sustainable long-term growth to stakeholders, to maintain and enhance efficiencies within the group's businesses and to support the people who rely on its businesses. The board is satisfied that the composition of the board reflects the appropriate mix of knowledge, skills, experience, diversity and independence. The non-executive directors further have the necessary skills and varied experience to bring independent and balanced judgement to the group's business.

There is a clear separation of responsibilities at board level to ensure an appropriate balance of power and authority and no individual director has unfettered powers of decision-making. While professional advisors, officers or members of staff whose input may be required from time to time to provide insight on key aspects may be invited to attend a specific board meeting or part thereof, there nevertheless remains a clear separation between the responsibilities of the board and of management and/or advisors.

Chairman

Mr J Naidoo is the non-executive chairman of the board. The roles of the chairman and the chief executive officer (CEO) have been formally defined and are separate. The chairman is responsible for leadership of the board, for ensuring that the board plays an effective role, and for facilitating communication with shareholders and constructive relations between the executive and non-executive directors. The chairman is appointed by the board. The chairman's appointment is reviewed every three years to ensure continuity, subject to re-election at the annual general meeting (AGM) of shareholders in accordance with the rotation requirements of the directors of the company.

Lead independent

Mr JB Cilliers, an independent non-executive director was appointed by the board as the lead independent director (LID) in May 2018, and had remained in this position as at 30 September 2019. The duties and responsibilities of the LID are set out in the board charter.

Appointment requirements

Appointments to the board are based on levels of skill, acumen, experience and actual or potential contributions to the group, having due regard to race and gender diversity requirements. The board has gender and race diversity policies to guide the identification of suitable candidates for appointment as directors. In order to attain and maintain a level of gender and race diversity, the board will consider appropriate candidates, having due regard to merit considerations, including experience in the retail industries in which Pepkor operates and the requirements of the board.

Non-executive directors are required to dedicate sufficient time to Pepkor board matters. They may serve on other boards, provided that such other appointments do not create a conflict of interest or interfere with their duties to the Pepkor board, but rather afford the ability to add value by bringing a broader perspective to board deliberations.

Appointment process

Appointments to the board are formal and transparent. After review, proposals for election/re-election to the board are recommended by the nomination committee and are considered by the board as a whole, subject to the approval/ratification of shareholders. The memorandum of incorporation (MOI) of the company provides that, at every AGM of the company, one-third of the non-executive directors shall retire from the board by rotation. If eligible, such directors may offer themselves for re-election. If a director is appointed as an executive director or as an employee of the company in any other capacity, he or she shall not, while he or she continues to hold that position or office, be subject to retirement by rotation. At the upcoming AGM of shareholders, the following non-executive directors will be retiring in accordance with the provisions of the company's MOI, but are eligible and available for re-appointment: Mr J Naidoo, Ms F Petersen-Cook and Mr SH Müller.

The nomination committee has recommended that the retiring non-executive directors referred to above are eligible for re-election.

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Director induction and development

Directors are provided with an induction manual and guidelines on their duties as a director in terms of the Companies Act, read with the recommendations of King IV™ and the JSE Listings Requirements. If required, meetings are arranged with the chairman, other directors and/or senior group executives to enable directors to familiarise themselves with the group's businesses. Ongoing development will include management forums, access to internally and externally run seminars and the circulation of relevant industry, regulatory and economic news and analyses.

Chief executive officer

As the CEO, Mr LM Lourens provides leadership to the executive team in managing the group's businesses. The CEO is appointed by the board. A succession planning process is in place for the group's executive roles.

Chief financial officer

Mr RG Hanekom is the CFO of the company. The audit and risk committee is satisfied that Mr Hanekom possesses the appropriate experience and qualifications for this position. A review of the function of the CFO and finance function was undertaken by the audit and risk committee, as detailed in the report of the audit and risk committee in the financial statements.

Executive committee

An executive committee has been established with the primary responsibility of assisting and advising the CEO in implementing the strategies and policies determined by the board, managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources, and ensuring best management practices. The CEO has the authority to vary the composition of the executive committee from time to time to ensure that he receives the appropriate assistance and advice. The committee comprises the following persons, appointed from time to time: the CFO and business heads, under the chairmanship of the CEO. The committee meets regularly, usually on a monthly basis. The chairman of the board and other group executives may attend committee meetings by invitation.

Board standing committees

In keeping with the recommendations of King IV™, the board has established four standing committees through which it executes some of its duties, namely:

- an audit and risk committee;
- a human resources and remuneration committee;
- a social and ethics committee; and
- a nomination committee.

The board may establish ad hoc committees for specific projects/purposes should the need arise. Each committee acts in accordance with its own terms of reference, under which certain functions of the board are delegated for clearly defined purposes.

However, the board recognises that delegating various functions and authorities to committees does not absolve it of its duties and responsibilities. The board evaluates the performance and effectiveness of each of the committees in accordance with the recommendations of King IV™. Details of the committees are presented in this report.

Audit and risk committee

The audit and risk committee is an independent statutory committee established by the board to assist it in discharging its risk management responsibilities within the group. The committee provides independent oversight of the risk management process and makes recommendations to the board for its consideration and authorisation. The committee does not assume management functions, which remain the responsibility of the executive directors and other senior members of management.

The full report of the audit and risk committee for the period under review is available in the company's audited annual financial statements, available on the company's website at www.pepkor.co.za. The committee remains independent.

The re-election of these committee members, which has received the support of the nomination committee and the board, is subject to the approval of shareholders at the upcoming AGM. The chairman of the committee is appointed by the board. The CFO, the CFOs of the respective businesses, the relevant internal audit representatives, the tax manager and the external auditor regularly attend committee meetings by invitation. All invitees have unlimited access to the audit and risk committee chairman.

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference.

Human resources and remuneration committee

The committee operates under terms of reference that are aligned with the recommendations of King IV™, and are reviewed on a regular basis. Details of the group's remuneration policy are contained in the remuneration report, included as part of the integrated reporting suite. The human resources and remuneration committee is responsible for determining and approving the group's general remuneration policy, which is presented at each AGM for a non-binding advisory vote by shareholders. The committee is responsible for making recommendations to the board on the company's framework of executive remuneration, including the remuneration packages of certain senior managers and the packages for each of the executive directors. It ensures that incentives are appropriately structured and awarded to drive the group's performance and assist the group in reaching its strategic goals in the short, medium and long term. Meetings of the committee are attended by the CEO, the CFO and the group HR executive as invitees.

Despite not consisting of a majority of independent non-executive directors as envisaged by King IV™, the board is of the opinion that the current composition of the human resources and remuneration committee is satisfactory to discharge the committee's roles and responsibilities.

Social and ethics committee

The social and ethics committee operates under terms of reference that are aligned with the requirements of the Companies Act and King IV™. The terms of reference are reviewed regularly. The social and ethics committee is responsible for various statutory duties, with regard to relevant legislation, other legal requirements and prevailing codes of best practice. As per the recommendations of King IV™, the committee meets the requirement of executive and non-executive directors, with a majority being non-executive members.

The board recognises that addressing social and transformation issues is crucial for the sustainability of the group, and that continued investment in its employees and the communities within which it operates is key to the ongoing viability of the group's businesses.

King IV™ recommends that the board governs the ethics of the company and the group in a way that supports the establishment of an ethical culture.

Nomination committee

The committee's terms of reference have been aligned with the recommendations of King IV™. Members of the committee exercised independent judgement in the discharge of their duties, although the King IV™ recommendation of a majority of independent non-executive directors was not achieved. The composition will be reviewed regularly to ensure ultimate compliance with the King IV™ recommendations.

Company secretary assessment

The company secretary's responsibilities are fulfilled by Pepkor Proprietary Limited. The board is satisfied that the company secretarial role is carried out by persons who have the necessary competence, qualifications and experience, and that there is an arm's length relationship between the company secretarial function and the board members.

Code of ethics

Pepkor's code of ethics is reviewed regularly. It is available on the company's website, www.pepkor.co.za.

Regulatory issues

A public censure was imposed on the company on 26 November 2018 by the Johannesburg Stock Exchange (JSE). Pepkor acknowledged that inadequate disclosures were made during the process of its listing and the publication of its annual financial statements in 2017. It accepted and paid a penalty of R5 million, R1 million of which was suspended for two years.

The board and management proactively engaged with the JSE in addressing the issue, and welcomed the conclusion of the investigation.

Good governance requires the board to ensure that processes are in place to provide assurance of effective risk management, and to enable complete, timely, relevant and accessible risk disclosure to stakeholders. The group seeks to embed risk management controls in its business processes and functions in a practical way, rather than imposing them as an additional administrative function.

The aim is to manage risks and opportunities within the levels required to achieve the group's objectives.

Each business within the group is responsible for applying the appropriate risk management guidelines responsibly and comprehensively to meet its own needs, and to fulfil the expectations of its stakeholders. Group risk management creates the structural means to continuously identify, assess, evaluate and manage risk. This approach ensures there are clear roles and responsibilities for the oversight, implementation and assurance of risk management and internal controls across the group.

Pepkor is thus able to identify potential events that may affect its strategy, risk and opportunity, performance and sustainable development, and manage risks within acceptable levels, in line with its risk appetite. The aim is to provide reasonable assurance regarding controls that facilitate risk mitigation and the achievement of group objectives.

The board is committed to achieving the group's strategic objectives in accordance with the recommendations of King IV™.

The group continuously embeds risk management throughout its business activities and decision-making processes at all levels. The group risk appetite and tolerance thresholds establish a common risk terminology for financial risks, compliance risks, sustainability risks, health and safety risks, business continuity and disaster recovery risks. Executive management is accountable to the group executive committee and the group audit and risk committee for designing, implementing and monitoring the systems and processes that underpin risk management.

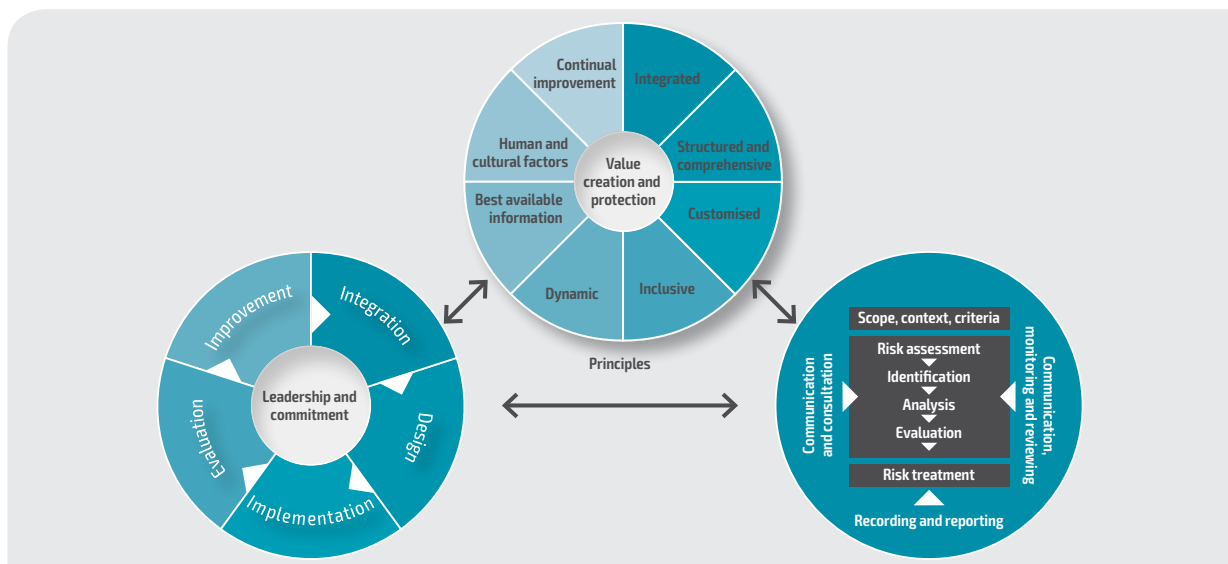
Pepkor focuses on managing opportunities and mitigating risks through the adoption and implementation of the following key components:

- Group risk management framework
- Group risk appetite and tolerance thresholds
- Quarterly risk assessments by operating entities
- Common risk management methodology and nomenclature
- Consolidation of material group and divisional risks
- Control assurance

Risks are uncertain future events that could influence – in a negative or positive manner – the achievement of the group's objectives.

The Pepkor risk management framework is designed to ensure effective risk management oversight, implementation and assurance. The group's risk management approach ensures that regular risk management assessments are completed by each business and reported to the group audit and risk committee for review.

Risks are identified from bottom-up and top-down perspectives, creating a cross-section of material risks per operating segment. The group prescribes strict minimum standards for the control environment and regularly deploys internal and independent audit teams to test control effectiveness across all operating entities. Failures to implement significant/key controls within set periods are escalated to divisional executive management and the group audit and risk committee.



Material risks

Risks that substantively affect, or have the potential to substantively affect, the group's strategy, business model or available resources (and ultimately its ability to create value over time) are key uncertainties. These material risks are evaluated against the industry and global landscape to ensure that relevant emerging and current factors are considered.

1 Sustainable growth

There is uncertainty around the ability to capitalise on long-term growth opportunities in the South African market given current economic conditions. Historically, Pepkor has been exceptional at developing and growing its retail footprint in South Africa and, prior to its listing, across Europe. For the group to continue this trajectory, it needs to identify and invest in growth initiatives.

2 Supply chain disruption

Pepkor has developed a robust supply chain featuring several key suppliers. A significant portion of merchandise is sourced from China, and any disruption in the supply chain, including the loss of key strategic facilities (such as data centres, distribution centres or warehouses) could result in business interruption and loss of income. Closure/destruction of strategic facilities due to fire, inadequate electricity supply, labour unrest, storms, system faults or social unrest could also result in low stock levels, loss of customers and revenue loss.

3 Currency volatility

Exchange rate volatility has a significant impact on imported merchandise which, in turn, impacts forecasts and the ability to meet budgets as uncertainty around currency fluctuations increases. Exchange rate volatility between where the group sources and sells its products could have a negative impact on operating margins. Volatility in the exchange rate can also potentially couple with the economic impact of increases in transport costs (due to fuel increases), increases in government taxes (due to the VAT increase) and wider economic hardships (from unemployment/food price increases) to have a direct impact on group revenues, as available disposable income reduces.

4 Employee retention/engagement risk

Pepkor cannot be certain that it will attract and retain the employees required to successfully conduct its operations. Specialist retail and information technology skills remain scarce, while competition in retaining and attracting skilled staff remains concentrated, in South Africa and globally. Employee engagement remains a key focus across operations to mitigate this long-term threat to the group's performance culture and ability to meet its strategic objectives.

5 Elevated gearing

Historically, Pepkor maintained very low debt levels, with profits used to finance growth initiatives. The current debt level is higher than in the past, which could potentially limit flexibility and impact decision-making for growth initiatives. While additional debt may burden the balance sheet unnecessarily, current debt levels are within the group's operating tolerance.

6 Damage to reputation and brand

Pepkor, along with the various brands underpinning its business, has a strong reputation and is well established in the market and with key stakeholders, including its customers, suppliers and employees. Any event that significantly damages the reputation of the group and/or its brands can therefore negatively impact performance and long-term investor confidence. Social media reputational risks present a potentially significant exposure that is increasingly difficult to predict and manage. Consequences of reputational damage include suppliers withdrawing payment terms, loss of confidence among employees and customers, reduced negotiating power when renewing supplier contracts and the diversion of management's attention from the core business.

7 Digital disruption

Digital technology use is widespread among emerging generations, and mobile is increasingly being adopted by customers as the cost of communication technology decreases. The rapid adoption of mobile across the African economy is creating a gateway into online retail, accompanied by increased competition (driven by lowered barriers to entry) and the development of the online market for certain classes of products. Appliances and electronics are increasingly being purchased online, resulting in direct exposure of the group's appliances and electronics retail brands. Market share could potentially be gained by local and global online retailers, at the expense of traditional retailers.

8 Regulatory change and complexity

South Africa's regulatory environment is constantly changing. Ongoing changes result in increased complexity, with non-compliance leading to regulatory sanction, business interruption, financial loss and reputational damage. The introduction of new laws and regulations affects the way Pepkor engages with clients and trains staff, and impacts projected revenue targets as the cost of compliance increases. Proposed amendments to credit legislation, financial services regulations and data privacy laws may require changes in operating procedures, potentially impacting the profitability of certain operations. Any suspension and/or loss of licence as a result of non-compliance exceeds the group's risk appetite.

Risk mitigation
Active steps are taken by management to mitigate all the material risks within the risk thresholds as part of the risk management framework. The audit and risk committee monitors and reviews risk mitigation.

Risk governance

Risk management is an inclusive process. Every employee is responsible for the management of risk, and for adhering to the risk management procedures implemented by management in their area of responsibility.

Risk management oversight

The board is ultimately accountable for risk governance within the group. It governs risk in a way that supports the organisation in setting and achieving its strategic objectives, and also assumes responsibility for risk governance by defining how risks are approached and addressed within the organisation. The board's responsibilities are outlined in more detail by King IV™ and the board charter. Within this context, the board fully considers the nature of different risks, as well as the opportunities the organisation is willing to explore, and to what extent these should be disclosed without compromising sensitive information.

The board has delegated its responsibilities for risk management to the audit and risk committee, which ensures

that a risk management policy and plan have been developed and implemented. Implementation includes a process, principles and framework for risk management across the group.

Risk management implementation

Executive and senior management (group/divisional) are responsible for executing the board's risk management strategy, in accordance with the risk management policy and plan. Executive and senior management are accountable to the board, through the audit and risk committee, for designing, implementing and monitoring risk management processes and integrating them into the group's day-to-day activities.

Management is responsible for supporting risk management, executing controls, promoting compliance within the scope of the group's risk appetite, and managing risks within their spheres of responsibility, consistent with relevant risk tolerances. The audit and risk committee assigns accountability for risk management and internal control practices, and reviews key divisional risks and internal controls.

Risk management and internal control assurance – combined assurance

The group follows a combined assurance approach across the following three lines of defence:

Assurance overview	Assurance provider
Management assurance includes control self-assessments, monitoring and reviewing key performance indicators, evaluating the integrity of the internal control environment and providing recommendations relating to identified weaknesses, improvement opportunities and key risks that are not adequately mitigated. Management reports its views to the audit and risk committee regarding the adequacy and effectiveness of the internal control environment and takes appropriate remedial action if required.	Management assurance
Internal assurance providers (compliance/legal/risk management) review and evaluate the scope and results of internal assurance activities, including risk assessments, compliance reviews and quality reviews. Internal assurance providers also consider the impact of risk mitigations on the overall internal control environment and exposure to key risks. The enterprise risk management maturity needs to be aligned with the remedial actions recommended by internal assurance providers.	Internal assurance
The group internal audit function provides independent and objective assurance, through the audit and risk committee, of the effectiveness of the entire risk management system and associated processes, and provides recommendations for improvement where necessary. Internal audit is independently responsible for reviewing the group's internal control environment and governance. Internal audit provides an independent and objective view of the effectiveness of the group's risk management activities and considers the outputs of risk assessments to compile audit plans on an annual basis.	Independent assurance/ group internal audit

In addition to the above, external audit provides independent assurance on the financial statements.

Incident management

The frequency of losses due to armed robberies, burglaries and theft has risen substantially over the last 18 months, and Pepkor's incident management process continues to improve accordingly. Incidents are investigated by internal and/or independent teams,

who identify and rectify any current and future exposure of the group. Control information is consolidated for reporting to the audit and risk committee on a quarterly basis.

In recognition of the importance of conducting Pepkor's affairs according to the highest governance standards, and in the best interests of its investors, the group's commitment to good governance is formalised in its policies and operating procedures. These are intended to cover all aspects of Pepkor's activities and to enhance its ability to report appropriately, both internally and externally.

The board is committed to achieving the highest standards of governance, business integrity and ethical conduct across all its activities.

The principles and structures for facilitating good corporate governance are in place throughout the company's operations and are operating effectively. The board is committed to ensuring that these are regularly reviewed to improve and enhance its effectiveness. The directors are satisfied that the company substantially complies with the principles and spirit of King IV™.

1 Ethical leadership

The governing body should lead ethically and effectively.

Focus areas in review period

The board acknowledges and accepts the responsibility for ensuring that the appropriate tone is set for Pepkor, which is one of integrity, fairness, transparency, inclusiveness and accountability. The board operates under a charter that outlines those responsibilities.

Actions in review period

The board charter is reviewed annually. To ensure that the appropriate tone is set, the board oversees the proper implementation and monitoring of King IV™. In 2018, the board conducted a self-evaluation exercise, the results of which will enhance its performance. New board members accept responsibility for providing the highest standards of ethical leadership.

2 Organisational values, ethics and culture

The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

Focus areas in review period

The board sets the direction of the company's values, ethics and culture. It has delegated the responsibility for ethics governance to the audit and risk committee, and the social and ethics committee. The day-to-day implementation of the code of ethics lies with executive management. Effective implementation of the code requires management to ensure that the code is implemented across all functions and sections of the business. The code of ethics is reviewed regularly, and is made available to all stakeholders on the company's website.

Actions in review period

The code of ethics is under review. The audit and risk committee monitors reports provided through an independently administered ethics line. The committee is assisted in this regard by internal audit.

The Companies and Intellectual Property Commission directive, issued in November 2018, was brought to the attention of the human resources and remuneration and social and

ethics committees. The company will continue to ensure the maintenance of highest ethical standards, including zero tolerance for corrupt practices.

3 Responsible corporate citizenship

The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

Focus areas in review period

The board accepts the responsibility of ensuring that the group is, and is seen to be, a responsible corporate citizen. With a substantial number of retail outlets in several countries, although primarily in southern Africa, the group acknowledges the need to add value to the societies in which it operates. This includes the need to be aware of cultural sensitivities within different areas of operation, and to ensure that Pepkor's practices support each environment.

As part of its commitment to being a responsible corporate citizen, Pepkor has zero tolerance for non-compliance with legislation. The board delegates to management the responsibility of ensuring compliance with its policies and procedures. Material breaches are reported to the board which, through the audit and risk committee, also approves the establishment and implementation of the company approval framework that gives structure to the delegation of authority.

Actions in review period

The audit and risk committee has the responsibility of reviewing any breaches of legislation. No material breaches of legislation were brought to the committee's attention in the period under review.

Actions taken by the social and ethics committee are reported in the corporate social responsibility report.

[Read more: Corporate social responsibility report](#)

4 Strategy implementation and performance

The governing body should appreciate that the organisation's core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements in the value creation process.

Focus areas in review period

The board sets Pepkor's strategy direction and purpose, and delegates to management responsibility for formulating strategy implementation in the short, medium and long term. Successful implementation of strategy through superior operational performance is in the best interest of all stakeholders, and this is therefore a key responsibility for the board, and management. The board approves Pepkor's strategy, and the performance measures and targets by which success is measured.

In approving the strategy, the board is required to take into account risks and opportunities relating to the strategy itself, and its implementation. The board also satisfies itself that the business model is appropriate to meet Pepkor's strategic objectives.

Actions in review period

The board and executive management held a two-day workshop during the reporting period to review the medium-term, three-year plan for the group and its operations. The budget for the forthcoming year was approved in line with Pepkor's strategic objectives.

At each board meeting, management reports on progress with respect to implementation and the achievement of strategy benchmarks against approved targets. The assessment is addressed at board and at audit and risk committee level. A third party assists in providing objective analyses and guidance in assessing risk.

5 Reports and disclosure

The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects.

Focus areas in review period

The board sets the direction, approach and conduct for the reporting of group affairs and performance to stakeholders. The board also ensures that the reporting frameworks comply with all regulatory obligations, which include, inter alia, the Companies Act and the JSE Listings Requirements, which incorporate the obligation for adherence to the principles of King IV™.

The board approved the Pepkor integrated report and has satisfied itself with regard to the assurances provided by relevant third parties.

Actions in review period

The board is satisfied that all reporting has taken place in compliance with the Companies Act and the JSE Listings Requirements, and that the group engages effectively with its stakeholders to ascertain where its reporting can be enhanced and improved.

6 Role of the governing body

The governing body should serve as the focal point and custodian of the corporate governance in the organisation.

Focus areas in review period

The board accepts that it is responsible to be the focal point and custodian of corporate governance. The board and its committees exercise this leadership responsibility by ensuring that they perform in terms of relevant legislation, regulations and codes of practice, and in terms of the charter and terms of reference under which they operate.

Actions in review period

The board is satisfied that it has performed its obligations in terms of relevant legislation, regulations, codes of practice and its charter during the review period. The board met on five occasions during the period, including on a quarterly basis to review quarterly and year-to-date performance, and for a

two-day strategic workshop. Details of board and relevant committee meetings, including the attendance of directors, appears elsewhere in this governance report.

The board is satisfied that no single board director holds unfettered decision-making powers.

7 Composition of the governing body

The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its responsibilities objectively and effectively.

Focus areas in review period

The nomination committee is responsible for making recommendations to the board to ensure that the board is the appropriate size, and holds the requisite skills, knowledge, diversity, experience and independence.

At the end of the review period, the board consisted of eleven directors.

The board has adopted gender and race diversity policies that encourage diversity. At the end of the review period, there were two female non-executive directors and four black directors. The board supports and encourages diversity in respect of racial representation. At the end of the review period, there were four black board members, in terms of broad-based black economic empowerment legislation.

The board has a majority of non-executive directors who are considered independent. The executive directors are the CEO and the CFO. Of the remaining nine non-executive members, five are considered to be independent.

As the chairman of the board is not classified as independent, a lead independent director has been appointed, in line with King IV™ recommendations. The chairman of the board is not a member of the audit and risk committee, but is chairman of the nomination committee. As has been previously reported, the chairman of the nomination committee is not independent, and this does not comply with the King IV™ recommendations. The group has undertaken to address this non-compliance.

The rotation of board members is outlined in the company's memorandum of incorporation. There is an induction process for new board members.

Actions in review period

In January 2019, Ms WYN Luhabe was appointed as an additional independent non-executive director. The appointment was in line with the board's stated intention of increasing diversity, while also enhancing its experience and knowledge base.

In May 2019, Mr TL de Klerk was appointed as non-executive director, following the resignation of Mr DM van der Merwe as non-executive director.

Mr PJ Dieperink resigned from the board upon his resignation from Steinhoff International Holdings N.V. He was not replaced.

The changes that were made to the board enhanced the diversity of the board, extended its skill base and increased the number of independent non-executive directors.

A board self-assessment was completed in the review period, the outcome of which provided guidance in addressing areas of improvement and the enhancement of the board's effectiveness.

8 Board committees

The governing body should ensure that its arrangement for delegation within its own structures promotes independent judgement and assists with the balance of power and effective discharge of its duties.

Focus areas in review period

The board has established the audit and risk and social and ethics statutory committees. These committees adhere to the obligations and comply with the provisions of the Companies Act under which they are formed. It was considered appropriate to include the review and assessment of risk as part of the responsibilities of the audit and risk committee.

The board has, in addition, established a human resources and remuneration committee, a nomination committee and an investment committee. The investment committee meets only on an ad hoc basis. The investment committee does not operate under formal terms of reference, but this is under consideration, as the committee may meet more often than originally anticipated. All other committees operate under terms of reference adopted by the board, which are reviewed regularly.

Actions in review period

The committees met on a regular basis in line with their terms of reference. Details of the number of meetings and attendance thereof are reflected on page 2 of this report.

The reports of the appropriate committees are included in other components of Pepkor's integrated reporting suite, as appropriate.

9 Performance evaluations

The governing body should ensure that the evaluation of its own performance and that of its committees, its chairman and its individual members, supports continued improvement in its performance and effectiveness.

Focus areas in review period

The board accepts that self-assessment and/or third-party assessments are effective methods of gauging its performance.

Actions in review period

An in-house assessment was completed in the review period, the results of which were considered by the nomination committee and the board.

10 Delegation to management

The governing body should ensure that the appointment of and delegation to management contribute to role clarity and effective exercise of authority and responsibility.

Focus areas in review period

Throughout the reporting period, the CEO has reported to the board on operational performance and the updates on the implementation of the strategy approved by the board. The CFO is required to attend meetings of the audit and risk committee in his executive management capacity. He is not a member of the committee. The CEO is not a member of the committee and attends by invitation.

The CEO is a member of the social and ethics committee.

Succession of the CEO, CFO and senior executives is considered by the human resources and remuneration committee.

An approval framework is in place and is subject to annual review. The board is satisfied that it achieves the objectives of providing clarity on responsibilities and assisting in ensuring an effective delegation of authority and responsibilities. The human resource and remuneration committee has been delegated the authority to ensure that executive management is appropriately and competitively remunerated and incentivised.

Board members are entitled to seek independent legal advice.

Actions in review period

The company approval framework was reviewed.

The human resource and remuneration committee, as an ongoing obligation, assessed succession for senior executive management.

The report from the human resource and remuneration committee outlines the activities of the committee and the group's remuneration policy and implementation plan, which are required to be put before shareholders as non-binding resolutions for voting at the forthcoming AGM of shareholders.

11 Risk and opportunity governance

The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

Focus areas in review period

The board accepts that it holds the responsibility for the governance of risk. This responsibility has been delegated to the audit and risk committee, which reports to the board on this issue.

Management holds responsibility for initiating risk assessments, and the implementation of risk management and mitigation measures.

Actions in review period

Without limiting its responsibilities, the board approved the enlisting of an independent third-party expert to assist in the assessment of risk and the implementation of risk mitigation actions. In taking this decision, the board acknowledged that the group required additional resources in order to ensure that it was able to fulfil its responsibilities effectively. It is expected that the resulting enhanced focus will further improve the group's risk management ability.

12 Technology and information governance

The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.

Focus in review period

The board accepts that technology is a key enabler for success and competitive advantage. The effective use of technology also gives rise to increased risk in several respects. The board therefore accepts that it holds governance responsibility in this important area. The board has delegated to management responsibility for the effective use of technology and information practices, and for keeping broad pace with changes and advances in this field. Management has established an

information technology steering committee. The audit and risk committee monitors this field on behalf of the board, and reports are submitted to the board on a regular basis.

Actions in review period

The audit and risk committee has received regular reports on technology effectiveness and information security, which have also been reported to the board. The board has been assisted in the oversight of this area by the appointment in the previous year of Mr MJ Harris – who has extensive experience and expertise in this area – as an independent non-executive director. There were no major incidents during the review period.

13 Compliance governance

The governing body should govern compliance with applicable laws and adopt policies, rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Focus in review period

The board sets the standards that ensure compliance in all areas of the business with relevant laws, regulations, codes and policies. There is zero tolerance for breaches of legislation, and material breaches are reported to the board directly, or through committee structures. The board has delegated compliance responsibility to management.

Actions in review period

Compliance is an ongoing requirement for everyone involved in the Pepkor business, from directors to employees, suppliers and other stakeholders. Assurance is sought through external providers, such as auditors. The internal audit function also plays an important role in assessing compliance. No material breaches were brought to the attention of the board or its committees during the period under review.

14 Remuneration governance

The governing body should ensure that the group remunerates fairly, responsibly and transparently, so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

Focus areas in review period

The board, through the human resources and remuneration committee, sets the policy, direction and approach for remuneration. The remuneration policy and implementation report are outlined in the remuneration report, which is included as part of the Pepkor integrated reporting suite.

Actions in review period

The actions undertaken in the review period are outlined in the remuneration report, which is included in the integrated reporting suite.

[Read more: Remuneration report](#)

15 Assurance

The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and the organisation's external reports.

Focus areas in review period

The board acknowledges that it cannot operate effectively without confidence in the information placed before it. It has delegated responsibility for the oversight of direct assurance services and functions to the audit and risk committee, which ensures that an effective internal control environment exists to provide integrity of information used in decision-making. The committee also ensures that a combined assurance model is allied to cover significant risks and material matters through the use of internal and external assurance providers. The committee is satisfied with the status of the effectiveness of the models in respect of financial and non-financial risks and controls.

The board has delegated the oversight of the internal audit function to the audit and risk committee. The internal audit function operates under a charter that is reviewed annually. The internal audit manager has a direct reporting line to the chairman of the audit and risk committee, in addition to his reporting responsibilities to the finance function.

Actions in review period

The audit and risk committee has outlined the actions in the review period in its report, which appears as part of the audited annual financial statements as included in the Pepkor integrated reporting suite.

[Read more: Annual financial statements](#)

16 Stakeholders

In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

Focus area in review period

The board accepts that it holds responsibility for stakeholder management, which it has delegated to management. Key stakeholder groups include employees, shareholders, suppliers, customers and government.

Actions in review period

The board has encouraged proactive engagement with shareholders, particularly in light of events affecting its major shareholder since the end of 2017. The board is committed to ensuring that, as a listed company, it consistently acts in the best interests of the group, and consequently in the best interests of all stakeholders. External communications with stakeholders consistently convey messages that enhance trust in Pepkor.

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