

PEPKOR

Holdings Limited



←

2021

CORPORATE
GOVERNANCE
REPORT

Contents

ABOUT THIS REPORT

01

INTRODUCTION

Our approach to governance	02
Governance focus in 2021	02
Looking ahead	02

OUR APPROACH TO GOVERNANCE

Ethical leadership	03
Organisational values, ethics and culture	03
Responsible corporate citizenship	03
Strategy implementation and performance	04
Reports and disclosure	04
The role of the board	04
Delegation of authority	04

OUR BOARD

Board composition	05
Changes to the board	05
The board's governance framework and delegated structures	06
Directorate	07
Governance processes	11

BOARD AND COMMITTEE MEETINGS, ATTENDANCE AND PERFORMANCE

Details of member attendance at board and committee meetings	13
Board responsibilities	14
Board performance evaluations	14
Company secretary assessment	14

GOVERNANCE FUNCTIONAL AREAS

Risk and opportunity governance	15
Risk management implementation	16
Technology and information governance	17
Compliance	17
Assurance	17
Stakeholders	18
Remuneration	18

COMMITTEE REPORTS

Audit and risk committee	19
Human resources and remuneration committee	20
Investment committee	20
Nomination committee	20
Social and ethics committee	21

CORPORATE INFORMATION

22

An appropriate balance of board knowledge, skill, diversity and independence is essential in order for a board to discharge its governance role and responsibilities effectively.

About this report

Our reporting suite

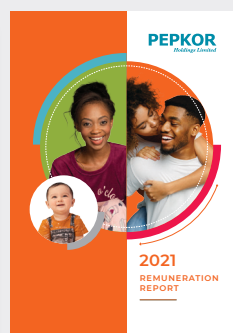
The Pepkor corporate governance report forms part of the 2021 integrated reporting suite that covers the activities of the Pepkor group for the financial year ended 30 September 2021. The reporting suite consists of five primary sections:



Integrated report



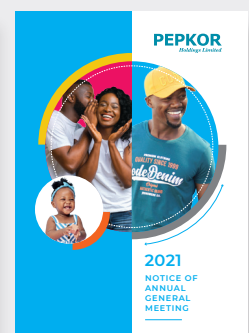
Annual financial statements



Remuneration report



Sustainability report



Notice of annual general meeting

This report focuses on corporate governance within Pepkor. In compiling this report, the board has taken into consideration the recommendations and principles of the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™)*, as well as all legislative and regulatory requirements including, inter alia, the Companies Act, No. 71 of 2008, as amended (Companies Act), the JSE Equity and Debt Listings Requirements and the International Financial Reporting Standards (IFRS).

The board is satisfied that, having applied its mind to the reporting suite, it has addressed all material issues appropriately.

The full integrated reporting suite is available at www.pepkor.co.za/investor-relations/integrated-report/.

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Introduction

Pepkor Holdings Limited (Pepkor or the company or the group) listed on the JSE Limited (JSE) in the retail sector in September 2017. Since listing, the board and executive management team have prioritised the enhancement of the company's governance policies and practices. Although the group's management structure is decentralised, the common thread of an ethical culture exists at each of our businesses. The board of directors, as the custodian of good governance in the group, acknowledges its responsibility to safeguard the ethical base that is central to the company's values. The Pepkor board is ultimately responsible for ensuring that corporate governance standards are set and implemented throughout the group.

Our approach to governance

The board supports the principles and recommended practices contained in King IV™, which are fundamental to good governance. The recommended corporate governance structures and practices are pivotal to delivering sustainable value in the interest of all Pepkor's stakeholders. The group therefore reviews our corporate governance practices and structures regularly to reflect best practice and to facilitate effective leadership and corporate citizenship.

Effective governance is a vital component and contributor to the group's sustainability. The board and the chief executive officer (CEO), supported by the executive leadership team, are responsible for upholding good corporate governance. Decisions and actions of the board embody fairness, responsibility, accountability and transparency. By setting the tone, the board ensures that a culture of robust governance filters through the organisation. The board approves and monitors the effectiveness of the governance framework across the group to embed a culture of good governance. This includes the implementation of the King IV™ principles and recommended practices.

The board is satisfied that Pepkor has applied the requisite King IV™ principles during the year under review. In instances where the company has elected not to apply certain recommended practices, the rationale is explained in the relevant sections of the report. Only salient points of the board charter and the terms of reference of the board committees are included in this report. The complete documents are available on the company's website. Further details of Pepkor's implementation of King IV™ are available at www.pepkor.co.za/corporate-governance/documents-and-policies/.

The board's commitment to effective governance and leadership is further reflected in the attendance of board and board committee meetings in the 2021 financial year (FY21). Details regarding attendance at these meetings are contained on page 13 of this report.

Governance focus in 2021

During FY21, the board focused on the company's performance since listing on the JSE and on restoring profitability to pre-COVID-19 levels. The board ensured that management continued to grow the business while addressing the impact of the ongoing COVID-19 pandemic on the company's stakeholders.

The board also placed substantial focus on strengthening the independence of the board and its committees during FY21. The board acknowledges that an appropriate balance of board knowledge, skill, diversity and independence is essential to discharge its governance role and responsibilities effectively. An independent non-executive director was appointed as chairman of the board with effect from 1 December 2020. Prior to this date, the board had been chaired by a non-executive director who was not independent.

Five new independent directors were also appointed to the board with effect from 1 June 2021. The appointments were made with the primary objectives of enhancing and widening the skill set and strengthening the independence and diversity components of the board. Eight of the 12 current board members are independent non-executive directors, resulting in the board having a strong independent culture.

Looking ahead

The board will continue to focus on overseeing management's initiatives to grow the business and explore new opportunities, while refining the governance structures within the organisation.

WENDY LUHABE

Independent non-executive chairman of the board from 1 December 2020

15 December 2021

Our approach to governance

Ethical leadership

The company's commitment to good governance, ethics, integrity and compliance is formalised in the various policies, charters and operating procedures that have been adopted and implemented. This is supported by high levels of transparency and disclosure.

The board considers the legitimate and reasonable needs, interests and expectations of material stakeholders in the execution of its duties in the best interests of the company over the long term.

Organisational values, ethics and culture

The board is accountable for ensuring ethical and effective leadership within the governance structures and policies adopted by the group. The board leads by example, collectively instilling and nurturing a group culture that is formalised in the Pepkor code of ethics. The code reflects the fundamental principles of Pepkor's philosophy and embodies the belief that ethical behaviour is good business. The code is complemented by a number of corporate policies that provide detailed guidelines regarding specific issues.

The code of ethics incorporates the following key principles:

- ▶ Conform to Pepkor's core values
- ▶ Commitment to comply with all relevant legislation, regulatory requirements, standard and codes of conduct
- ▶ Manage and mitigate all conflicts or perceived conflicts of interest
- ▶ Ensure that no discriminatory practices exist in the group
- ▶ Encourage the reporting of unlawful conduct or violations or suspected violations of the code
- ▶ Protect company assets and the need for confidentiality of proprietary information

Responsibility for ethics governance has been delegated by the board to the social and ethics committee. Executive management is responsible for the day-to-day implementation of the code of ethics. Effective implementation requires management to ensure that the code is applied across all functions and sections of the business. It is reviewed regularly by the social and ethics committee, who recommend to the board changes and improvements to the code. The code of ethics is available to all stakeholders on the Pepkor website.

No material breaches of the code were noted during the period under review. The company will continue to enhance our governance of ethics in the next financial year.

The values of Pepkor are underpinned by the governance framework set out in the board charter, the terms of reference of the committees of the board, the code of conduct, as well as the various supporting policies and procedures. These include ethics hotlines that encourage anonymous reporting of inappropriate conduct, including fraud and corruption, as well as policies that ensure the effective reporting and action for incidents.

Responsible corporate citizenship

The board has responsibility for ensuring that the group is, and is seen to be, a responsible corporate citizen. With a substantial number of retail outlets in several countries, primarily in southern Africa, the group acknowledges the need to add value to the communities in which we operate. This includes the need to be aware of cultural sensitivities within different areas of operation, and to make certain that Pepkor's practices support each environment. Details of the many areas of involvement are reflected in the separate sustainability report.

Pepkor has zero tolerance for non-compliance with legislation. The board sets the standards for compliance in all areas of the business with regulations, and delegates responsibility for compliance with our policies and procedures to management. Material breaches are reported to the board through the audit and risk committee. This committee also approves the establishment and implementation of the company approval framework that gives structure to the delegation of authority.

No material breaches were brought to the attention of the board or its committees during the period under review.

Strategy implementation and performance

The board approves Pepkor's strategic 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 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 and its implementation. The board also satisfies itself that the business model is appropriate to meet the group's strategic objectives.

Management periodically reports to the board on progress with respect to implementation and the achievement of strategic benchmarks. The risk management function assists the audit and risk committee in providing analyses and guidance in assessing risk.

Reports and disclosure

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 Equity and Debt Listings Requirements, with the latter incorporating the obligation to implement King IV™ through the application and disclosure regime.

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

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

The role of the board

The board is responsible for determining the group's strategic direction by approving and monitoring an informed short-, medium- and long-term strategy.

The board also serves as the focal point and custodian of corporate governance at the company. The scope of its authority, responsibility, composition and functioning is contained in a formal charter that is reviewed regularly. While the board is unwavering in its adherence to legislation and various codes and standards, its commitment to good governance goes beyond compliance.

Governance processes and policies are reviewed regularly to align with changes to regulations, to reflect best practice, and to ensure that the policies and processes remain relevant and fit for purpose. 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.

Delegation of authority

The board approves and regularly reviews the Pepkor group approval framework, which provides clarity of levels of responsibility for decision-making within the group. The framework establishes an appropriate balance for the need to ensure that decisions are taken at appropriate levels, dependent on the materiality and importance of such decisions, while empowering management to take appropriate business decisions. The framework acknowledges the need for effective and efficient decision-making at appropriate levels within the group so as to enable businesses to retain a competitive edge and achieve short- and medium-term business and strategic objectives.

The board is satisfied that the approval framework achieves the objectives of providing clarity on responsibilities and enhances efficient decision-making within the group.

During the reporting period, the CEO regularly updated the board on operational performance and on the implementation of the board-approved strategy.

Our board

The board is responsible for directing, administering and controlling the affairs of the company in a transparent, fair and responsible manner. The board recognises its responsibility to shareholders, employees and the community to uphold high standards in managing economic, social, environmental and ethical matters and ensuring that the company conducts its activities according to best practice.

The board is accountable for, among other things:

- ▶ determining Pepkor's overall objectives, monitoring operational performance, ensuring effective risk management and internal controls, and monitoring regulatory and governance requirements;
- ▶ overseeing the issuance of reports to comply with legal requirements and to meet the legitimate and reasonable information needs of material stakeholders; and
- ▶ allocating major roles and responsibilities according to the company's approval framework.

Directors are entitled to seek independent professional advice at the company's expense (after following the required consultation process) in fulfilling their duties.

Board composition

The Pepkor board comprises 12 directors, 10 of whom are non-executive directors. The executive directors are the CEO and the chief financial officer (CFO). Of the 10 non-executive directors, eight are classified as independent. The majority of the non-executive directors are therefore independent.

The board is chaired by an independent non-executive director. The board currently does not have a lead independent director, following the resignation of the lead independent director on 16 February 2021. Given the strong majority of independent directors serving on the board, and the fact that the board is chaired by an independent non-executive director, the board considers it appropriate that a lead independent director not be appointed at this point.

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

The board has adopted a policy for diversity at board level in line with the JSE Equity Listings Requirements and assesses factors such as gender, race, culture, age, field of knowledge, skills and experience. The board recognises the importance of diversity in its composition and, with the director appointments during 2021, has achieved its diversity target in the short to medium term. During the year under review, the representation of independent non-executive directors was increased, while the diversity, gender, race and skill set of the board was also enhanced with additional board appointments. The board is of the opinion that its composition reflects an appropriate mix of knowledge, skills, experience, diversity and independence. Collectively, the board as a whole possesses competencies in the fields of commerce, retail, IT, tax, marketing, finance, law, human capital development and insurance.

Changes to the board

The following changes to the board took place during the year under review:

- ▶ Jayendra Naidoo, whose term as chairman of the board ended on 30 November 2020, resigned from the board effective 1 February 2021.
- ▶ Wendy Luhabe, an independent non-executive director, became chairman of the company for a three-year term with effect from 1 December 2020.
- ▶ Johann Cilliers resigned from the board with effect from 16 February 2021, to devote more time to his personal interests.
- ▶ Jacob Wiese retired from the board at the annual general meeting (AGM) on 10 March 2021, as he was unavailable for re-election to the board.
- ▶ Paula Disberry, Hester Hickey, Zola Malinga, Ian Kirk and Isaac Mophatlane were appointed to the board with effect from 1 June 2021. The appointments had the effect of filling board vacancies and enhancing board independence and diversity. In addition, retail, auditing, IT, insurance and transactional skills were added to the collective skill set of the board.

The board's governance framework and delegated structures

The Pepkor board operates in accordance with its charter. The board has delegated specific functions to committees to assist in meeting with its oversight responsibilities. The audit and risk committee and social and ethics committee are statutory committees established in terms of the Companies Act. The board considers it appropriate for the audit committee also to hold responsibility for the assessment and monitoring of risk. The board has also constituted a nomination committee and a human resources and remuneration committee. An investment

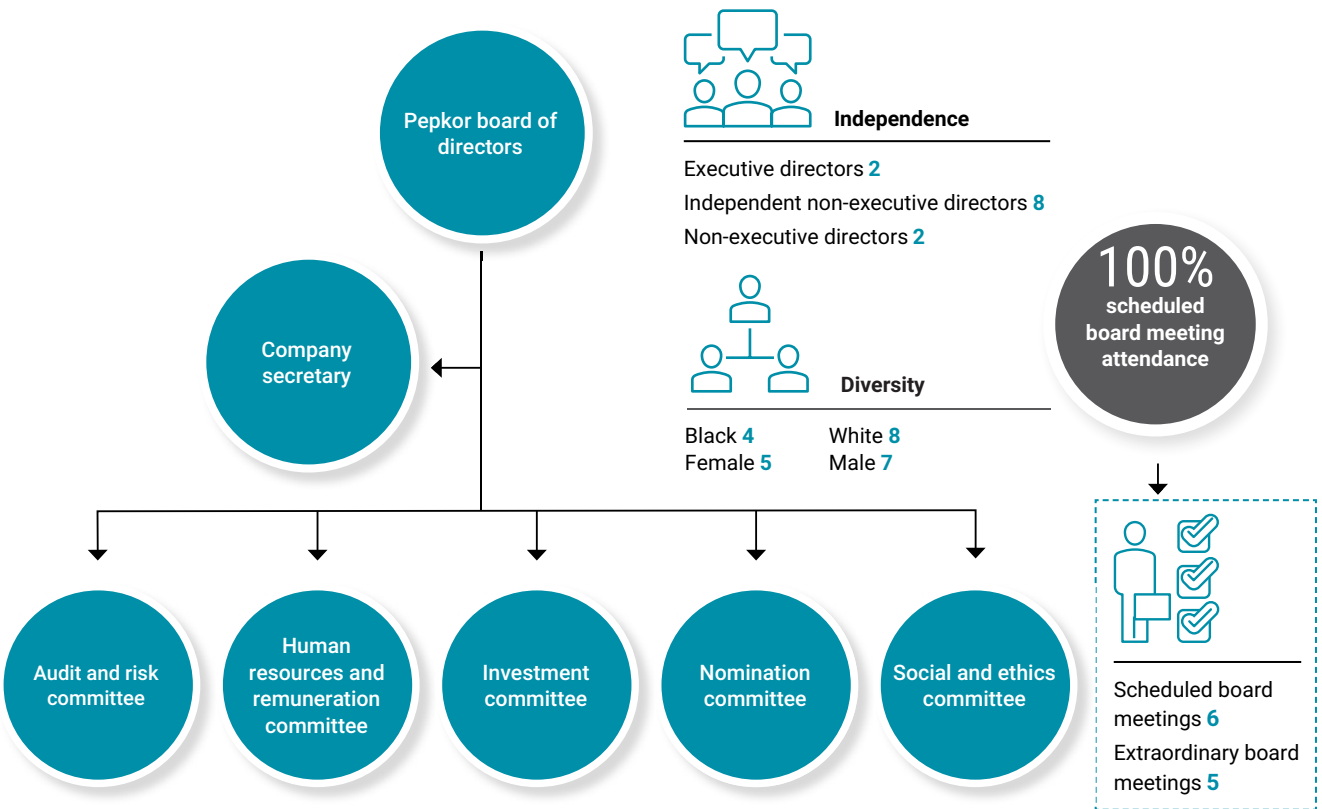
committee was established with effect from 1 June 2021. All the board committees are chaired by independent non-executive directors and meet composition requirements in terms of independence as recommended by King IV™. The committees meet regularly and operate under terms of reference approved by the board. The directors confirm that the committees have functioned in accordance with their terms of reference during the year under review.

In appointing board members to the committees, the board has considered the composition of the committees holistically, ensuring an appropriate balance of membership and that no one individual can dominate decision-making. Appropriate members of executive and senior management are invited to committee meetings. External advisors are invited to meetings as deemed appropriate.

Governance structure

Enhanced board independence and diversity

80% of non-executive directors are independent 42% female
33% black



Directorate



LEON LOURENS (55)

HND (Human Resources), BCom (Marketing)

Chief executive officer



Leon was appointed as group chief executive officer on 6 December 2017. He completed a Higher National Diploma in Human Resources in 1987, before attaining a BCom degree in Marketing (Unisa) in 1994. He joined PEP in 1990. In 2000, he joined the supermarket group Panda in the Middle East as head of operations before returning to PEP in 2002. He was appointed as operations director in 2004 and became managing director of PEP SA in 2011. In 2016, Leon was appointed as Group MD: Pepkor Africa and he became chief operating officer of Pepkor Holdings at its listing on 20 September 2017. He has more than 28 years' experience in retail, primarily from store operations in the discount sector of the market. Leon serves as a director on a number of subsidiary boards in the Pepkor group.



RIAAN HANEKOM (52)

BAcc, BCom Hons (Acc), CA(SA)

Chief financial officer



Riaan was appointed as group chief financial officer on 18 August 2017. He completed his articles with Ernst & Young in 1995, whereafter he spent six years with Shoprite as a financial manager. He joined Woolworths in 2001, and was the Woolworths retail operations group head of finance and administration when he joined the Pepkor group in 2006, as commercial director of Shoe City. He became the commercial director of Ackermans in 2008, and financial director of Ackermans in 2009. He was appointed as the group financial director of the Pepkor group in February 2016. Riaan serves as a director on a number of subsidiary boards in the Pepkor group.



WENDY LUHABE (64)

BCom

Independent non-executive chairman

(Chairman)

Wendy was appointed as an independent non-executive director on 1 January 2019 and as chairman on 1 December 2020. She has been a pioneer and a thought leader in the economic empowerment of women in South Africa for more than 27 years. She is a serial social entrepreneur and has been involved in human capital development and mentorship of younger generations. She graduated with a BCom and an Advanced Management Programme and is a recipient of four honorary doctorates. In 1993, Wendy pioneered the founding of WIPHOLD, South Africa's first investment company for women, and in 2013, WPEF, South Africa's first venture capital company for women. She has served as a non-executive director and chairman across diverse industries since 1992. She was chairman of Vodacom and Industrial Development Corporation and served as non-executive director of Tiger Brands and Telkom, among others. Wendy currently serves as chairman of Libstar Holdings Limited, and as non-executive director of Compagnie Financière Richemont SA.

- Member of the audit and risk committee
- Member of the human resources and remuneration committee
- Member of the investment committee
- Member of the nomination committee
- Member of the social and ethics committee



PAULA DISBERRY (54)

BA (Hons), MA (Cambridge)

Independent non-executive director



Paula was appointed as an independent non-executive director on 1 June 2021. She holds a BA (Hons) and MA in Natural Sciences (Neurophysiology) from Cambridge. She has considerable retail experience, covering fashion, general merchandise and grocery, having held senior executive management positions at Woolworths and Pick n Pay. Paula also has significant international experience through her former roles with Tesco, BP, Colgate-Palmolive and Woolworths. She has previously served on the boards of the Country Road Group and Woolworths (African subsidiary boards and risk committee).



HESTER HICKEY (67)

BCompt (Hons), CA(SA)

Independent non-executive director



Hester was appointed as an independent non-executive director on 1 June 2021. She is a CA(SA) and holds a BCompt (Hons). Hester has held non-executive positions in several JSE-listed companies and has significant experience as a member and chairman of audit committees. She was the former chairman of the South African Institute of Chartered Accountants. Hester currently also serves on the boards of Barloworld and Northam Platinum.



IAN KIRK (63)

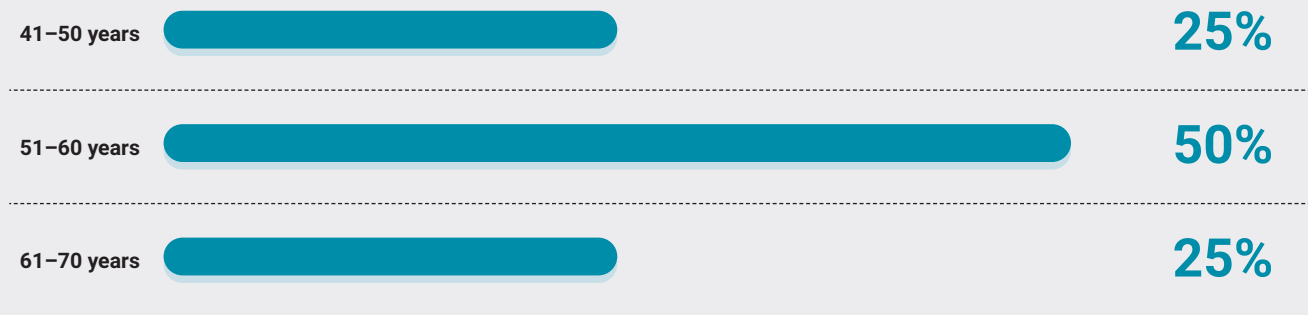
CA(SA), HDip BDP, FCA (Ireland)

Independent non-executive director



Ian was appointed as an independent non-executive director on 1 June 2021. He is a CA(SA) and FCA of the Republic of Ireland. Ian most recently held the position of Group CEO of Sanlam, which he retired from in December 2020. Ian has had extensive strategic and operational management experience locally and internationally. The President of the Republic of South Africa appointed Ian as a member of the Presidential State-Owned Enterprise Council in June 2020. He currently also serves on the boards of the JSE, Transaction Capital, SCOR UK, The Channel Managing Agency Limited (UK) and Shriram General Insurance Company (India).

Diversity of age



- Member of the audit and risk committee
- Member of the human resources and remuneration committee
- Member of the investment committee
- Member of the nomination committee
- Member of the social and ethics committee



ZOLA MALINGA (43)

BAcc (Hons), CA(SA)

Independent non-executive director



Zola was appointed as an independent non-executive director on 1 June 2021. She is a CA(SA) and is the co-founder and executive director of Jade Capital Partners. Zola has experience in the financial services sector having held roles in investment banking, BEE finance, real estate finance and investment management. She serves as a non-executive director on the boards of Grindrod Bank and Sappi. Zola chairs the audit committee of Grindrod Bank and is a member of the audit committee of Sappi.



ISAAC MOPHATLANE (48)

IT entrepreneur

Independent non-executive director



Isaac was appointed as an independent non-executive director on 1 June 2021. He is the co-founder and a shareholder and director of the Randvest Group. Isaac also co-founded BCX in 1996, which was sold to Telkom in 2016, thereby creating one of the leading African ICT companies. Isaac has extensive insight into the technological developments and challenges facing companies such as Pepkor. He is an independent non-executive director of Exxaro, and Crossfin Technologies, a Fintech Investment holding company. He also serves as chairman of Bothomed, and as deputy chairman of the Catholic Education Investment Company.



STEVE MÜLLER (60)

BAcc, BAcc (Hons), CA(SA), Sanlam EDP, IoDSA

Independent non-executive director



Steve was appointed as an independent non-executive director on 18 August 2017. Steve worked at KPMG until 1992, after which he worked as a senior manager at Rand Merchant Bank Limited until 1994. In 1995, he joined Genbel Investments Limited, inter alia as an executive director of Gensec Bank Limited, heading the Investment Banking division from 1999 to 2004. From 2004 to 2008, he managed various structured equity funds for Sanlam Capital Markets. Steve has served as a non-executive director on the boards of several companies over the last 23 years. He is currently also an independent non-executive director of KAP Industrial Holdings Limited.

Board composition

Executive directors

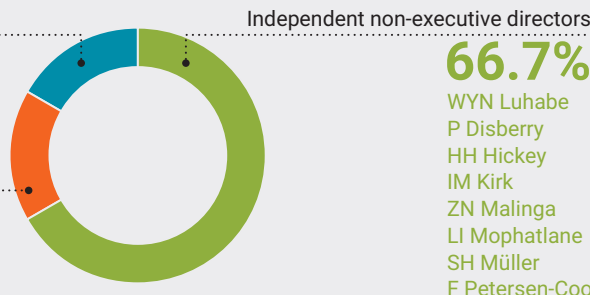
16.7%

LM Lourens
RG Hanekom

Non-executive directors

16.7%

TL de Klerk
LJ du Preez



- Member of the audit and risk committee
- Member of the human resources and remuneration committee
- Member of the investment committee
- Member of the nomination committee
- Member of the social and ethics committee



FAGMEEDAH PETERSEN-COOK (46)

BBusSc (Act.Sc.), FIFoA, FASSA, PGDip (MgtPrac), CD(SA), IoDSA (Cert.Dir.)

Independent non-executive director

■ (Chairman) ● (Interim chairman) †

Fagmeedah was appointed as an independent non-executive director on 16 April 2018. She is an actuary with 24 years' technical experience in the financial services sector. Until 2016, she was the chief investment officer at the Eskom Pension and Provident Fund (EPPF), where she was responsible for the investment of R120 billion. Fagmeedah was appointed to the board of the Government Employees Pension Fund (GEPF) to bring her expertise to the oversight of the investment activity of the PIC. In 2012, she was appointed as a member of the board of Telkom, where she chairs the investment committee. As an actuary, Fagmeedah brings enterprise risk management skills and multi-generational planning techniques to the boardroom. She believes in sustainability and was instrumental in developing the framework for the implementation of the UN PRI at both the GEPF and the EPPF, and now champions ESG principles at the various companies where she is involved. Fagmeedah is the designated insurance director for the group. Fagmeedah currently serves on the boards of Bankmed, Telkom SOC, Absa Financial Services, Absa Pension Fund and Famous Brands.



THEODORE DE KLERK (52)

BCom (Hons), CTA, HDip (Tax), CFM

Non-executive director

†

Theodore was appointed as a non-executive director on 28 May 2019. He completed his articles with Ernst & Young and worked as a corporate tax consultant for four years. He joined Murray & Roberts as financial director of its marine construction operation. He spent five years with Gensec Investment Bank as part of its corporate finance advisory unit, focusing on mergers and acquisitions, capital raisings and related structuring functions. In 2003, he joined Steinhoff and he was appointed chief executive officer of the group's southern African building materials division in 2008, a position he held until 2015. He was appointed financial director of Steinhoff International Holdings N.V. on 1 September 2019. Theodore holds various directorships within the Steinhoff group and is also a director of the IEP Group.



LOUIS DU PREEZ (52)

BCom, LLB

Non-executive director

▲*

Louis was appointed as a non-executive director on 24 January 2018. He qualified as an attorney of the High Court of South Africa in 1997. Louis joined Jan S de Villiers and was appointed a partner of the firm in 1998. With the merger of Werksmans Attorneys in 2009, he became a member of the national executive committee of the combined firm and served as such until early 2017. While practising as an attorney, he advised clients on a variety of corporate and commercial matters. Louis joined the Steinhoff group as general counsel in mid-2017 and was appointed as the commercial director and managing director of Steinhoff International Holdings N.V. on 19 December 2017. He became CEO of Steinhoff International Holdings N.V. with effect from 1 January 2019.

- Member of the audit and risk committee
- ▲ Member of the human resources and remuneration committee
- † Member of the investment committee
- * Member of the nomination committee
- Member of the social and ethics committee

Governance processes

The board charter

The board is guided by a formal charter that sets out duties and responsibilities. The document, which is reviewed regularly, sets out the powers of the board and provides a clear separation of responsibilities and the accountability of board members and management. The charter is aligned to King IV™, the JSE Equity and Debt Listings Requirements and the Companies Act and is available on the company's website, www.pepkor.co.za.

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 Pepkor's shareholders, creating sustainable stakeholder value by balancing the interests of all constituencies, including customers, employees, shareholders, suppliers and local communities.

The directors, individually and collectively, assist the group to realise its strategic objectives; manage the risks that could threaten the group's ability to provide sustainable long-term growth to stakeholders; maintain and enhance efficiencies within the group's businesses; and support the people who rely on our businesses. The board is satisfied that its composition 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 remains a clear separation between the responsibilities of the board and of management and/or advisors.

All directors have a fiduciary duty to exercise due care and skill in carrying out their mandate as directors of the company.

Chairman

Wendy Luhabe was appointed as independent non-executive chairman of the board with effect from 1 December 2020. The roles of the chairman and the 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 AGM of shareholders, in accordance with the rotation requirements of the directors of the company.

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 diversity requirements in terms of the board diversity policy.

In order to attain and maintain an appropriate level of 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. The board has adopted a nomination policy for the consideration of new directors, which is available on the company's website.

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. A conflict of interest policy has been adopted for directors and is available on the company's website at www.pepkor.co.za/corporate-governance/documents-and-policies/.

 **READ MORE**
Board nomination policy
Board conflict of interest policy

Appointment and election 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 company's MOI 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, they shall not, while they continue 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: Theodore de Klerk, Steve Müller, Fagmeedah Petersen-Cook and Wendy Luhabe. The nomination committee has recommended that the non-executive directors referred to above are eligible and they have confirmed that they are available for re-election.

The election of Paula Disberry, Hester Hickey, Ian Kirk, Zola Malinga and Isaac Mophatlane to the board will also be tabled for shareholder approval, as these directors were appointed subsequent to the previous AGM.

The CVs of the directors standing for election or re-election at the AGM are on pages 7 to 10 of this report.

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 Equity and Debt Listings Requirements. The induction process is facilitated by the company secretary. 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 director development includes 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, Leon 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

Riaan Hanekom is the CFO and executive financial director of the company. 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. The audit and risk committee is satisfied that Riaan possesses the appropriate expertise, experience and qualifications for this position. The audit and risk committee was also satisfied as to the competence, experience and strength of the finance function.

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 he receives the appropriate assistance and operational execution. The committee comprises the CFO, business heads, shared services executive, human resources executive and company secretary, under the leadership of the CEO. The committee meets regularly, usually on a six-weekly basis.

Board standing committees

The board has established five committees through which it executes some of its duties. 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 on pages 19 to 21.

Board and committee meetings, attendance and performance

Details of member attendance at board and committee meetings

	Board	Audit and risk committee	Human resources and remuneration committee	Investment committee	Nomination committee	Social and ethics committee
Number of meetings held during FY21	11	6	4	2	3	3
WYN Luhabe	11 (100%)	1 (100%)	3 (100%)		2 (100%)	2 (100%)
TL de Klerk	11 (100%)			2 (100%)		
LJ du Preez	10 (91%)		4 (100%)		3 (100%)	
P Disberry ¹	4 (100%)					1 (100%)
RG Hanekom	11 (100%)			2 (100%)		
HH Hickey ¹	4 (100%)	1 (100%)		2 (100%)		
IM Kirk ¹	4 (100%)		1 (100%)	2 (100%)		
LM Lourens	11 (100%)			2 (100%)		3 (100%)
ZN Malinga ¹	4 (100%)	1 (100%)				1 (100%)
LI Mophatlane ¹	4 (100%)		1 (100%)			
SH Müller	11 (100%)	6 (100%)	4 (100%)	2 (100%)		
F Petersen-Cook	11 (100%)	6 (100%)		2 (100%)		3 (100%)
JB Cilliers ²	3 (100%)	3 (100%)			2 (100%)	
J Naidoo ³	3 (100%)		1 (100%)		1 (100%)	
JD Wiese ⁴	3 (100%)					

¹ Appointed with effect from 1 June 2021

² Resigned with effect from 16 February 2021

³ Resigned with effect from 1 February 2021

⁴ Resigned with effect from 10 March 2021

The board held a number of extraordinary meetings to address, inter alia, corporate actions and changes to its composition.

Percentage attendance is in relation to meetings held while the individual was a member of the board/committee.

Board responsibilities

The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year under review.

During 2021, the board reviewed the financial objectives and performance targets of the business, considered corporate transactions and capital management, and approved the interim and year-end financial results and the 2021 integrated report. The appointments of the new directors and the revisions to the composition of the board committees were also approved, thereby enhancing the independence and structure of the board. The board approved the budget for 2022, as well as the three-year plans for the years 2022 to 2024. In 2022, the board's focus will be on progressing the execution of the Pepkor strategy.

Board performance evaluations

The board acknowledges the importance of having regular evaluations conducted of the board and its committees.

Self-evaluations were conducted by the board and its committees during 2019 and in 2020, and an evaluation was conducted by an external party on the role of the chairman. The assessments indicated that the board and its committees were performing in accordance with their terms of reference, but areas to enhance and improve their performance and responsibilities were identified. Improvements already actioned include appointing an independent chairman of the board, strengthening the retail, investment and IT skill set of the board, and increasing the number of independent directors serving on the board. The board has opted not to conduct an evaluation during the year under review, due to the number of board appointments that took place during the latter half of the financial year. An evaluation of the board will be conducted by an external expert during 2022. The board has executed its responsibilities in terms of its evaluation policy.

By conducting regular evaluations, the board and its committees are able to express support for continued improvement in their performance and effectiveness.

Company secretary assessment

Masood Allie was appointed as group company secretary with effect from 21 June 2021. Prior to this, the company secretarial responsibilities were fulfilled by Pepkor Proprietary Limited. The board considers it more appropriate that an individual holds the position of company secretary rather than a juristic person that is a subsidiary of Pepkor.

The board is satisfied that the company secretary has the necessary competence, qualifications and experience to carry out the responsibilities of the position, and that there is an arm's-length relationship between the company secretary and the board members.

Governance functional areas

The board applies its collective mind to the areas of oversight, as set out in the board charter. Oversight and decision-making activities of the board draw on the collective expertise and experience of the directors, critical discussion and an appropriate exchange of information.

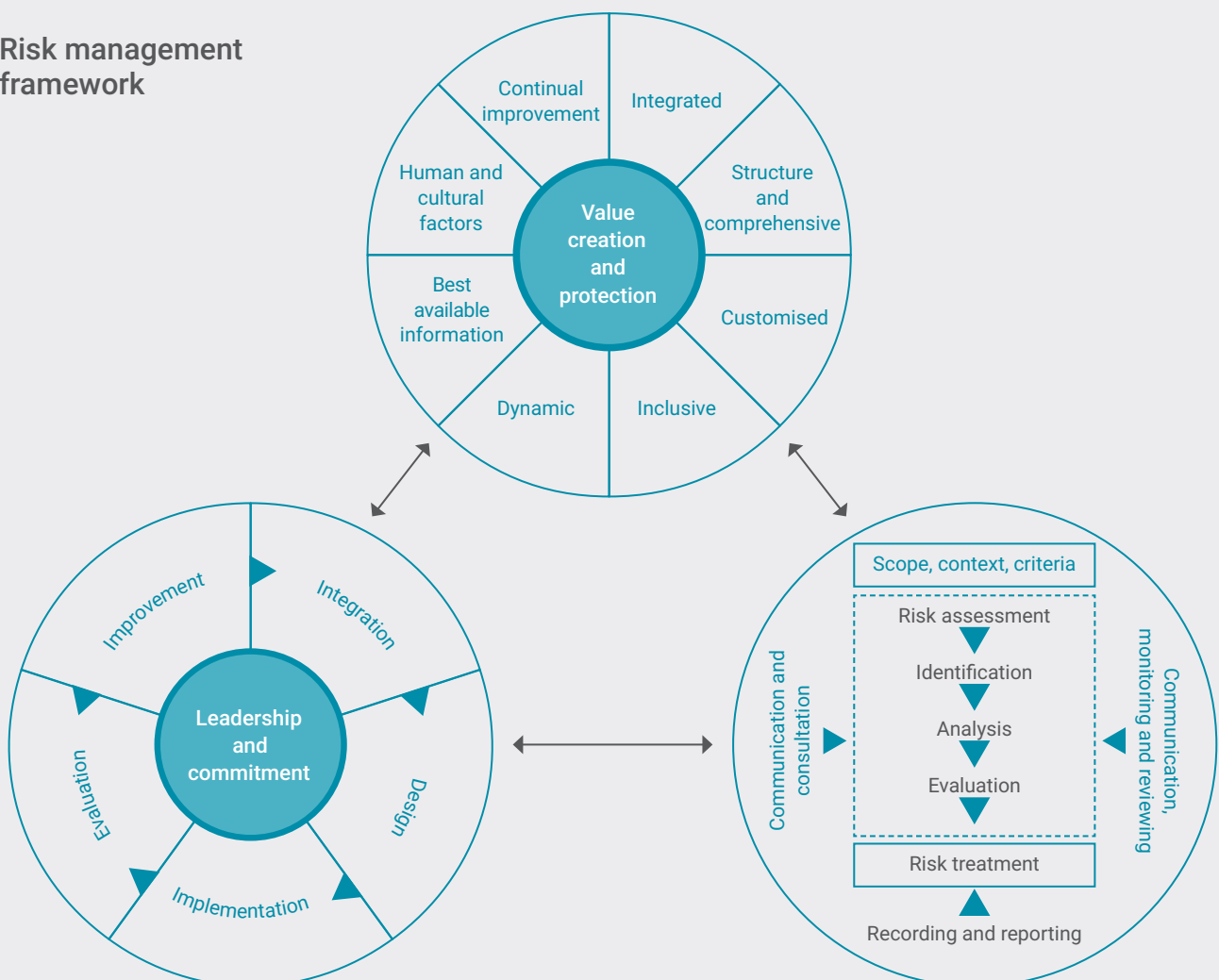
governance

The board acknowledges that the risk landscape is constantly changing, and that effective risk management is an essential tool for the group to support the delivery of strategy and respond effectively to the changing landscape. The board recognises that strategy and risk are inseparable. As such, the group continuously embeds risk management throughout our business activities and decision-making processes at all levels. The group approach to risk management is pragmatic and retail-relevant. It mirrors the operating model, with each business and functional area being responsible for the ongoing communication and feedback of their existing and emerging risks. The audit and risk committee, under the delegated authority of the board, is accountable for overseeing the effectiveness of our risk management process.

Pepkor's risk management framework enables the group to effectively identify potential events that may affect our strategy and manage risks within acceptable levels, in line with our risk appetite. The objective is to provide reasonable assurance regarding controls that facilitate risk mitigation and the achievement of group objectives.

Risk and opportunity

Risk management framework



The group risk appetite and tolerance set the context for risk-adjusted decision-making in pursuit of the strategy. It establishes a common risk approach for all risks across the group. Executive management is accountable to the 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 language
- ▶ Consolidation of material group and divisional risks
- ▶ Combined assurance

Risk management implementation

The risk management process mirrors the group operating model. Each business and functional area is responsible for the ongoing communication and feedback of their existing and emerging risks. This process comprises the identification, assessment and effective mitigation of their risks, as well as continuous monitoring for changes to their risk profiles.

Risk assessment process



Risks are identified from bottom-up and top-down perspectives, creating a cross-section of material risks per operating segment. The group defines minimum standards for the control environment and regularly deploys internal and independent audit teams to test control effectiveness across all operating entities. Risks are consistently identified, measured and reported against set criteria that consider the likelihood of occurrence and potential impact on the group.

Each division maintains a detailed risk register with mitigation plans approved by their respective accountable executive.

The group follows a combined assurance approach across three lines of defence. The approach differentiates and clarifies roles between assurance providers or functions that own and manage risk, functions that oversee risk, and functions that provide independent assurance.

During 2021, the company reviewed the risk management policy, strategy and implementation plan and updated our combined assurance framework. Imminent and emerging group risks, including the electricity supply crisis, the impact of the civil unrest during July 2021 and the risks arising from the COVID-19 pandemic were closely monitored and considered. Substantial focus was also placed on business continuity and compliance.

The company will continue to monitor the risk landscape, including the potential effects of the economic climate on the group's operations and performance.

Technology and information governance

Technology and information are key enablers for the group. Pepkor's systems and infrastructure enhance value creation through delivering competitive advantage derived from customer intelligence, as well as enhancing efficiencies across the supply chain. The board is cognisant that the use of technology increases exposure to risks related to cybercrimes and business continuity. In addition, the directors, on behalf of the group, monitor the ethical and responsible usage of technology and information to ensure the safety of any personal or sensitive information obtained.

The board is responsible for ensuring appropriate governance of the group's IT systems to support the achievement of the group's strategic objectives. The audit and risk committee monitors the group's technology and information initiatives and programmes on behalf of the board and submits reports on a regular basis. Refer to the statement of fulfilment of responsibilities in the audit and risk committee report. The board delegates the responsibility of implementing and overseeing effective technology and information practices – and of keeping abreast of changes and advances in the field – to the audit and risk committee. An IT steering committee has also been established by management.

Focus areas for FY21 included self-assessments of the various businesses' IT governance maturity, disaster recovery and business continuity testing and cybersecurity. Among the focus areas planned for FY22 are implementing a number of IT projects and continuing cybersecurity user awareness.

Compliance

The board sets the standards aimed at ensuring regulatory compliance in all areas of the business. Compliance is an ongoing requirement for everyone involved in the Pepkor business, from directors to employees, suppliers and other stakeholders. Assurance is sought through various channels, including external providers, such as auditors, with a focus on financial compliance. The compliance function monitors and reviews regulatory developments. The group compliance officer also plays an important role in identifying the regulatory universe of the group and provides an advisory service to the business. The group internal audit function, as an independent assurance provider, supports the compliance process by monitoring and detecting where compliance risk is identified.

A key focus across the group was the implementation of the Protection of Personal Information Act (POPIA) requirements and controls. All policies required in terms of POPIA were finalised prior to the effective date of the Act. In FY22, focus will be placed on compliance with the National Credit Amendment Act and the proposed changes to the Companies Act.

Statement of compliance

Pepkor is committed to sound corporate governance and compliance with the JSE Equity and Debt Listings Requirements and King IV™. The company has applied the King IV™ principles and has made available details of our application on the company's website. The board is of the opinion that, during the year under review, Pepkor complied with all applicable rules, including the Companies Act, the provisions of our MOI, and with the JSE Equity and Debt Listings Requirements.

Assurance

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 applied 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.

The group internal audit function was recently independently assessed against the International Standards for the Professional Practice of Internal Auditing and Code of Ethics, which include independence requirements. The assessment confirmed that the function conformed to these standards.

Assurance overview

Assurance providers

Management assurance

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 their views to the audit and risk committee regarding the adequacy and effectiveness of the internal control environment and takes appropriate remedial action if required.

Internal assurance

Internal assurance providers (compliance/legal/risk management) review and evaluate the scope and results of internal assurance activities, including risk assessments, and compliance 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.

Group internal audit

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.

Incident management

The frequency of losses as a result of 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 that 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 addition to the above, the external audit provides independent assurance on the financial statements.

During FY21, internal audit conducted POPIA readiness reviews for the entities within the group. Reviews regarding project governance relating to SAP Finance implementation, financial controls and governance were also conducted. Governance and internal control systems and processes were found to be acceptable across the group. No material instances of control breakdowns were identified.

Stakeholders

The board accepts its duty to present a balanced and understandable assessment of the group's position in reporting to stakeholders. The board delegates its responsibility for stakeholder management to management. Key stakeholder groups include employees, shareholders, suppliers, customers and government. Reporting addresses material matters of significant interest and concern to all stakeholders. It presents a comprehensive and objective assessment of the group so that shareholders and stakeholders with a legitimate interest in the group's activities can obtain a full, fair and honest account of its activities and performance. The board encourages proactive engagement with shareholders.

Remuneration

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.

Committee reports

The committees of the board have met regularly throughout the year to ensure they address all issues in accordance with their respective terms of reference.

After each committee meeting, a comprehensive report is provided to the board.



Audit and risk committee

The audit and risk committee is an independent statutory committee established by the board to assist it in discharging its duties in terms of the Companies Act, as well as risk and control governance. The committee provides independent oversight of the risk management process and makes recommendations to the board for its consideration and authorisation.

MANDATE

The board has delegated the following key functions, among others:

- ▶ Reviewing and recommending for approval by the board the annual financial statements and interim report
- ▶ Approving the terms of engagement and remuneration for the external auditor and ensuring that the appointment of the auditor complies with the Companies Act
- ▶ Reviewing accounting policies and practices
- ▶ Overseeing the group's risks, internal controls and assurance processes

The full report of the audit and risk committee for the period under review is included in the company's audited annual financial statements, available on the company's website at www.pepkor.co.za/investor-relations/integrated-report/. The committee is satisfied it has fulfilled its responsibilities in accordance with its terms of reference.

Following the resignation of the previous chairman of the committee on 16 February 2021, Fagmeedah Petersen-Cook was appointed as interim chair of the committee. The committee consists only of independent directors: Hester Hickey, Zola Malinga, Steve Müller and Fagmeedah Petersen-Cook. Hester Hickey and Zola Malinga were appointed to the committee with effect from 1 June 2021.

Hester Hickey was appointed as chairman of the committee with effect from 1 January 2022.

The election and re-election of these committee members, who have received the support of the nomination committee and the board, are 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 major businesses, the relevant internal audit representatives, the tax manager, the group risk manager and the external auditor regularly attend committee meetings by invitation. All invitees have unlimited access to the audit and risk committee chair.

During the year under review, the committee evaluated the performance and independence of the external auditors. It confirmed the independence of the auditors from the organisation and recommended the appointment of the external auditors and audit partner at the company's AGM. The committee received from the audit firm the information detailed in paragraph 22.15(h) of the JSE Equity and Debt Listings Requirements in its assessment of the suitability for the appointment of the audit firm and the designated individual. No legal or disciplinary proceedings have been concluded against the external audit firm in the past seven years. The firm is accredited by the JSE. Dawid de Jager is the proposed individual audit partner for the financial year ending 30 September 2022. He is a JSE-accredited auditor and does not appear on the JSE's list of disqualified auditors. No matters exist in terms of paragraph 22 of the JSE Equity and Debt Listings Requirements that may preclude Dawid de Jager from accepting the appointment as individual auditor. The committee has therefore fulfilled its responsibilities in terms of paragraphs 3.84(g)(iii) and 7.3(e)(iii) of the JSE Equity and Debt Listings Requirements. Controls are in place to address the provision of non-audit services by the external auditor. During the year under review, non-audit services conducted by PricewaterhouseCoopers Inc. (PwC) amounted to R7.5 million. PwC has served as the company's auditors for four years. The current audit partner was appointed as the designated partner in March 2020.

In considering the FY21 annual financial statements, the committee considered reports by management to assess whether the issues have been addressed appropriately.

Other key areas of focus for the committee included risk exposure, POPIA compliance, combined assurance, insurance and tax matters and adherence to the risk appetite.

The committee met six times during the year. Details of meeting attendance are found on page 13. The committee is satisfied that it has fulfilled its responsibility during the year in terms of its charter.

For a full list of committee member qualifications and experience, refer to the directorate on pages 7 to 10.



Human resources and remuneration committee

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. Details of the group's remuneration policy are contained in the remuneration report, included as part of the integrated reporting suite.

The committee comprises four non-executive directors, the majority of whom are independent. SH Müller, an independent non-executive director, serves as chairman. Meetings of the committee are attended by the CEO, the CFO and the group HR executive as invitees. These invitees recuse themselves from proceedings at appropriate times. No director is involved in deciding on their own remuneration.

The committee operates under terms of reference that are aligned with the recommendations of King IV™ and are reviewed on a regular basis. The committee's mandate is to make 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 our strategic goals in the short, medium and long term.

The company's remuneration policy and implementation report were tabled at the AGM in March 2021 for shareholders to make separate non-binding advisory votes. If either the remuneration policy or the implementation report is voted against by 25% or more of the voting rights exercised at the AGM, the company will start an engagement process to discuss the reasons for the dissenting votes, and will address reasonable objections and concerns raised appropriately. At the March 2021 AGM, 90.3% of the voting rights exercised were in favour of the remuneration policy and 86.6% of the votes exercised were in favour of the implementation report. See page 48 of the Pepkor 2021 integrated report for details on the shareholder engagement.

During FY21, the committee benchmarked remuneration levels and practices for employees, executives and non-executive directors. The committee also monitored employee-related metrics and monitored and approved short-term incentives and long-term incentives. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

The committee met four times during the year. Details of meeting attendance appear on page 13. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

For a full list of committee member qualifications and experience, refer to the directorate on pages 7 to 10.



Investment committee

The investment committee was formally constituted as a committee of the board with effect from 1 June 2021. The committee is governed by formal terms of reference, which are approved by the board. The role of the committee is to consider and make recommendations to the board on strategic investment proposals, disposals, rights offers, the issuing of shares and debt instruments and other corporate actions.

The committee comprises a majority of independent non-executive directors and is chaired by independent non-executive director Ian Kirk.

The committee considered potential acquisitions and disposals and the company's share repurchase programme during FY21. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference.

Details of committee composition and meeting attendance are found on page 13.

For a full list of committee member qualifications and experience, refer to the directorate on pages 7 to 10.



Nomination committee

The nomination committee is chaired by Wendy Luhabe, the independent chairman of the board. The composition of the nomination committee was reviewed during FY21 and the committee now consists of three non-executive directors, the majority of whom are independent.

The committee is governed by formal terms of reference, which are reviewed by the board. The committee's terms of reference are aligned with the recommendations of King IV™. The committee is responsible for considering board effectiveness and succession planning and recommends candidates for appointment to the board based on skill,

experience, and the need to ensure diversity and balance in the composition of the board.

The committee convened three times during the year under review. Details of meeting attendance appear on page 13. During FY21, substantial focus was placed on increasing the number of independent directors and enhancing the skill set and diversity of the board. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period. During FY22, the nomination committee will facilitate an evaluation of the board and its committees.

For a full list of committee member qualifications and experience, refer to the directorate on pages 7 to 10.



Social and ethics committee

The social and ethics committee executes the duties assigned to it by the Companies Act, as well as any additional duties assigned to it by the board of directors of Pepkor. Although management is tasked with the day-to-day operational sustainability of their respective areas of business, the board remains ultimately responsible for group sustainability and has delegated certain duties in this regard to the social and ethics committee.

The board recognises that addressing social and transformation issues is crucial for the sustainability of the group, and that continued investment in our employees and the communities within which we operate 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.

The committee is chaired by independent non-executive director, Fagmeedah Petersen-Cook. The committee further comprises two other independent non-executive directors and the CEO. The majority of the members of this committee are therefore independent non-executive directors, in compliance with the recommendations of King IV™.

The committee is governed by formal terms of reference and also operates in terms of an annual work plan. The committee is responsible for, inter alia, monitoring and advising on material environmental, social and governance issues that could have an impact on the group and our stakeholders, ensuring ethics are managed effectively, and monitoring the company's B-BBEE and transformation activities. The committee convened three times during the year under review. During FY21, the committee placed considerable focus on the company's approach to the environment, corporate responsibility and ethics and approved the company's environmental framework and employment equity policy. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period. The committee has also fulfilled its mandate as prescribed by the Regulations to the Companies Act, and there were no instances of material non-compliance to disclose.

Details of meeting attendance are found on page 13.

For a full list of committee member qualifications and experience, refer to the directorate on pages 7 to 10.

Corporate information

Registration number 2017/221869/06

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Debt code PPHI

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PEPKOR
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