PEPKOR
Holdings Limited

2020 REMUNERATION REPORT

CONTENTS

We aim to position ourselves in the market to ensure we attract, motivate and retain key and critical talent.

PART 1: BACKGROUND STATEMENT

This report is presented in compliance with the Companies Act, No. 71 of 2008, as amended (Companies Act), the JSE Listings Requirements and the recommendations of the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™).*

We continue to benchmark, monitor and review our remuneration policy to ensure we fulfil our purpose and strategy and deliver value for all our stakeholders in the short, medium and long term. Based on our benchmarking, monitoring and review, we believe that no substantive changes need to be made to our remuneration policy in FY21, although we have enhanced the level of disclosure, which we believe is appropriate.

The COVID-19 pandemic

On 23 March 2020, the President announced a national lockdown from 27 March 2020 to 16 April 2020, which was later extended to 30 April 2020.

In FY20, the COVID-19 pandemic had an impact on all aspects of life, including employee remuneration. The board, executive directors and executive team supported the call by government and, for the months of April to June 2020, donated a portion of their salaries and fees to assist with the relief effort. In aggregate, R3.1 million was donated to the Solidarity Fund and the CoCare Voucher Programme. During this period, Pepkor prioritised the livelihoods of its employees and continued to remunerate all employees (in both operational and support areas) with the assistance of different measures and relief options.

The COVID-19 pandemic has had an impact on short-term and long-term incentives and, in most cases, targets that were set were not achieved for FY20. The impact was that very limited short-term incentives were paid in relation to FY20, during a year in which it was necessary for the group and its employees to respond swiftly to protect the group and its operations and to navigate the COVID-19 crisis. It was therefore necessary for the human resources and remuneration committee (the Remcom or the committee) to react to this to ensure that the remuneration policy continued to fulfil its objective of driving the right performance to ensure that value was created for all stakeholders. Increases on guaranteed pay were reviewed in line with current inflation levels and business unit performances and are discussed in more detail in the implementation report.

Market conditions

It is estimated that the national lockdown period during April 2020 resulted in lost revenue of approximately R5.0 billion for the group. Very strong trade was achieved during May and June 2020 as lockdown measures eased and can be attributed to pent-up demand, social grant payments, as well as the value propositions and market positioning of the group's brands.

Strong trading momentum continued during the remainder of the year. It is uncertain how long these levels of performance are possible as the impact of the COVID-19 pandemic on the economy and employment unfolds. The group is expecting a constrained retail environment over the next 18 months.

The role and mandate of the committee

The mandate and activities of the Remcom are reported in this section of the report, illustrating how remuneration is governed.

The Remcom is mandated by the board to oversee that the group remunerates employees fairly, responsibly and transparently, in a manner that promotes the achievement of strategic objectives and positive outcomes. One of the key strategic objectives is transformation and broad-based black economic empowerment (B-BBEE), which have been contracted in both short- and long-term incentives. The Remcom is also responsible for approving the group's general remuneration policy and implementation reports, which are presented at each annual general meeting (AGM) for non-binding advisory votes by shareholders. The committee is responsible for making recommendations to the board on Pepkor's framework of executive remuneration, including the remuneration packages of certain senior managers and each of the executive directors. It also ensures that incentives are appropriately structured and awarded, in order to drive the group's performance, and assist the group in reaching its short-, medium- and long-term strategic goals. The group remuneration policy and philosophy are designed to achieve these objectives, and its effectiveness is reviewed annually by the committee.

A key aspect of this governance function is that every business within the Pepkor group has its own remuneration committee, which is reflective of the decentralised operating structure of Pepkor. The group's chief executive officer (CEO), chief financial officer (CFO) and human resources (HR) executive attend the meetings of these committees and report back to the Remcom on relevant matters.

Shareholder engagement

The remuneration policy and the implementation report of remuneration policy were presented to shareholders for non-binding advisory votes at the AGM held on 11 March 2020. Of the votes cast, 92.61% were in favour of the remuneration policy and 90.15% were in favour of the implementation report.

Voting results

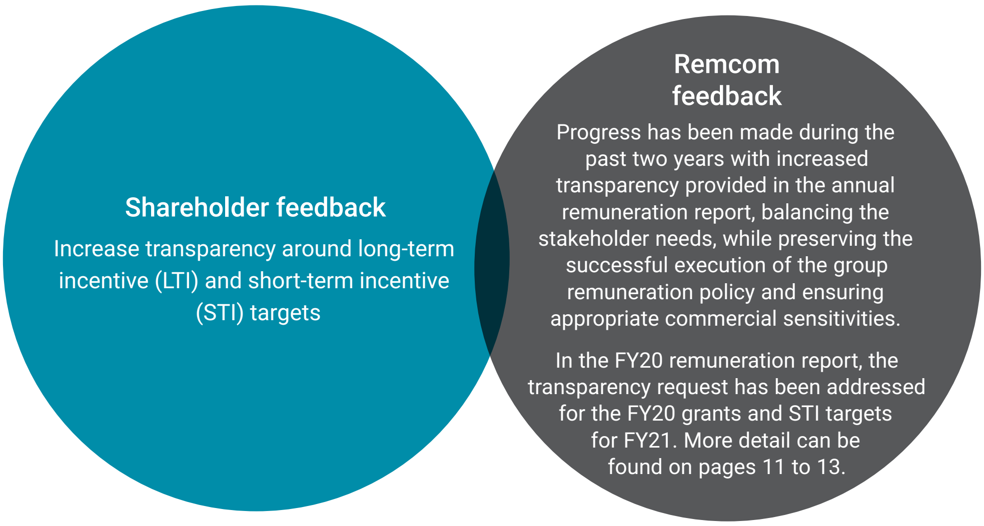
Voting at the 2020 AGM has seen a slight decline in votes in favour of the remuneration resolutions compared to the votes in favour at the 2019 AGM, but reflected an increase in the overall participation of shareholders as a percentage of issued shares.

Pepkor 2020 AGM results	Votes FOR	Votes AGAINST	Total votes as a % of issued shares
All shareholders			
Remuneration policy	**92.61%**	**7.39%**	**97.10%**
Remuneration implementation report	**90.15%**	**9.85%**	**97.10%**

Both Pepkor's remuneration policy and its implementation report will be presented to shareholders for separate non-binding advisory votes at the upcoming AGM. In the event that 25% or more of shareholders vote against either the remuneration policy or the implementation report at the meeting, Pepkor will engage with such shareholders through dialogue, requesting written submissions or otherwise in order to address their concerns, always with due regard to meeting Pepkor's stated business objectives, while being fair and responsible towards both the employees and the shareholders.

Matters raised

Through engagement with shareholders during the past year on the group's remuneration policy and implementation report, the following key matter was raised and duly considered in the context of the Remcom mandate and responsibility:



Future focus areas

The Remcom has identified the following areas that will be considered in FY21 to ensure alignment and compliance:

1	Continue to look for mutually beneficial opportunities with regard to remuneration and benefits across the group and leverage the scale of the group.
2	Drive greater standardisation with regard to STI structures across the group and continue to align the grading system.
3	Monitor the application of equal pay for work of equal value to ensure equity is maintained within Pepkor and how this speaks to fair and responsible remuneration for executive directors and the executive team compared to employee remuneration.

Legislative changes

As of 1 March 2020, new labour laws came into effect, amendments to the National Minimum Wage Act of 2018, the national minimum wage rose to R20.76 an hour, from R20.00 previously. Amendments to the Basic Conditions of Employment Act of 1997 are set to benefit new parents. In addition to maternity leave for mothers, new parental leave provisions will allow an employee at least 10 consecutive days' leave when their child is born, or adoption is granted. This replaced employees having to take three days of family responsibility leave, which was usually used in these instances. Employees adopting a child under the age of two are entitled to at least 10 weeks of consecutive adoption leave, or 10 consecutive days of parental leave once the adoption is granted. Pepkor has aligned its policies accordingly.

Advisory services utilised

The Remcom utilised the services of PE Corporate Services (Willis Towers Watson) for the executive and non-executive remuneration benchmarking conducted during the year.

Additionally, Pepkor also subscribes to REMchannel and REMeasure, previously provided by PwC, which are rolled out through the broader business. The remuneration consultation services of both PwC and Bowmans were utilised during FY20 to advise the Remcom on key remuneration matters.

Members of the Remcom

Member	Role	Capacity	Board appointment	Resignation
SH Müller	Chairman	Independent non-executive director	18 August 2017	
LJ du Preez	Member	Non-executive director	24 January 2018	
MJ Harris	Member	Independent non-executive director	30 July 2018	19 February 2020
J Naidoo	Member	Non-executive director	18 August 2017	1 February 2021*

** Jayendra Naidoo notified the board of his resignation as non-executive director on 20 January 2021 which is effective on 1 February 2021.*

Despite not consisting of a majority of independent non-executive directors as envisaged by King IV™, the board believes that the current composition of the Remcom is satisfactory to discharge the committee's roles and responsibilities. It is noted that, due to the resignation of Mark Harris, an independent committee member had to be appointed. Subsequent to year-end, Wendy Luhabe, an independent non-executive director, was appointed to the Remcom. The appointment enhances the independent representation on the committee and results in the majority of the members being independent.

The Remcom is satisfied that the remuneration policy summarised in this report achieved its primary objectives in the 2020 financial year under review and is expected to do so again in the next financial year.

STEVE MÜLLER
Chairman of the human resources and remuneration committee

PART 2: OVERVIEW OF REMUNERATION POLICY AND PHILOSOPHY

The scope and aim of the remuneration policy

The individual remuneration policies that collectively make up the group's remuneration policy have been developed systematically over several years. In some cases, they have been developed by the businesses before incorporation into the group. In all cases, policies have been adapted to support the performance-focused culture of the group.

The policies in place apply to dynamic businesses, which all need to attract, motivate and retain critical specialist skills. Every business also needs to develop a recruitment strategy independently of the others that is robust compared to competitors in its sector, in some instances across several different countries. The group's competitive advantage in these areas flows from an intricate and in-depth knowledge of the retail value chain. This includes supply chains and the nurturing of key supplier relationships, as well as its goal-orientated marketing strategies and customer communication – offering what the market wants, at the right time and the right price. These relationships and capabilities are all people-driven at a high level and depend on good systems, practices and policies.

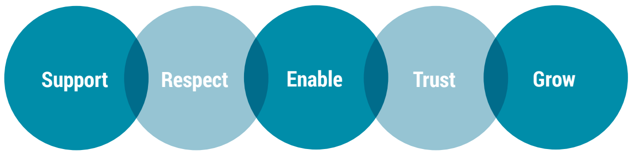
To be successful, every business needs its own specialist management team, a support team to deliver on time, and systems that are robust and sustainable.

The remuneration philosophy

The Pepkor remuneration philosophy originates from our purpose to make a positive difference in the lives of our customers. When our customers are positively impacted, our people grow, their businesses grow and, ultimately, our group grows. The company remuneration philosophy also seeks to serve shareholder interests by supporting sustainable growth.

We aim to position ourselves in the market to ensure we attract, motivate and retain key and critical talent. We achieve this by applying appropriate remuneration structures across all employee levels, as well as within our various group-level entities, ensuring that the correct balance between guaranteed pay, and short- and long-term incentives is achieved.

Our remuneration philosophy will always reflect our company values:



The remuneration framework for all employees

While different policies may develop in every business, these policies are required to conform to and fit within a fair and approved remuneration policy framework at all levels and across the whole organisation, differentiated by grade and level of responsibility.

Positions are graded according to the Paterson grading system, placing employees into groups based on their grade level, with specific remuneration policies applied to every group:

Responsibility level	Operational and logistics employees	Administrative employees	Line managers (Heads of departments)	Executive management (The members of the group and business executive committees)	Executive directors (Shouldering the responsibility for group strategy)
Grade level	D1 and below		D2 to D5	E and F	F
Guaranteed pay	Salaries are reviewed annually based on an assessment of the competence of the employee or via a collective bargaining process.		Guaranteed pay is reviewed annually based on an assessment of the competence of the employee.		
Short-term incentives	A commission or gain-sharing or outcome-based bonus may be awarded as an add-on to guaranteed pay. In some instances, a guaranteed thirteenth cheque also applies.		A performance bonus may be earned, based on the performance of the department or business.	A performance bonus may be earned based on the performance of the business. Financial and non-financial criteria are used as measures.	A performance bonus may be earned, but calculated based on group performance. Financial and non-financial criteria are used as measures.
Long-term incentives	Skills development is encouraged and subsidised, facilitating career advancement. Employment benefits may include retirement, medical, death and disability cover, as well as study funding. In addition, bursaries may also be provided to employees' children		The incentives as outlined for D1 and below apply in effect to this group of employees. Additionally, employees identified by the CEO and his executive team through succession planning processes as having high potential or being key for retention may be awarded long-term incentives.	Employees participate in long-term incentive schemes based on group and business performance.	

Remuneration governance with regard to executive management and directors

The policy governing terms of employment

Employment contracts are terminable on one month's notice.

Remuneration packages, including the entitlement to long-term incentives, are renegotiated annually, aligning commitment with accountability to shareholders.

No fixed-term employment contracts or special severance arrangements have been entered into with any employee on the executive management team or an executive director.

The remuneration package

REMUNERATION IS DEFINED AS A PACKAGE CONTAINING THREE ELEMENTS:

- The guaranteed pay includes the costs of employee benefits, such as travel allowances, retirement and medical fund contributions. Guaranteed pay is reviewed annually.
- A short-term incentive scheme is agreed in the form of an annual bonus, or a profit pool-funded bonus.
- A long-term equity-based incentive or bonus is awarded.

The market positioning of guaranteed pay

The remuneration packages of the executive management team are benchmarked annually by the Remcom, based on a reputable salary survey. The survey providers used for FY20 and FY21 are REMchannel (previously provided by PwC) and PE Corporate Services (Willis Towers Watson).

THE FOLLOWING APPROACH IS OBSERVED IN THIS ANNUAL REVIEW EXERCISE:

- The guaranteed pay of each member of the executive management team is indexed relative to the median of the survey. The group CEO will make recommendations to the Remcom concerning the pay level of each employee based on the index reading, taking into account the competence of the individual, and the criticality of his or her contribution to the group. The level of the index applying to the remuneration of the group CEO will be reviewed by the Remcom.
- An annual increase will be determined by the Remcom based on the expected inflation, salary increase forecasts, internal and external equity and peer benchmarks.
- The succession risks concerning top management positions are also considered by the Remcom.

Peer comparison group (Retail)

The Pepkor group benchmarks against certain peers when it reviews remuneration and benefits as well as market practices. The following peers were confirmed at the time of benchmarking:

Retail sector

Mr Price Group Limited

The Foschini Group Limited

Truworths International Limited

Woolworths Holdings Limited

Package structures

Guaranteed pay will continue to be contracted on the basis that the executive directors and executive management will be required to put more of their remuneration value at risk than support personnel. They will be compensated for this by an entitlement to a short-term incentive on a greater scale, which will top-up their remuneration to the on-target market-related level. To illustrate this, the following package structuring policy has been developed and will typically apply in FY21 to executive directors, executive management and line managers:

Element of package (Percentages are of total cost of employment (TCOE) at target)	Executive directors	Executive management at group level	Line managers
Guaranteed pay (GP)	69%	69%	83%
Short-term incentive at target	31%	31%	17%
TCOE	100%	100%	100%
Maximum bonus (% of GP)	100%	100%	40%

The form and scale of the short-term incentives

Each senior executive serving on an executive committee will be entitled to a short-term incentive at the end of each financial year, based on targeted pay at risk, as reflected in the table above. Incentives will be measured and determined as follows:

1. The executive concerned has a performance scorecard reflecting both financial and non-financial performance criteria. The criteria will be weighted between 70% and 90% based on financial criteria, and between 10% and 30% based on non-financial criteria.
2. The financial criteria for executive management will be tied to the financial performance of the business, where the target is equal to the approved budget for the business or a percentage of earnings or operating profit growth for the business. The non-financial criteria will include job-related objectives based on the function and role of the manager concerned. The criteria will be reset annually by the CEO of the business and will include project completion and organisational development objectives. Non-financial performance criteria achievement will be rated by the CEO of each business at the end of each year, while his or her own non-financially defined criteria will be evaluated and scored by the group CEO.
3. In the case of the group CEO and CFO, the financial target will be based on the growth in earnings and the non-financial target is focused on reaching its strategic goals for the next financial year, agreed annually in advance with the chairman of the board.
4. The bonus will be provided and accounted for in the year to which it relates and paid out in the following year after it has been approved. An exception to this is the bonus element pertaining to B-BBEE, as the verification process extends well beyond the end of the financial year.

Cash retention agreements

It was reported last year that following the decline in the Steinhoff International Holdings N.V. (Steinhoff) share price in December 2017, the value of the share rights held by employees in the Steinhoff long-term incentive scheme declined to an insignificant fraction of their former value. As this presented a risk for the retention of senior executive employees, the board decided, effective from March 2018 until March 2020, to enter into a cash retention agreement with affected employees to replace the Steinhoff long-term incentive scheme. Cash retention payments were payable over three years, conditional upon continued employment during this period and the performance conditions during FY19.

These retention agreements remain part of the remuneration for FY20, with the last retention payment made on 31 March 2020.

The costs incurred by Pepkor in terms of the Steinhoff long-term incentive scheme were reversed in FY19 through Pepkor's equity reserves following the termination of the scheme, resulting in fewer costs incurred.

Discontinuation of deferred cash bonus plan

It was reported two years ago that we completed a review of these plans for executive management. A legacy deferred cash bonus plan funded annually by excess profits, which was treated as a long-term incentive in the past, was discontinued for executive management. As a result, accumulated bonuses are being paid out to executives, together with compensation for the closure of the scheme. Such payments are effective over a three-year period from 2019 to 2021 and, barring the compensation for closure, continue to be self-funded with all amounts already provided and accrued for based on prior performance of the group and are therefore not an additional cost to the group. It further supports employee retention.

The form and scale of long-term incentives

Long-term incentives take the form of full value shares in Pepkor's long-term share rights scheme, subject to performance vesting conditions, either based wholly on Pepkor performance or, in the case of executive management, based on Pepkor and applicable business performance. The rights are granted annually with effect from the beginning of the financial year during which the grant was made. Grants are made following the publication of the annual results and after the closed period for trading in shares has expired. Each grant issued is subject to a three-year vesting period.

Senior executives and other key employees are awarded share rights in terms of the company's long-term incentive plan on the basis of the following guidelines:

1. Each employee will receive an allocated amount that is based on a targeted guaranteed pay at the applicable job level. This amount will be used to determine the value of incentive rights awarded to every qualifying employee.
2. More rights can be awarded to an employee if this is approved by the Remcom upon the recommendation of the group CEO, on the grounds of the criticality of his or her skills and knowledge, or in relation to the operations or needs of the group. In the case of the group CEO, the chairman of the board makes the recommendation.
3. In the case of the awarding of Pepkor share rights, the performance vesting conditions at both a Pepkor and business level are set with a degree of difficulty, which, together with the requirement of continuous employment, evaluates them as being worth approximately 50% of their face value on the date of the grant in the judgement of the Remcom.
4. One hundred and seventy-two million five hundred thousand (172 500 000) unissued ordinary shares of no par value in the company may be used for the implementation of the Pepkor executive share rights scheme. This represents less than 5% of Pepkor's total issued share capital.

Long-term incentives continue to be reviewed to ensure they sufficiently motivate and retain key talent in line with best market practices.

Clawback and malus provision

Clawback and malus provisions were first incorporated in the letters of allocation in respect of the March 2018 grants and also in all subsequent grants. The scheme rules were amended at the AGM in March 2020, specifically to include clawback and malus provisions.

The Remcom has discretion to apply malus (the forfeiture or reduction of allocation/s that are yet to vest) or clawback (the recoupment of the value of allocation/s that has already vested), in respect of any participant or all participants, on the occurrence of one or more of the following events:

- a material misstatement resulting in an adjustment to the performance criteria in respect of a period for which the performance criteria applicable to an allocation have been assessed and result in an unfair benefit to the participant/s; and/or
- action or conduct of an employee that amounts to fraud or dishonesty or being a material breach of their obligations to the company.

Non-executive director (NED) fees for 2020 and proposed fees for 2021

The proposed fees will be presented to shareholders for consideration at the AGM to be held in March 2021, and will be effective from April 2021 to March 2022. It should further be noted that no increase has been proposed for non-executive directors for 2021, due to the impact of the COVID-19 pandemic. This also applies to the Pepkor CEO.

	2020	2021	% change
Board of directors			
Chairman	1 932 000	1 932 000	–
Lead independent	840 000	840 000	–
Member	661 500	661 500	–
Audit and risk committee			
Chairman	496 650	496 650	–
Member	276 150	276 150	–
Human resources and remuneration committee			
Chairman	276 150	276 150	–
Member	138 075	138 075	–
Nomination committee (1) (Per meeting)			
Chairman	27 615	27 615	–
Member	16 590	16 590	–
Social and ethics committee			
Chairman	226 800	226 800	–
Member	121 800	121 800	–
Unscheduled meetings (2)			
Rate per hour*	4 410	4 410	–

All fees above are annual fees except (1) and (2)

PEPKOR USED THE FOLLOWING SURVEYS TO BENCHMARK THE NON-EXECUTIVE FEES:

- PE Corporate Services (Willis Towers Watson) – Non-executive directors remuneration survey
- PWC – Non-executive directors: Practices and fees trends report

Based on these benchmarks, the remuneration paid to NED members is considered to be fair and responsible.

*The proposed hourly rate is for unscheduled committee meetings approved by the board. The payment thereof will require authorisation from the company secretary, CEO and chairman before payment. All fees listed above exclude VAT and VAT will be added where directors are registered for VAT. The cycle for NED member fees runs from April to March of each year after it has been approved at the AGM by shareholders.

Discretion

The group remuneration framework provides a clear guideline for remuneration practices. Although the basis for short- and long-term awards is rigid, the Remcom still has the discretion on who will participate in variable pay remuneration. The Remcom determines the overall quantum of the short-term incentives and has the discretion to exercise reasonability and to make recommendations for any ex gratia payments where extraordinary value has been created by the executive directors and executive team. If a material deviation from the remuneration policy occurs, this will be properly disclosed in the annual remuneration report to ensure correct implementation of the policy. Discretion would include, but is not limited to:

- ensure that Pepkor's group and divisional/business executives and managers are fairly rewarded for their individual and joint contributions to Pepkor's overall performance and that Pepkor remunerates fairly, responsibly and transparently so as to achieve its strategic objectives and secure positive outcomes in the short, medium and long term; and
- ensure that the remuneration of executives and managers is determined based on the remuneration philosophies applicable with due cognisance of division/business-specific past practices and successes.

PART 3: IMPLEMENTATION OF REMUNERATION POLICY

This section discloses the details of the group's executive directors' remuneration, as well as share rights awarded to and received by them in terms of the policies set out in the remuneration policy section of the report, which is required to be disclosed in terms of the Companies Act, the JSE Listings Requirements and King IV™.

Note: The details of the remuneration of other senior executives are not disclosed since, while a number of them are engaged in strategic decision-making concerning their own businesses, only the Pepkor board is ultimately responsible for the strategic decisions affecting the group as such. The executive directors are the prescribed officers of the group in terms of section 30 of the Companies Act.

Compliance with the remuneration policy

The Remcom is satisfied that the remuneration policy summarised in this report achieved its primary objectives in the 2020 financial year under review and is expected to do so again in the next financial year.

Fair and responsible remuneration

The Remcom views fair and responsible remuneration as being internally equitable and externally competitive. The remuneration policy plays an important role in achieving this objective, as well as in ensuring that Pepkor meets its strategic goals over the short, medium and long term. Key features and functions of the policy include:

1	Consulting with independent remuneration advisors affiliated with the South African Reward Association (SARA)
2	Applying the principle of equal pay for work of equal value
3	Using two reputable salary survey providers (REMchannel, previously provided by PwC) and PE Corporate Services (Willis Towers Watson))
4	Benchmarking the levels of all roles, using a job grading system (REMeasure, previously provided by PWC)
5	Providing the Remcom with suitable, market-related recommendations

The Remcom understands the importance of ensuring that executive directors are remunerated fairly, and in a manner aligned to shareholders' expectations. Within this context, the Remcom will always strive to achieve a balance between the attraction, motivation and retention of key employees.

Guaranteed pay benchmarking and increases in FY21

Benchmarking in the current year was undertaken based on the PE Corporate Services Top Executive Salary Survey (July 2020). The survey found that the guaranteed pay of the executive management team across the group was positioned at a comparative ratio of approximately 99% compared to companies of the same size in South Africa. This is close to the expectation of the pay structuring target, explained in the policy section above, as there is a skew towards variable pay in the pay structure of executive management.

Salary increases of between 0.0% and 3.0% were approved to be implemented in FY21 for the guaranteed packages of the CEO and CFO, compared to a general increase approved for other employees (including bargaining unit employees) ranging between 0.0% and 5.0%.

Short-term incentive outcomes in FY20

The following bonuses were awarded to executive directors of the group for the 2020 financial year:

	Bonus awarded FY20		Bonus awarded FY19	
Executive director	**R'000**	**% of GP**	**R'000**	**% of GP**
LM Lourens	1 188	15	3 287	44
RG Hanekom	712	15	1 971	44

The Remcom approved the following short-term incentive categories for FY20:

1	Financial – earnings growth* (between 0% and 70% of GP)
2	Non-financial – strategic objectives (between 0% and 20% of GP)
3	Non-financial – B-BBEE targets (between 0% and 10% of GP)

Incentives were awarded in FY20 based on normalised earnings,* before taking into account non-recurring and one-off costs incurred in FY19. The growth in normalised earnings for FY20, based on this definition, was 0.0%, which resulted in no award made in the current year in terms of this category.

Strategic objectives for the CEO were set by the chairman of the board and the strategic objectives for the CFO were set by the CEO. The CEO has achieved 15.0%, which entitles him to 15.0% of GP. The CFO has achieved 15.0%, which entitles him to 15.0% of GP for FY20.

Additionally, a maximum incentive of 10% of GP is allocated for executive directors based on the B-BBEE verification results if the target of 55 points is exceeded. These targets were partially achieved in FY20 and will be accounted for and paid in FY21..

** Earnings mean headline earnings from continuing operations as disclosed in the financial results of the group adjusted for the implementation of new International Financial Reporting Standards, resulting in normalised earnings. It also excludes any impairments and one-off costs.*

Short-term incentive scheme targets for FY21

For FY21, the Remcom has decided to ensure that the main focus of the executive directors is on driving the business growth and thus normalised earnings# remain the appropriate measure for determining the financial component of the performance bonus. It was decided to remove the strategic objectives component of 20% for FY21 and increase the earnings component to a maximum of 90% of GP. The increase in the percentage of GP linked to the earnings component is to support the drive for better earnings levels after the impact of the COVID-19 pandemic in FY20. The earnings growth and pay-outs are tiered to drive this component.

Earnings growth between 5% and 90% will result in a short-term incentive of between 10% and 90% of guaranteed pay for executive directors.

Additionally, the short-term incentive scheme for B-BBEE has been retained for FY21. Executive directors will be awarded on achieving certain targets starting at 5% of guaranteed pay if 50 points are reached and a maximum of 10% of GP when reaching 55 points, as approved by the Remcom.

The retail trading conditions are challenging and the Remcom believes that structuring the short-term incentives as financial equalling 90% and non-financial equalling 10% is appropriate for FY21. The above could result in a maximum short-term incentive of 100%. This percentage is still below market peers when compared to short-term incentive benchmarks. Pepkor's remuneration structuring is weighted higher towards long-term incentives as part of the remuneration philosophy.

 # Earnings are defined the same in FY21 as it was recorded in FY20.

Long-term incentive scheme grants and accruals

No share rights vested in FY20 as no performance periods were completed on allocated grants. However, cash retention payments were awarded and paid as explained on page 8 of this report. The retention payments accruing to the executive directors in FY20 are detailed in the total remuneration schedule on page 14.

The COVID-19 pandemic impacted all aspects of remuneration, including long-term incentives. To ensure that remuneration remains fair and responsible, and that executive interests are aligned with shareholders, the Remcom reviewed how best to keep management engaged over the longer term given the impact of the COVID-19 pandemic on long-term incentives.

In terms of the rules of the share grant scheme, should circumstances arise at any point during the measurement period that cause the Remcom to consider that the performance criteria are no longer appropriate, the Remcom may substitute or vary the performance criteria, subject to the JSE Listings Requirements in such manner as is reasonable in the circumstances and produces a fair measure of performance.

The Remcom has reviewed the performance criteria in the light of the impact of the COVID-19 pandemic and has varied the performance criteria as described below. The Remcom is confident that such variations are reasonable under the circumstances and will produce a fair measure of performance. The impact of the COVID-19 pandemic is on share grants issued in FY18, FY19 and FY20 and detail of performance criteria and variations are described below.

FY18 share grants

The performance criteria are measured over three financial years from FY18 to FY20. The existing measurement criteria applicable to the FY18 grant will remain unchanged for FY18 and FY19. In respect of FY20 only, the criteria will be varied to use continued employment at time of grant vesting as the measurement of performance for this grant.

FY19 share grants

The performance criteria are measured over three financial years from FY19 to FY21. The performance conditions for the first year of the FY19 grant will remain as per the criteria previously communicated, and summarised below:

Year 1 (FY19) Representing one-third	KPI	Weighting
Growth	Growth in headline earnings	**60%**
Cash generation	Cash conversion (cash generated by operations/EBITDA) Excludes the Capfin and JD Group new book-build in determining the cash generated	**25%**
Sustainability	B-BBEE, FTSE4Good indicators, compliance and governance	**15%**

In respect of the growth criteria, this will be varied for the second and third year, FY20 and FY21, as described below. The criteria related to cash generation and sustainability have not been changed.

Year 2 and 3 (FY20 and FY21) Representing two-thirds	KPI	Weighting
Growth	Growth in earnings – specific target was set based on budget	**30%**
	Peer comparison ▶ Like-for-like sales ▶ EBITDA margin ▶ Cost of doing business	**20%**
	Market share growth – based on Retailers' Liaison Committee market data	**10%**

FY20 share grants

The performance criteria are measured over three financial years from FY20 to FY22. The share right grants were issued at the start of the lockdown period and were then varied to take into account the impact of the COVID-19 pandemic. It was decided that performance criteria for FY20 and FY21 would be similar to the varied criteria for the FY19 share grants, in addition to being improved to drive and reward exceptional performance with the introduction of stretch and super-stretch targets. The criteria for FY20 and FY21 include:

Year 1 and 2 (FY20 and FY21) Representing two-thirds	KPI	Weighting
Growth	Growth in earnings – specific target was set based on budget In the FY20 grant – threshold (50% vesting), stretch (110% vesting) and super-stretch (120% vesting) targets have been introduced. On-target remains at 100% vesting.	**25%**
	Peer comparison ▶ Like-for-like sales % ▶ EBITDA margin ▶ Cost of doing business	**20%**
	Market share growth – based on Retailers' Liaison Committee market data	**10%**
Cash generation	Cash generated by operations and divided by EBITDA – new threshold, stretch and super-stretch targets have been introduced for the FY20 grant.	**25%**
Sustainability	B-BBEE, FTSE4Good indicators, compliance and governance	**20%**

In respect of FY22, the growth criterion will only be based on headline earnings per share, detail of which is described more fully below. The criteria for cash generation and sustainability will remain unchanged.

Year 3 (FY22) Representing one-third	KPI	Weighting
Growth	Growth in headline earnings per share Introduced new threshold (50% vesting), stretch (110% vesting) and super-stretch (120% vesting) targets, which are based on CPI and GDP. On-target remains at 100% vesting and will be measured on CPI + GDP + 2%. Note: CPI and GDP will be measured as per the official figures released by the South African Reserve Bank.	**55%**

The following table sets out grants of share rights made to the executive directors in terms of the Pepkor Share Rights Scheme during FY20, including outstanding and unvested share rights as at the financial year-end:

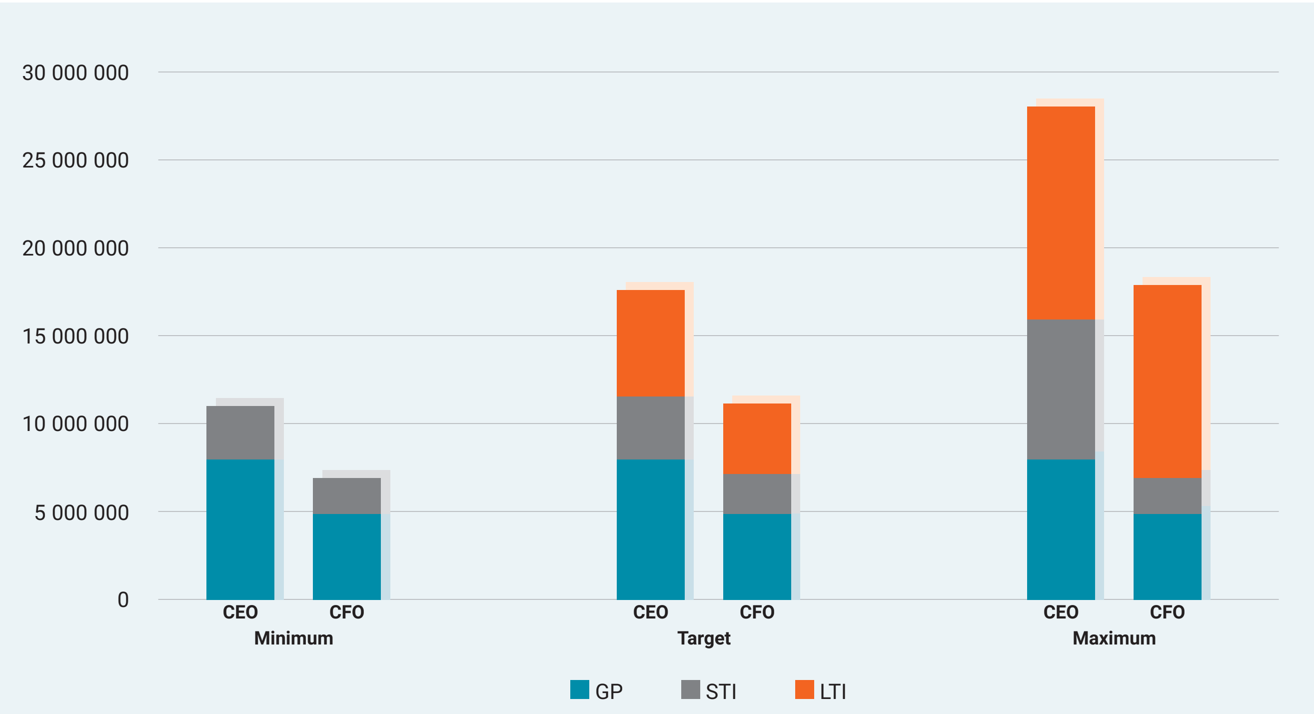
Executive director	Rights held at beginning of the year	Rights granted during the year	Rights vesting or forfeited during the year	Rights held at end of the year
LM Lourens	**1 368 079**	**1 013 832**	–	**2 381 911**
RG Hanekom	**927 000**	**623 365**	–	**1 550 365**

Long-term incentive scheme grants in FY21

Share rights will be granted to executive directors and executive management in terms of the policy defining allocation amount, which is set out in the remuneration policy section on page 8. The grants will be made following the expiry of the share trading closed period, after the publication of this report and before the 2021 AGM. Performance vesting conditions are in line with the policy as set out in the policy section and will be confirmed at the Remcom meeting during which the grants are approved. Long-term incentive scheme grants will have a three-year vesting period that is applicable.

Single figure remuneration

Below is an illustration of the potential consequences on the total remuneration for executive management on a total single figure basis, of applying the remuneration policy under the minimum, on-target and maximum performance outcomes. A total single figure of remuneration received and receivable for the reporting period, and all the remuneration elements that it compromises, each disclosed at fair value.



Total remuneration in FY20

The following table offers a breakdown of the total single figure remuneration earned by the executive directors during the 2020 financial year, reflected based on the cost to the group in terms of its accounting policies, which observe IFRS rules:

Remuneration of the executive directors	Basic remuneration R'000	Company and pension fund contributions R'000	Annual bonus R'000	Deferred cash long-term R'000	Retention bonus R'000	Total remuneration R'000
2020						
LM Lourens	6 237*	1 087	1 188	1 200	3 901	13 613
RG Hanekom	3 689*	704	712	1 200	3 724	10 029
Total	9 926	1 791	1 900	2 400	7 625	23 642
2019						
LM Lourens	6 449	1 021	3 287	1 200	3 901	15 858
RG Hanekom	3 830	650	1 971	1 200	3 724	11 375
Total	10 279	1 671	5 258	2 400	7 625	27 233

Please refer to page 8 for more information on the deferred cash bonus plan.

** Total basic remuneration in FY20 was reduced by R594 000 for LM Lourens and R356 000 for RG Hanekom and relates to salary sacrifices for the period April to June 2020.*

NED fees in 2020

The following is a summary of fees paid to NED for their services as directors:

	2020 R'000	2019 R'000
JB Cilliers**	**1 344**	**1 451**
TL de Klerk*	**640**	**57**
PJ Dieperink*	**–**	**574**
LJ du Preez*	**861**	**636**
PE Erasmus	**–**	**262**
MJ Harris	**288**	**690**
WYN Luhabe**	**750**	**354**
SH Müller**	**1 181**	**1 355**
J Naidoo**	**1 819**	**2 071**
F Petersen-Cook**	**1 242**	**1 046**
DM van der Merwe*	**–**	**696**
JD Wiese**	**605**	**621**
Total	**8 730**	**9 813**

All fees listed above exclude VAT and VAT will be added where directors are registered for VAT.

* *Relates to remuneration received for services provided to Steinhoff. The fees to directors include fees paid as directors of ultimate holding company Steinhoff where directors serve on the board of the company and holding company. The amount payable to Steinhoff for the attendance of Pepkor board meetings as well as being non-executive Pepkor board members amounts to R1.50 million (2019: R1.96 million). In FY20, the non-executives of Steinhoff made a donation of 30% of fees to the Solidarity Fund and CoCare Voucher Programme that amounted to R132 954 for the period April to June 2020.*

** *The non-executive directors (excluding F Petersen-Cook and non-executives of Steinhoff) donated a total of R507 409 (30%) of their fees to the Solidarity Fund and CoCare Voucher Programme for the period April to June 2020. This was deducted from the quarterly fees that were paid. F Petersen-Cook received her full fees for the period but donated an amount of R105 730 (30%) to various charities.*

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