

Remuneration report

Introduction

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Section 1 – Remuneration philosophy and supporting policies



ALIGNMENT WITH STRATEGIC OBJECTIVES

The Group's remuneration philosophy is aimed at attracting, retaining and motivating employees and executives, while aligning their remuneration with shareholder interests and best practice.

Pick n Pay is managed on a balanced scorecard approach, led by the Pick n Pay steering wheel. The steering wheel acknowledges the five key performance areas of our business which have a material impact on our stakeholders and ultimately our performance. One of these key performance areas is "People" recognising the integral role that the Pick n Pay team plays in achieving long-term strategic objectives. Please see page 18 for more information.

The Group remuneration philosophy reflects the principles of the "People" section of the Pick n Pay steering wheel:

- **Meritocracy** – people will be recognised and advanced based on merit.
- **Most talented SA retail business** – we will attract, retain and develop the most talented retail team in the industry.
- **Effective lean organisation structure** – we will create and reward a culture of productivity and efficiency.
- **Diversity in the workplace** – we will ensure Pick n Pay offers equal opportunities to people from all walks of life.

We reward employees for their individual contribution to the Group's strategic, operating and financial performance. We ensure that underlying remuneration policies support the development and retention of top talent, while attracting critical skill and experience in the retail industry.

The remuneration philosophy is supported by the following underlying policies:

- Remuneration at all levels is benchmarked against the remuneration policies and practices of comparable companies to ensure that it is fair and just, and paying above the comparable mean for key or scarce skill.
- Remuneration is balanced between fixed remuneration and variable short-term and long-term incentives – applying a higher proportion of variable pay to senior management in order to drive performance, and a greater emphasis on fixed pay for middle and junior management.
- Paying for performance and capability – with top performers earning in the upper quartile of the benchmark.
- Ensuring compliance with all legislation within the Employment Equity Act and Basic Conditions of Employment Act.
- Non-executive directors do not receive remuneration or incentive awards related to share price or corporate performance.

By the close of the 2015 financial year, Pick n Pay had substantially completed Stage 1 of its strategic long-term recovery plan – stabilising the business. In 2016 the Group entered Stage 2 of its plan – to change the trajectory of Pick n Pay. While governed by the Pick n Pay steering wheel, Stage 2 of the strategic long-term recovery plan is organised around seven business acceleration pillars. These pillars represent the seven key growth areas or opportunities for Pick n Pay. The plan is focused, detailed and provides the senior management team with clear objectives and lines of accountability and responsibility. One of the business acceleration pillars focuses on building a winning team. We delivered a number of achievements under this pillar in 2016 and going forward we will focus on effective performance management, core skills training, improved customer service, and more diversity. Please refer to page 25 of our Strategic Focus section for more detail.

The Group remuneration philosophy and underlying policies are aligned with the long-term strategic objectives of the Group, as set out in Stage 2 of the long-term turnaround plan. Short-term and long-term incentives are linked to the achievement of key performance indicators, and will contribute to building a winning team and building long-term, sustainable value creation in the business.

ROLE AND MANDATE OF REMUNERATION COMMITTEE

The remuneration committee assists the Board in meeting its responsibility for setting and administering appropriate remuneration policies which are in the best long-term interests of the Group, and are aligned with the Group's long-term strategic objectives. The committee considers and recommends remuneration policies for all levels of staff in the Group, with a particular focus on executive directors, senior management and non-executive directors. The remuneration committee meets at least twice a year, is chaired by an independent non-executive director and comprises only non-executive directors. The committee operates in terms of a Board-approved charter, which is reviewed annually at the Board meeting in April.

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

Director	Attendance	Objectives and activities 2016
Hugh Herman (Chairman)	2/3	<ul style="list-style-type: none"> ■ Reviewed the Group's remuneration philosophy and policies to ensure alignment with the strategic objectives of the Group. ■ Reviewed the Group's remuneration philosophy and policies to ensure alignment with best practice in the market. ■ Determined the remuneration packages of executive directors and reviewed the remuneration packages of senior management and key employees. ■ Proposed fees for non-executive directors, subject to shareholder approval. ■ Reviewed and approved performance-related short-term incentives as well as long-term share-based incentives, including issues under the Group's forfeitable share plan (FSP) aimed at senior management.
Gareth Ackerman	3/3	
John Gildersleeve*	1/3	
Ben van der Ross**	1/1	

* Retired 28 February 2016.

** Retired 27 July 2015.

Audrey Mthuphi and Jeff van Rooyen were appointed to the remuneration committee in March 2016, to replace John Gildersleeve and Ben van der Ross who retired during the year.

REMUNERATION STRUCTURE

Executive directors and employees

The Group structures its remuneration across three broad categories:

- Fixed-base salary and benefits
- Short-term variable incentives
- Long-term variable incentives

A balanced mix of fixed-base salary and benefits and short-term and long-term variable incentives is intended to meet the following key objectives:

- To ensure employees are fairly rewarded for services rendered
- To recognise and reward outstanding individual performance
- To incentivise employees to meet short-term and long-term strategic objectives
- To encourage employees to grow and stay with the Group over the long term

Fixed-base salary and benefits

Employees		Fixed benefits						
Grades	Category	Fixed-base salary	13th cheque	Retirement funding	Medical aid	Car benefit	Low-interest loans	Leave
A & B	Senior management	✓	—	✓	✓	✓	✓	✓
C & D	Middle management	✓	✓	✓	✓	✓	✓	✓
E & F	Junior management	✓	✓	✓	✓	—	✓	✓
G	Entry level, clerical and administration	✓	✓	✓	✓	—	✓	✓
NMBU ¹	Permanent staff with non-management bargaining unit	✓	✓	✓	✓	—	✓	✓

¹ Non-management bargaining unit.

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Fixed-base salary

Remuneration reflects the relative skill, experience, contribution and performance of the individual. Base salary is set at levels that are competitive with the rest of the market so that the Group can attract, motivate and retain the right calibre of people to achieve the Group's strategic business objectives. Remuneration is directly related to annual performance assessments, which are undertaken in April each year. Annual increases in base salary are determined with reference to the scope of the employee's role, the competence and performance of the employee, the projected consumer price index and comparable increases in the general and retail market.

13th cheque

Paid to qualifying employees in November each year. Variable-time employees³ participate based on the average number of hours worked in a month. Employees must have been in the employ of the Group for at least three months to be eligible. The 13th cheque encourages short-term retention.

Retirement funding

It is a condition of employment that all employees participate in a retirement fund. All employees, including variable-time employees³, are required to join one of the retirement funds provided by the Group when commencing employment.

The Group contributes between 8.0% and 16.5% of salary expenditure towards retirement funding, depending on the fund and the terms and conditions of employment.

Medical aid

Medical aid provisions are in place for all full-time¹, part-time² and variable-time employees³. The Group provides a number of medical aid schemes and membership is compulsory for all Pick n Pay employees on G-grade and above, unless they are covered by a third-party medical aid. Membership of the medical aids provided is optional for NMBU⁴ employees. Pick n Pay contributes 50% of the medical aid contributions to approved Group schemes on behalf of employees.

The Group is committed to furthering the economic empowerment and wellbeing of its employees and as such, the provision of retirement and medical benefits to staff is a key part of the remuneration policy.

Car benefit

Employees from D level and above are entitled to a car benefit. Depending on the requirements of their role, it may be in the form of a travel allowance or a company car, including maintenance, fuel and insurance.

Low-interest loans

All employees have access to low-interest loans from the Group. The primary objective of this benefit is to assist our employees with the acquisition of residential property. Loan values are capped at varying amounts, depending on the employee's position in the Group. Affordability tests are performed before any loan is granted, to ensure the employee does not experience financial strain. All housing loans are secured against the employee's retirement funding. No financial assistance is provided for the purpose of assisting employees to buy shares in the Group. For further details please refer to note 15 of the audited Group annual financial statements where employee loans are disclosed.

Leave

Annual leave accumulates from the date of starting employment for all employees and varies between three and four weeks per annum depending on the terms, conditions and length of employment. Variable-time employees³ accumulate leave based on ordinary hours worked. The Group recognises long service with an additional allocation of leave, depending on the terms and conditions of employment, at five-year intervals. The Group also provides family responsibility and religious leave, where applicable.

Variable short-term and long-term incentives

Employees		Short-term	Long-term				Forfeitable shares
		Incentive bonus	Share options				
Grades	Category		Service	Status	Per- formance	Retention and binary	
A & B	Senior management	✓	✓	✓	✓	✓	✓
C & D	Middle management	✓	✓	✓	✓	✓	—
E & F	Junior management	—	✓	✓	—	—	—
G	Entry level, clerical and administration	—	✓	—	—	—	—
NMBU ⁴	Permanent staff with non-management bargaining unit	—	✓	—	—	—	—

¹ Full-time employees have a fixed contract with the Group, and work either 40 or 45 hours per week.

² Part-time employees have a fixed contract with the Group, and work a maximum of 25 hours per week.

³ Variable-time employees have a variable contract with the Group, which guarantees either 85 hours per month, or a maximum of 40 hours per week.

⁴ Non management bargaining unit.

Short-term incentive bonus

The short-term incentive bonus is discretionary and is linked to the achievement of targets linked to profit before tax and exceptional items (PBTAE), as set by the remuneration committee. Please refer to the five-year review of the integrated annual report for further detail on the calculation of PBTAE. The bonus pool is self-funding and is created after achieving pre-defined targets, inclusive of the value of the incentive. The bonus pool increases in value as threshold, target or stretch targets are attained. Bonuses are paid as a multiple of basic monthly salary and each individual's share of the bonus pool will depend on the target reached and their own individual performance, as measured through the Group's annual performance appraisal process. Bonuses are capped at a multiple of two times annual basic salary. All bonuses paid are subject to approval by the remuneration committee and no bonuses are paid if the threshold target is not met. The bonus paid to grade C and D employees is reduced by the value of the fixed 13th cheque they received in November.

Other, more frequent, incentive bonuses are paid to qualifying staff at store level, including store and butchery managers. These incentives are linked directly to short-term store performance targets such as turnover, stockholdings, and shrink.

Variable long-term incentives

It is Group policy to maintain a broad share option scheme for all employees. All employees, at all grades, are rewarded with share options for both long service and performance. This is an integral part of our remuneration philosophy and ensures that all employees (not only at senior levels) are recognised and that their interests are aligned with those of our shareholders. It gives all our employees the opportunity to acquire shares in the Group, affording them the opportunity for economic upliftment, and encourages employee retention. It is a key differentiator for us against other retail employers in South Africa.

The Group operates two share incentive schemes for the benefit of its employees:

- the 1997 Employee Share Option Scheme; and
- the forfeitable share plan (FSP).

Funding of share plans and dilution

The directors have received approval to utilise up to 63 892 444 shares of the issued share capital of Pick n Pay Stores Limited and 92 268 589 shares of the issued share capital of Pick n Pay Holdings Limited RF for the purpose of managing the Group's share schemes.

Both the Group's share schemes fall within the limits detailed above, which means the aggregate of instruments awarded under both schemes cannot exceed the authorised limits.

The two share schemes are further constrained by an aggregate limit of 5% of issued share capital, of both Pick n Pay Stores Limited and Pick n Pay Holdings Limited RF, in respect of the amount of new shares that can be issued to cover obligations under the employee share schemes. The Group has done so three times in the past:

- an issue of 2.7 million Pick n Pay Stores Limited shares or 0.6% of issued share capital in the 2005 financial year to meet specific share option obligations;
- the debut allocation of shares under the FSP, in the 2015 financial year, was funded by the issue of 6.9 million Pick n Pay Stores Limited shares, or 1.4% of issued share capital; and
- the second allocation of shares under the FSP, in the 2016 financial year, was funded by the issue of 1.1 million of Pick n Pay Stores Limited shares, or 0.2% of issued share capital.

Please refer to note 5 of the audited Group annual financial statements for further details of the outstanding options and limits available under the schemes.

1. The 1997 Employee Share Option Scheme

The Group operates the 1997 Employee Share Option Scheme (the scheme) in order to facilitate broad employee share ownership, foster trust and loyalty among employees and reward performance. The scheme incentivises management and employees by providing them with an opportunity to acquire shares in the Group, thereby aligning interests with shareholders and encouraging employee retention. Furthermore, binary shares incentivise senior management to achieve specified performance targets.

Pick n Pay Holdings Limited RF share options (PWK)

During the 2016 financial year, 1.2 million PWK share options were granted to employees in respect of long service. At year-end, 16.1 million PWK share options were held by employees, amounting to 3.1% of shares in issue. Please refer to note 5 of the audited Group annual financial statements for further information.

Long-service share options – no conditions attached

Long-service share options are granted to all long-serving employees at all levels, including full-time¹, part-time² and variable-time³ employees. Share options are granted on each employee's five-year service anniversary, with further options granted every five years thereafter. No other service or performance conditions are attached – long-service share options may be taken up immediately on granting.

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Pick n Pay Stores Limited share options (PIK)

During the 2016 financial year, 2.4 million Pick n Pay Stores Limited (PIK) options were issued to management in respect of their progress and performance. At year-end, 30.6 million PIK share options were held by employees amounting to 6.3% of shares in issue. Please refer to note 5 of the audited Group annual financial statements for further information.

Status share options – service conditions attached

Status share options are granted to employees who attain grade F, and further options are granted at each promotion to higher levels of management. In order to encourage employee retention, status shares vest in three tranches (vesting periods) as follows:

- 40% after three years of service
- 30% after five years of service
- 30% after seven years of service

There are no other performance conditions attached to these share options. Vesting is only dependent on the employee remaining in the employ of the Group over the specified vesting period. If the employee leaves before the vesting period, unvested share options lapse.

Performance share options – service conditions attached

Employees on grades C and D may be eligible for performance “top-up” share options, in recognition of their individual performance and valuable contribution to the Group. These options vest in the same manner as status share options.

Retention share options – extended service conditions attached

These share options specifically encourage the retention of key individuals and have varying vesting periods that can be up to 10 years.

Binary share options – service and performance conditions attached

Binary share options are granted to employees on grades A and B. These three to five-year options may only be taken up when prescribed performance conditions linked to the growth of the PIK share price are met. If the conditions are not met, these options are automatically forfeited. Should further performance hurdles be achieved, discounted grant prices may apply.

a) *Binary share option issue to deputy CEO Richard van Rensburg*
In October 2011, 400 000 binary share options were issued to deputy CEO Richard van Rensburg. The binary share options were issued at a grant price of R36.55, under the following terms:

If the 20-day VWAP up to and including 23 May 2016 was R73.11 or greater, the options could be exercised at the full grant price of R36.55.

Should this 20-day VWAP be less than R73.11, then the options would lapse. Thereafter, if further performance hurdles are met, discounted grant prices would apply on exercise.

The salient features of the issue are summarised below:

Hurdles	Share price May 2016	Annual compound growth rate	Exercise price May 2016
Eligibility hurdle	R73.11	16%	R36.55
Performance hurdle 1	R93.07	23%	R18.28
Performance hurdle 2	R121.56	30%	R1.00

Note

The 20-day VWAP up to and including 23 May 2016 was R73.79, as such the eligibility hurdle has been met and these binary share options have vested. Richard van Rensburg is entitled to take-up these options at the grant price of R36.55.

b) *Binary share option issue to CEO Richard Brasher*

In November 2012, 1 000 000 binary share options were issued to Richard Brasher on his appointment as CEO. The binary share options were issued at a grant price of R42.24.

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

The salient features are summarised below:

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

In addition to the terms above, if the 20-day VWAP up to 14 November 2017 is between R105.11 and R128.90 (representing an annual compound growth rate of 20% in the 20-day VWAP share price from grant date), a cash bonus of R10.6 million will be paid.

The future net realisable value of all outstanding share options

Pick n Pay Stores Limited share options

			52 weeks 28 February 2016		52 weeks 1 March 2015	
			Number of options 000's	Net realisable value Rm	Number of options 000's	Net realisable value Rm
Outstanding share options may be taken during the following financial periods:						
	Average grant price					
Year	2016 R	2015 R				
2016		31.38			17 710.2	379.7
2017	33.15	36.31	17 891.5	411.3	4 577.0	75.6
2018	40.89	40.67	5 479.5	83.6	5 386.4	65.4
2019	40.31	35.68	3 423.2	54.2	2 869.5	49.2
2020	46.83	45.72	1 574.8	14.7	2 234.8	15.8
2021 and thereafter	53.60	48.98	2 193.8	5.6	1 096.7	4.2
			30 562.8	569.4	33 874.6	589.9

The net realisable value of outstanding share options was calculated using the closing share price of R56.14 (2015: R52.82) less the average grant price. Binary share options include performance hurdles that, if met, trigger discounted grant prices. Please refer to page 75 of this report.

Pick n Pay Holdings Limited RF share options

			52 weeks 28 February 2016		52 weeks 1 March 2015	
			Number of options 000's	Net realisable value Rm	Number of options 000's	Net realisable value Rm
Outstanding share options may be taken during the following financial periods:						
	Average grant price					
Year	2016 R	2015 R				
2016		14.41			16 635.5	122.0
2017	16.40		16 136.2	124.6	16 635.5	122.0
			16 136.2	124.6	16 635.5	122.0

The net realisable value of outstanding share options was calculated using the closing share price of R23.80 (2015: R22.85) less the average grant price.

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2. The forfeitable share plan (FSP)

The FSP recognises those key Pick n Pay employees who have a significant role to play in delivering Group strategy and ensuring the growth and sustainability of the business in the future. The award of shares under the FSP recognises the valuable contribution of qualifying employees, and through the attachment of performance conditions, incentivises these employees to deliver earnings growth in the future. An award of shares may also be used to attract talented prospective employees.

An important feature of the FSP is that before employees are eligible to participate, they must first meet their annual individual key performance indicators, as set out in the strategic long-term plan. If an employee does not meet his or her individual performance targets and therefore is not awarded a short-term incentive bonus, the employee will not be eligible to receive an award of forfeitable shares.

The participant becomes the beneficial owner of the forfeitable shares on the date of the award. Beneficial ownership affords the employee full shareholder voting rights and full rights to any dividends declared.

The shares are held by a Central Securities Depository Participant (CSDP) on behalf of the employee during the time of the vesting period and the employee will not be able to dispose of the shares before the vesting date. If the employee leaves the employ of the Group before the completion of the vesting period (other than on normal retirement, disability or death) all shares will be forfeited.

Forfeitable shares are performance shares. Shares awarded under the FSP will always have performance conditions attached. If the performance conditions are not met within the specified time period (the vesting period) the employee will forfeit the shares. The remuneration committee awards shares to participants. The actual number of shares awarded takes into account recognised market benchmarks, as well as each participant's individual performance, annual salary, employment grade and other relevant retention and attraction requirements. The performance conditions will be linked to the financial performance of the Group, with headline earnings per share (HEPS) the preferred performance measure. Performance conditions are applied on a rising scale, allowing for the vesting of an increasing number of shares, as earnings thresholds are met and exceeded.

To ensure the FSP is aligned with the best interests of the Group and its shareholders in mind, the performance conditions are subject to an overriding condition that Pick n Pay's return on capital employed (ROCE) must be greater than its weighted average cost of capital (WACC) over the vesting period, before any FSP shares are allowed to vest. This is to ensure that Pick n Pay has generated a real return for shareholders before rewarding its management team.

There have been two issuances under the FSP.

The debut FSP issuance took place in August 2014 and was funded through a fresh issue of 6.9 million PIK shares (1.4% of issued share capital). There have been some forfeits under the scheme, with 6.7 million shares now held in a CSDP on behalf of 145 participants.

The following performance conditions apply:

52 weeks to 2 March 2014 baseline HEPS cents	Three-year compound annual growth rate %	52 weeks to 26 February 2017 HEPS cents	Portion of shares which vest %	Number of shares which vest 000's	Net realisable value* Rm
138.51	<10%	<184.36	All forfeited	—	—
138.51	10%	184.36	30%	2 010.0	112.8
138.51	12%	194.60	65%	4 355.0	244.5
138.51	15%	210.66	100%	6 700.0	376.1

* The net realisable value of outstanding FSP shares was calculated using the closing share price of R56.14.

The Group delivered HEPS growth of 26.4% in 2016 to 224.04 cents per share, with cumulative HEPS growth over 2015 and 2016 of 27.2%. The strong growth in HEPS over the last few years has put the Group in a good position to deliver the first shares under the FSP.

The second FSP issuance took place in August 2015 and was funded in part through a fresh issue of 1.1 million PIK shares (0.2% of issued share capital). 1.2 million shares are held in a CSDP on behalf of 115 participants.

The following performance conditions apply:

52 weeks to 1 March 2015 baseline HEPS cents	Three-year compound annual growth rate %	52 weeks to 26 February 2018 HEPS** cents	Portion of shares which vest %	Number of shares which vest 000's	Net realisable value* Rm
177.26	<10%	<235.93	All forfeited	—	—
177.26	10%	235.93	30%	366.9	20.6
177.26	11%	242.43	65%	794.9	44.6
177.26	12%	249.04	100%	1 223.0	68.7

* The net realisable value of outstanding FSP shares was calculated using the closing share price of R56.14.

** The numbers in this table have been corrected, following a layout error in the original publication.

Linear vesting applies, with increasing levels of shares vesting in line with increasing levels of growth delivered. It is important to note that all the growth thresholds detailed above are after recognising the applicable IFRS 2 expense, which is charged to the income statement over the vesting term of the forfeitable shares. The scheme is therefore self-funding.

The 2016 financial year includes a first time charge of R63.3 million in respect of the second FSP issuance. The shares will vest in August 2017 and August 2018 after the completion of prescribed three-year service periods. However, the three-year compound annual growth rate of HEPS (and thus the level of performance condition met) will be known at the time of the publication of the 2017 and 2018 annual financial results.

The Group delivered growth in headline earnings per share of 26.4% in the 2016 financial year, with a ROCE of 29.3% and a WACC of 11.9%. Please refer to the five-year review on pages 58 to 61 for detail on the calculation of both ROCE and WACC.

Regular annual awards will be made on a consistent basis to encourage long-term value creation, while always first considering the overall affordability of the plan for the Group and its benefit for shareholders.

Service contracts

Executive directors and senior management are employed in terms of the Group's standard contract of employment and are not employed under fixed-term contracts. Senior management (grades A and B) are required to give a reasonable notice period of their intention to terminate their services, which varies from one to 12 calendar months. The retirement age is 60 years, which applies to all employees. Employment contracts do not provide for any exceptional benefits or compensation on the termination of employment. Certain managers who are considered key in carrying out the Group's strategy are subject to contractual restraint of trade provisions and discretionary termination or restraint of trade payments may be made in this regard.

REMUNERATION STRUCTURE

Non-executive directors

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

Remuneration is not linked to the performance of the Group or the Group's share performance. Non-executive directors do not receive performance-related bonuses and are not granted forfeitable shares or share options. The fees for the 2016 financial period were approved by shareholders at the AGM held on 27 July 2015. The proposed fees for the 2017 financial period will be submitted to shareholders for approval at the AGM to be held on 25 July 2016.

When non-executive directors provide additional consultancy services to the Board and its committees, the related fees are determined and approved by the remuneration committee on an ad hoc basis, taking into account the nature and scope of the services rendered.

Section two – Implementation of remuneration policy during the 2016 financial year

1. WORK PERFORMED AND DECISIONS TAKEN BY REMUNERATION COMMITTEE

The main items considered and approved by the remuneration committee during the 2016 financial period were as follows:

a. Executive director remuneration benchmarking, including a review of all benefits provided

The remuneration committee reviewed the fixed remuneration paid to executive directors, including all benefits, to ensure alignment with the Group's strategic objectives and best practice in the market.

Remuneration paid is considered fair and competitive against market benchmarks and the role and performance of each individual executive director.

b. Reviewing and setting the annual compensation for the CEO

In setting Richard Brasher's annual base salary at R7.9 million, the remuneration committee considered his extensive experience in the retail industry, which spans almost 30 years, and the success he has had with developing the strategic long-term recovery plan for Pick n Pay and successfully steering the Group into Stage 2 of that plan.

Under Richard's stewardship, the business has delivered six consecutive reporting periods of strong profit growth and is in a stronger and more stable financial position than it was three years ago. The remuneration committee benchmarked Richard's base salary against similar-sized South African companies and his salary is considered fair in relation to the market, his expertise and his contribution to date.

c. Annual increases in fixed remuneration for executive directors

The increase in the base salary paid to executive directors of 7.9%, is against an average for the Group of 6.0% to 7.0%, excluding employees governed by a labour union agreement (NMBU). The average annual increase for NMBU employees was between 7.0% and 8.0%. Increases are determined after detailed performance reviews are undertaken in April each year. Annual increases are determined with reference to the scope of executives' roles, their performance against key performance indicators, as well as comparable increases in the general and retail market and the projected consumer price index.

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d. Determining an appropriate short-term incentive bonus, and the reasonable allocation thereof to executive directors and qualifying employees

The remuneration committee has a crucial role to play in ensuring that the Group's remuneration policy not only supports the Group's strategic goals, but also ensures that management is remunerated fairly and reasonably, in line with industry benchmarks and shareholder expectation.

The remuneration committee sets annual performance targets (threshold, target and stretch) that must be achieved before a short-term incentive bonus will be payable. The targets are based on profit before tax and exceptional items (PBTAE), which is inclusive of the cost of the short-term incentive.

The Group delivered growth in PBTAE ahead of the remuneration committee's threshold level of 10.0% and its target of 23.5%, with the Group achieving PBTAE of R1 506.1 million (26.1% growth). The stretch target of 37.2% was not met. As a result, a bonus was agreed to by the remuneration committee.

The quantum of the bonus pool is at the discretion of the remuneration committee and is informed by the overall performance of the Group and the personal performances of the individual senior managers. The executive directors' remuneration table on page 79 reflects the bonus accrued for the current financial period for executive directors based on 2016 performance. The remuneration committee has set new and appropriate targets for the 2017 financial period.

e. Reviewing the Group's long-term share option incentive scheme, its alignment to long-term strategy and allocations to executive directors

The remuneration committee undertook a detailed review of all the share options held by the executive directors, including all the service and performance conditions attached. No new share options were granted to executive directors during the year.

f. Reviewing the Group's forfeitable share plan – setting appropriate performance conditions and allocating forfeitable shares to executive directors and qualifying senior management

The remuneration committee set the financial performance conditions to be attached to the second issuance under the Group's forfeitable share plan. Further, the committee agreed on the 115 participants and the level at which each would participate, with particular focus on the allocations to executive directors.

For further information refer to pages 76 and 77 of this report.

g. Reviewing and recommending non-executive directors' fees for the 2016 financial period, for final approval by shareholders at the AGM

Fees for the current and proposed periods are as follows:

	Proposed 2017 R	Actual 2016 R	% change
Chairman of the Board ¹	3 913 000	3 657 000	7.0
Lead independent non-executive director of the Board	122 000	114 000	7.0
Non-executive director of the Board	364 000	340 000	7.0
Chairman of the audit committee	300 000	280 000	7.1
Member of the audit committee	122 000	114 000	7.0
Chairman of the remuneration committee	160 000	150 000	6.7
Member of the remuneration committee	80 000	75 000	6.7
Member of the nominations committee ¹	75 000	70 000	7.1
Member of the social and ethics committee ²	80 000	75 000	6.7
Chairman of the corporate finance committee ³	170 000	160 000	6.2
Member of the corporate finance committee ³	115 000	107 000	7.5
Trustee of the employee share purchase trust	35 500	33 000	7.6

1. The Chairman of the nominations committee is the Chairman of the Board and does not receive an additional fee for chairing this committee.

2. The Chairman of the social and ethics committee is an executive director and does not receive an additional fee for chairing this committee.

3. The corporate finance committee is an ad hoc committee. The fees payable are determined in relation to the number of meetings held during the financial period, but will not be more than the annual proposed fee. Four formal meetings were held in 2016.

For the current and proposed periods' fees for Pick n Pay Holdings Limited RF, refer to page 84.

h. Reviewing and recommending to the Board the overall compensation for the Chairman, for final approval by shareholders at the AGM

In setting the Chairman's proposed annual fee of R3.9 million, the remuneration committee (with Gareth Ackerman recused from discussion) considered the active role he plays in the corporate governance of Pick n Pay and in formulating overarching strategy for the individual companies within the Group. Gareth does not play a day-to-day role in the executive management and administration of the business, but he does make himself available to the executive team in a valuable advisory capacity.

i. Reviewing and approving of the Group's remuneration policy and report

This report and the recommendations of the remuneration committee have been approved by the Board and will be submitted to shareholders for consideration at the annual general meeting to be held on 25 July 2016.

2. PAYMENTS, ACCRUALS AND AWARDS TO EXECUTIVE DIRECTORS

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

Total remuneration of executive directors

	Fixed-base salary and benefits				Total fixed remuneration R'000	Short-term annual bonus R'000	Total remuneration R'000	Long-term share awards expense# R'000
	Fees for Board meetings R'000	Base salary R'000	Retirement and medical contributions R'000	Fringe and other benefits R'000				
52 weeks to 28 February 2016								
Richard Brasher	1.5	7 863.0	1 303.4	287.5	9 455.4	15 000.0	24 455.4	20 233.6
Richard van Rensburg	1.5	3 709.4	600.3	312.0	4 623.2	2 500.0	7 123.2	8 448.9
Bakar Jakoet	1.5	3 213.0	552.0	302.9	4 069.4	2 500.0	6 569.4	5 436.2
Suzanne Ackerman-Berman	1.5	2 221.5	376.8	267.2	2 867.0	1 700.0	4 567.0	3 055.4
Jonathan Ackerman	1.5	2 221.5	401.5	272.5	2 897.0	1 700.0	4 597.0	3 055.4
Total remuneration	7.5	19 228.4	3 234.0	1 442.1	23 912.0	23 400.0	47 312.0	40 229.5
% increase on prior year		7.9						
52 weeks to 1 March 2015								
Richard Brasher	1.5	7 370.5	1 215.5	1 144.7	9 732.2	9 000.0	18 732.2	11 771.2
Richard van Rensburg*	1.5	3 422.5	622.0	735.1	4 781.1	1 600.0	6 381.1	3 747.9
Bakar Jakoet	1.5	2 904.0	497.5	292.3	3 695.3	1 600.0	5 295.3	3 125.8
Suzanne Ackerman-Berman	1.5	2 046.6	374.4	264.0	2 686.5	1 000.0	3 686.5	1 753.0
Jonathan Ackerman	1.5	2 083.5	351.5	263.0	2 699.5	1 000.0	3 699.5	1 753.0
Total remuneration	7.5	17 827.1	3 060.9	2 699.1	23 594.6	14 200.0	37 794.6	22 150.9
% increase on prior year		6.9						

* Prior year amounts restated and/or reclassified, refer to note 30 of the audited Group annual financial statements.

The expense of the long-term share awards is determined in accordance with IFRS 2: Share-based Payments. The fair value is measured at grant date and the cost of the awards granted is spread over the period during which the employees become unconditionally entitled to the options (the vesting period). The amounts in the column represent the current year's charge, as recorded in the statement of comprehensive income and statement of changes in equity. The column is for information only, given that the value was neither received by nor accrued to the directors during the period. The long-term share awards will vest in the future only if all the criteria set out in the rules of the 1997 Employee Share Option Scheme and forfeitable share plan are met.

The remuneration committee does not currently target an optimum level of fixed versus variable remuneration, although the scope and breadth of the strategic role performed by each executive director is considered when allocating long-term incentive share awards. The remuneration committee is in the process of developing formal guidelines in this regard.

As detailed above, total fixed benefits include payments made and costs accrued in the current year, and variable incentives include the related cost of share awards issued in current and prior periods.

Remuneration report continued

Share awards granted to executive directors – PIK

	Calendar year granted	Award grant price R	Balance held at 2 March 2015	Granted during the period	Exercised during the period	Exercise price R	Balance held at 28 February 2016	Available for take-up
52 weeks to 28 February 2016								
Richard Brasher								
Share options	2012	42.24	1 000 000	—	—	—	1 000 000	Nov 2017
	2012	42.24	1 000 000*	—	—	—	1 000 000*	Nov 2017
Forfeitable shares**	2014	Nil	800 000	—	—	—	800 000	Aug 2017
	2015	Nil	—	220 000	—	—	220 000	Aug 2018
			2 800 000	220 000	—		3 020 000	
Richard van Rensburg								
Share options	2011	36.55	400 000*	—	—	—	400 000*	May 2016
Forfeitable shares**	2014	Nil	250 000	—	—	—	250 000	Aug 2017
	2015	Nil	—	35 000	—	—	35 000	Aug 2018
			650 000	35 000	—		685 000	
Bakar Jakoet								
Share options	2003	12.00	250 000	—	—	—	250 000	Now
	2007	31.15	5 779	—	—	—	5 779	Now
	2008	26.55	7 907	—	—	—	7 907	Now
		26.14	105 000	—	—	—	105 000	Now
		26.14	45 000	—	—	—	45 000	Now
	2009	28.20	12 413	—	—	—	12 413	Now
	2010	42.28	1 799	—	—	—	1 799	Now
	2011	41.70	200 000	—	—	—	200 000	Now
		41.70	300 000	—	—	—	300 000	Now
Forfeitable shares**	2014	Nil	250 000	—	—	—	250 000	Aug 2017
	2015	Nil	—	35 000	—	—	35 000	Aug 2018
			1 177 898	35 000	—		1 212 898	
Suzanne Ackerman-Berman								
Share options	2004	21.00	10 000	—	(10 000)	58.71	—	n/a
	2006	31.15	122 408	—	(122 408)	58.71	—	n/a
	2008	26.56	4 519	—	(4 519)	58.71	—	n/a
		26.14	25 000	—	—	—	25 000	Now
		26.14	25 000	—	—	—	25 000	Aug 2016
		26.14	25 000	—	—	—	25 000	Aug 2017
		26.14	25 000	—	—	—	25 000	Aug 2018
	2009	28.20	8 867	—	(8 867)	58.71	—	n/a
	2010	42.27	1 421	—	(1 421)	58.71	—	n/a
Forfeitable shares**	2014	Nil	150 000	—	—	—	150 000	Aug 2017
	2015	Nil	—	20 000	—	—	20 000	Aug 2018
			397 215	20 000	(147 215)		270 000	
Jonathan Ackerman								
Share options	2005	20.70	6 441	—	(6 441)	58.71	—	n/a
	2006	28.00	14 286	—	(14 286)	58.71	—	n/a
	2007	31.15	14 446	—	(14 446)	58.71	—	n/a
	2008	26.56	9 414	—	(9 414)	58.71	—	n/a
		26.14	25 000	—	—	—	25 000	Now
		26.14	25 000	—	—	—	25 000	Aug 2016
		26.14	25 000	—	—	—	25 000	Aug 2017
		26.14	25 000	—	—	—	25 000	Aug 2018
	2009	28.20	8 867	—	(8 867)	58.71	—	n/a
	2010	42.27	1 560	—	(1 560)	58.71	—	n/a
Forfeitable shares**	2014	Nil	150 000	—	—	—	150 000	Aug 2017
	2015	Nil	—	20 000	—	—	20 000	Aug 2018
			305 014	20 000	(55 014)		270 000	

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

** The exercising of these forfeitable shares is subject to specific performance criteria relating to the growth in HEPS of Pick n Pay Stores Limited. If the performance hurdles are not met, the shares will be forfeited. These shares are held in a CSDP account on behalf of the director until the vesting conditions have been met. For further details on the forfeitable share plan, refer to pages 76 and 77 of this report.

Share awards granted to executive directors – PWK

	Calendar year granted	Award grant price R	Balance held at 2 March 2015	Granted during the period	Exercised during the period	Exercise price R	Balance held at 28 February 2016	Available for take-up
52 weeks to 28 February 2016								
Richard van Rensburg	2011	15.18	1 000 000	—	—	—	1 000 000	Now
			1 000 000	—	—		1 000 000	
Bakar Jakoet	2005	11.50	400	—	—	—	400	Now
	2008	11.33	600	—	—	—	600	Now
	2010	16.00	400	—	—	—	400	Now
	2014	22.64	400	—	—	—	400	Now
			1 800	—	—		1 800	
Suzanne Ackerman-Berman	2011	15.35	400	—	(400)	26.68	—	n/a
	2016	28.32	—	400	—	—	400	Now
			400	400	(400)		400	
Jonathan Ackerman	2010	16.00	1 000	—	(1 000)	26.68	—	n/a
	2012	20.03	400	—	(400)	26.68	—	n/a
			1 400	—	(1 400)		—	

3. PAYMENTS, ACCRUALS AND AWARDS TO NON-EXECUTIVE DIRECTORS

	Directors' fees R'000	Lead director R'000	Audit committee R'000	Remuneration committee R'000	Nominations committee R'000	Corporate finance committee R'000	Social and ethics committee R'000	Employee share trust R'000	Total R'000
52 weeks to 28 February 2016									
Gareth Ackerman*	3 657.0	—	—	—	—	—	—	—	3 657.0
John Gildersleeve**	340.0	—	—	75.0	—	107.0	—	—	522.0
David Friedland***	340.0	—	—	—	70.0	107.0	—	—	517.0
Hugh Herman	340.0	114.0	114.0	150.0	—	107.0	—	33.0	858.0
Audrey Mothupi	340.0	—	114.0	—	—	107.0	—	—	561.0
Lorato Phalatse	340.0	—	—	—	70.0	107.0	75.0	—	592.0
David Robins	340.0	—	—	—	—	—	—	—	340.0
Ben van der Ross****	170.0	—	57.0	37.5	35.0	—	—	16.5	316.0
Jeff van Rooyen	340.0	—	280.0	—	—	160.0	—	—	780.0
	6 207.0	114.0	565.0	262.5	175.0	695.0	75.0	49.5	8 143.0
52 weeks to 1 March 2015									
Gareth Ackerman*	3 450.0	—	—	—	—	—	—	—	3 450.0
John Gildersleeve	320.0	—	—	70.0	—	—	—	—	390.0
David Friedland**	320.0	—	—	—	65.0	—	—	—	385.0
Hugh Herman	320.0	107.0	107.0	140.0	—	—	—	31.0	705.0
Audrey Mothupi	320.0	—	107.0	—	—	—	—	—	427.0
Lorato Phalatse	320.0	—	—	—	65.0	—	70.0	—	455.0
David Robins	320.0	—	—	—	—	—	—	—	320.0
Ben van der Ross	320.0	—	107.0	70.0	65.0	—	—	31.0	593.0
Jeff van Rooyen	320.0	—	265.0	—	—	—	—	—	585.0
	6 010.0	107.0	586.0	280.0	195.0	—	70.0	62.0	7 310.0

* Gareth Ackerman is the Chairman of the nominations committee, share trust and a member of the remuneration committee, but his annual fee incorporates all committee work.

** John Gildersleeve retired as a director of Pick n Pay Stores Limited on 28 February 2016.

*** Non-executive director David Friedland received consultancy fees of R114 000 (2015: R107 000) for services rendered to the audit and risk committee and he became an independent non-executive director of Pick n Pay Stores Limited on 28 February 2016.

**** Ben van der Ross retired as a director of Pick n Pay Stores Limited on 27 July 2015.

Remuneration report continued

4. DIRECTORS INTEREST IN SHARES – PICK N PAY STORES LIMITED

	How held*	Balance held at 2 March 2015	Additions during the period	Average purchase price per share R	Disposals during the period	Average selling price per share R	Balance held at 28 February 2016	Beneficial/ non-beneficial interest
52 weeks to 28 February 2016								
Directors of Pick n Pay Stores Limited								
Gareth Ackerman	direct	43	—	—	—	—	43	Beneficial
Ackerman Pick n Pay foundation**	indirect	30 000	—	—	—	—	30 000	Non-beneficial
	indirect	71 900	—	—	—	—	71 900	Non-beneficial
Richard Brasher	direct – FSP	800 000	220 000	—	—	—	1 020 000	Beneficial
Richard van Rensburg	direct – FSP	250 000	35 000	—	—	—	285 000	Beneficial
Bakar Jakoet	direct	500 000	—	—	—	—	500 000	Beneficial
	direct – FSP	250 000	35 000	—	—	—	285 000	Beneficial
	indirect	530	—	—	—	—	530	Non-beneficial
Suzanne Ackerman-Berman	direct	2 500	—	—	—	—	2 500	Beneficial
	direct – FSP	150 000	20 000	—	—	—	170 000	Beneficial
	indirect	4 651	—	—	—	—	4 651	Beneficial
Jonathan Ackerman	direct	43	—	—	—	—	43	Beneficial
	direct – FSP	150 000	20 000	—	—	—	170 000	Beneficial
Jeff van Rooyen	direct	3 800	—	—	—	—	3 800	Beneficial
Directors of Pick n Pay Holdings Limited RF								
Raymond Ackerman	direct	43	—	—	—	—	43	Beneficial
Wendy Ackerman	direct	43	—	—	—	—	43	Beneficial

* Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a family trust of which the director is a trustee, or a spouse and minor children. Direct interests in forfeitable share plan (FSP) shares are issued at a grant price of zero.

** The non-beneficial interest in Ackerman Pick n Pay foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman in their capacities as trustees.

For directors' interest in shares in Pick n Pay Holdings Limited RF, refer to page 83.