

King IVTM
Disclosure
2018 INTEGRATED REPORT

The information furnished below is a brief summary of Pepkor’s application of the King IV™ principles, also with reference to where these have been addressed in the integrated report. This report is designed to provide assurance that appropriate steps have and are being taken and that structures have been established to enable the company to ensure that the Pepkor group continues to effectively apply sound corporate governance.

PRINCIPLE	Explanation and future focus areas	Integrated report reference
<p>1. The governing body should lead ethically and effectively</p>	<p>The board remains fully committed to the Constitution of the Republic of South Africa (including the Bill of Rights) and accepts the principles of fairness, accountability, integrity, transparency and the duty of representing the interests of all stakeholders in creating a successful, sustainable and ethical business:</p> <ul style="list-style-type: none"> • The board strives to ensure that the board and the group complies with all applicable legislation, regulations, standards and with its own Code of Ethics and internal policies; • Board members are under a legal duty to avoid conflicts of interest with the company and are obliged to make full disclosure of potential conflicts; • Board members that have disclosed possible conflicts are required to recuse themselves from discussions and decision making in such matters; • Disclosure of directorships is tabled at each board meeting as a standard agenda item; • Board members have a collective and individual responsibility of setting the tone for an ethical organisational culture, both at board level and across the group. This aspect of governance will be regularly reviewed; • The board charter, the group’s Code of Ethics and policies, such as that for Insider Trading, will be reviewed regularly to ensure that they are appropriate and aligned to best practice. <p>All board, committee and senior executive management appointments are made, and will be made, with the aim of harnessing skills, expertise, knowledge, diversity and independence to best serve the interests of the company:</p> <ul style="list-style-type: none"> • A nomination committee has been formed to ensure the appropriate mix of skills and independent thought; • Board members possess a wide range of financial, commercial and technical knowledge, together with experience in the retail industries within which the company operates; • Newly appointed directors are given appropriate induction into the business and affairs of the group, and the fiduciary duties applicable to the role of a director; • Performance assessment in respect of the board and all its committees have commenced and will be done in future in accordance with King IV recommended practice. The results of these assessments will be communicated to the board and the Chairs of the relevant committees; • Follow up action will include discussions with those directors that may require additional training or mentoring. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT 55, 56, 57, 60, 61, 64 and 65</p> <p>CHAIRMAN’S LETTER page 10</p> 

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<p>2. The board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p>	<p>During the period under review, Pepkor established its own social and ethics committee, which committee plays an oversight role, assisting the board to ensure an ethical culture is entrenched across the group.</p> <p>The social and ethics committee is responsible for various statutory duties, having regard to relevant legislation, other legal requirements and prevailing codes of best practice, relating to:</p> <ul style="list-style-type: none"> • social and economic development, including employment • equity and broad-based black economic empowerment; • good corporate citizenship; • the environment, health and public safety; • consumer relationships; and • labour and employment, including fair, responsible and transparent remuneration. <p>In addition to the statutory duties, the committee also has the following duties, delegated to it by the board:</p> <ul style="list-style-type: none"> • monitoring the group's progress and initiatives with regard to corporate social investment; • ensuring the group's ethics programme is managed effectively; • managing whistle-blowing, to ensure that all credible allegations are thoroughly investigated, while protecting the identities of all parties involved; and • monitoring that the group endeavours to engage constructively with regulators and ombudsmen in the industries in which the group operates. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 60 and 64</p> 
<p>3. The governing body should ensure that the organisation is seen to be a responsible citizen.</p>	<ul style="list-style-type: none"> • The company's consolidated approach to corporate governance, at both business and group level, is focused on ensuring that the businesses and affairs of the group are managed in a responsible and ethical manner, to assist with the creation of value in the short, medium and long term, for the benefit of all stakeholders. • Whilst the board retains overall responsibility for ensuring that the group is, and is seen to be, a responsible corporate citizen, it is assisted in this regard by the social and ethics committee. • Structures have been put in place to ensure that the company conducts its affairs as a responsible corporate citizen. • There is oversight and ongoing monitoring of the group's approach to conducting its operations in a responsible manner in the workplace, the economy, society and the environment. Appropriate measures and targets are determined by management, subject to compliance with any overarching group strategy or policies. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 55, 56, 60 and 64</p> <p>OVERVIEW: CREATING VALUE pages 6 to 7</p>
<p>4. The governing body should appreciate the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.</p>	<ul style="list-style-type: none"> • The ultimate responsibility for ensuring a sustainable strategy rests with the board, which considers and approves the strategy proposed by business management, taking into account: <ul style="list-style-type: none"> – timelines – risks – opportunities – the availability of capital and resources – sustainability, and – stakeholder interests. • In determining the strategy for the group, the board recognises the necessity to ensure sustainability of the group's operations by taking due cognisance of all related and interrelated factors. • The responsibility for implementing and executing the approved business budgets, strategies and project plans is delegated to management. Divisional management report on a regular basis to the executive committee on their performance, and to the board on a quarterly basis. • Material matters that may have an impact on the implementation of the board's strategy are reserved for the board, including inter alia: <ul style="list-style-type: none"> – decisions on the allocation of capital resources; – authorisation of procurement capital expenditure; – property transactions; – borrowings and investments save where pre-approved materiality levels apply. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 55 to 61</p> <p>OVERVIEW – CREATING VALUE pages 6 to 7</p> <p>CHIEF EXECUTIVE OFFICER'S REPORT page 13</p> <p>CHIEF FINANCIAL OFFICER'S REPORT pages 14 to 17</p>

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<p>5. 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.</p>	<ul style="list-style-type: none"> The board assumes responsibility for the integrity and transparency of the group's reporting and is assisted by the audit and risk committee and appointed external auditors in finalising the company's annual financial statements and integrated reports. The publication of external reports and press releases, including releases on SENS, requires the approval of at least the company's CEO, or as may be otherwise instructed by the board. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 61 to 64</p>
<p>6. The governing body should serve as a focal point and custodian of corporate governance in the organisation.</p>	<ul style="list-style-type: none"> The board is the focal point and custodian of corporate governance in the group. The board charter documents the board's role and responsibilities, including: <ul style="list-style-type: none"> – setting the strategic direction of the group; – approving policies and plans to give effect thereto; – oversight and monitoring of implementation of policies and plans by management, and – reporting and disclosure. The board is supported by the executive committee and management structures, but remains ultimately responsible for corporate governance in the group and the transparent disclosure and reporting thereon. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 55 to 58</p> <p>CHAIRMAN'S LETTER page 10</p>
<p>7. The governing body should comprise the appropriate balance of knowledge, skills, expertise, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	<ul style="list-style-type: none"> The board charter requires that the majority of directors shall be non-executive, and the majority thereof are to be independent. Compliance herein is ongoing. The independence of non-executive directors was assessed during the financial year ended 30 September 2018. The arrangement for periodic, staggered rotation of board members are contained in the company's memorandum of incorporation and complies with regulatory and statutory requirements. The process for the nomination, election and appointment of board members is formal, and transparent. Board members are required to declare their financial, economic and other interests at the commencement as each board meeting. Conflicts of interests are managed in accordance with the Companies Act (71 of 2008) and the requirement of King IV. New board members appointed to the board are given appropriate induction. The company secretary assists in this regard. The board is responsible for managing effective succession of adequately skilled and experienced board members, executive and senior management and other key positions through properly mandated committees. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 57, 66 to 71</p>
<p>8. The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties.</p>	<ul style="list-style-type: none"> The board charter provides that the board may delegate particular roles and responsibilities to standing or ad hoc committees. The following committees have been established under formal terms of reference: <ul style="list-style-type: none"> – Audit and risk committee; – Human resources and remuneration committee; – Nomination committee; and – Social and ethics committee. Cross membership between committees is encouraged to ensure effective collaboration between the committees and committee membership has been balanced to ensure that that no individual will have the ability to dominate decision making. The establishment of committees does not relieve the board of any of its duties. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 55 to 56 and 58 to 61</p> <p>CHIEF EXECUTIVE OFFICER'S REPORT page 13</p>

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<p>9. The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness.</p>	<ul style="list-style-type: none"> • Performance evaluations, including evaluations of the board, board committees, chairmen, board and committee members have commenced and will be done in future in accordance with King IV recommended practice. • The details of such evaluations will be presented to the board and follow-up actions will be taken in respect of any areas identified for improvement. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT page 61</p>
<p>10. The governing body should ensure that the appointment of, and delegation to, management contributes to role clarity and effective exercise of authority and responsibilities.</p>	<ul style="list-style-type: none"> • The board has delegated the day-to-day management of the group to the CEO, which role has been clearly defined. • The CEO, assisted by the executive committee, is responsible for the implementation and execution of the board's strategy, policies and proposals approved by the board. • To assist in fulfilling this role, the CEO is a permanent invitee to attend the meetings of all board committees. • The company has appointed Pepkor Proprietary Limited as company secretary to provide professional corporate governance services to the company. • The board of Pepkor Proprietary Limited is comprised of individuals with the necessary legal, administrative, company secretarial and corporate governance skills and expertise. • The company secretary reports to the board on all statutory and governance matters concerning the company. • The performance and independence of the company secretary is evaluated by the board on an annual basis. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 57 and 61</p> <p>CHIEF EXECUTIVE OFFICER'S REPORT page 13</p>
<p>11. The governing body should govern risk in a way that supports the organisation setting and achieving its strategic objectives.</p>	<ul style="list-style-type: none"> • The board assumes responsibility for the governance of risk by setting the direction for how risk is to be approached and addressed within the group. • Without derogating from its overall responsibility for risk management, the board has delegated the responsibility to implement and execute effective operational risk management to business management. • The audit and risk committee assists the board by providing an objective and independent view on the group's finance, accounting and control mechanisms and by reviewing and ensuring that consideration is given to: <ul style="list-style-type: none"> – the accounting policies of the group and any proposed revisions thereto; – the effectiveness of the group's information systems and internal controls; – the appropriateness, expertise and experience of the Chief Financial Officer; – the appointment and monitoring of the group's external auditors; – the group's going concern status; – compliance with applicable legislation and requirements of regulatory authorities. <p>In consultation with the external and internal auditors, the committee oversees that management's processes and procedures are adequate to identify, assess, manage and monitor group-wide risks.</p> <ul style="list-style-type: none"> • The board exercises oversight of risks via, inter alia, the following mechanisms: <ul style="list-style-type: none"> – the audit and risk committee; – the receipt of reports on the categorisation of risks and the mitigating actions in place/contemplated, including but not limited to business continuity arrangements to reduce such risks; – all proposals for acquisitions or mergers are subjected to a robust due diligence exercise in order to evaluate and understand the opportunities and risks associated with such a transaction; and – oversight of the group's insurance portfolio to ensure that risks are appropriately covered, having due regard to the board's appetite for risk. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 59 and 61 to 64</p>

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<p>12. The governing body should govern technology and information in a way that supports the organisation setting and achieving strategic objectives.</p>	<ul style="list-style-type: none"> • The board is responsible for the governance of Information and Communication Technology (“ICT”), to facilitate the achievement of its strategic objectives. • It is assisted by the audit and risk committee, which reviews ICT risks in so far as they relate to financial reporting. • IT governance in the group is premised on decentralised business management being responsible for decisions relating to IT and digital within an agreed strategic framework, supported at group level through enablement and support, the building of capacity where required, and facilitation of initiatives where possible. • Business management strategic IT projects and change portfolios are managed through IT steering committees in each business. Strategic alignment and prioritisation within each business portfolio are achieved through these steering committees. • IT risks are managed by each business through continuous risk assessment and monitoring, and risk registers are updated quarterly. • Corporate IT support is provided, among others, via a group IT resource (Pepkor IT), which has been developed as a central IT skill and capability to assist businesses (where requested). • Pepkor IT currently manages the IT functions on behalf of the clothing and general merchandise segment of the group only. • IT reports, inclusive of IT risk registers, are submitted to the audit and risk committee for each meeting, and inform the committee of the status quo of IT within the major businesses, including: <ul style="list-style-type: none"> – nature of major IT projects; – IT risk analysis and management, the extent to which risks are mitigated and/or businesses accepted the underlying risks, if not mitigated; – IT operating expenditure analysis; and – IT capital expenditure and the nature thereof. – The group’s IT governance framework is in the process of being reassessed by the executive team. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT page 63</p>
<p>13. The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</p>	<ul style="list-style-type: none"> • Responsibility for the implementation and execution of effective compliance management is delegated by the board to management. • The board, however, retains ultimate responsibility for compliance with applicable laws, adopted non-binding rules, codes and standards. • Through business management and reporting structures, the board and audit and risk committee are appraised of any material non-compliance with legislative or regulatory requirements. • Significant fines or penalties incurred are reported to the board and/or audit and risk committee. • Material or repeated regulatory penalties, sanctions or fines for non-compliance with the group’s statutory obligations, or should the group face criminal sanction or prosecution, details thereof are disclosed in the company’s integrated reports or as deemed appropriate by the board. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 59 and 62 to 64</p> <p>CHIEF EXECUTIVE OFFICER’S REPORT page 13</p>
<p>14. The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.</p>	<ul style="list-style-type: none"> • The board assumes responsibility for the governance of remuneration and sets the direction for remuneration across the group. • The board has appointed a human resources and remuneration committee to ensure: <ul style="list-style-type: none"> – that the group’s executives and managers are fairly rewarded for their individual and joint contribution to the company’s performance; – that the company remunerates fairly, reasonably and transparently at all levels to enable the company to achieve its strategic objectives; and – the securing of positive outcomes in the short, medium and long term. • The group’s remuneration policy will be presented to shareholders at each annual general meeting of the company. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT page 59</p> <p>REMUNERATION REPORT pages 72 to 78</p>

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<p>15. 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 of the organisation's external reports.</p>	<ul style="list-style-type: none"> The group's combined assurance model includes, but is not limited to, the group's established internal audit, risk management and compliance functions, external auditors and regulatory inspections, together with such other external assurance providers as may be deemed appropriate, taking into account the nature of the group's operations. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 59 and 61 to 63</p>
<p>16. In the execution of its governance role 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.</p>	<ul style="list-style-type: none"> As a responsible corporate citizen, the board is committed to the Constitution of South Africa (including the Bill of Rights), and promotes the principles of fairness, accountability, transparency and the duty of representing the interests of all stakeholders in promoting a successful, sustainable and ethical business. The newly constituted social and ethics committee is mandated to provide guidance and oversight on all the group's activities impacting the environment, consumers, employees, the communities that the group serves, other stakeholders. In addition, the social and ethics committee monitor's the company's sustainability and governance in relation to these identified stakeholders. Other focus areas include: <ul style="list-style-type: none"> ongoing identification of individual stakeholders and stakeholder groupings to enable the business to manage and meet stakeholder expectations; the management of stakeholder risks as an integral part of the group's risk management structure; continuously evaluating the group's impact on stakeholders and the environment; promoting stakeholder relationship by encouraging engagement with stakeholders, including shareholders; and improved communication of the group's governance structures. 	<p>OUR GOVERNANCE: CORPORATE GOVERNANCE REPORT pages 64 and 80</p> <p>OVERVIEW: CREATING VALUE pages 6 to 7</p>