Dis-Chem
PHARMACIES

Integrated Report

for the financial year ended
29 February

2020

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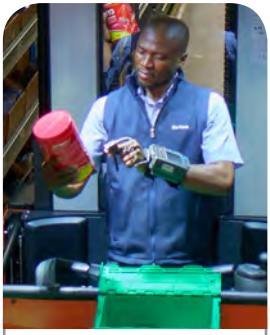

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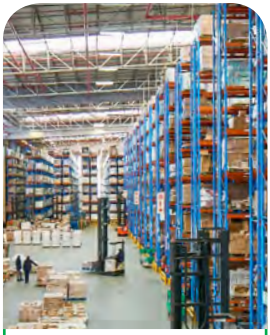

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Feedback

Your feedback is important to us and we welcome your input to enhance our reporting structure. Contact us at **investorrelations@dischem.co.za**

On the website

The following additional documents can be found on our website at **www.dischemgroup.com**

- Year-end results presentation
- Code of Conduct
- Group and company audited annual financial statements and notes including our independent auditors' report and the Audit and Risk Committee's report
- Board Charters
- Notice to shareholders and proxy form

SUSTAINABLE DEVELOPMENT GOALS

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals ("SDGs"), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. Dis-Chem is encouraged to be part of the change and achievement of these goals.

Dis-Chem has identified and prioritised the following nine SDGs which we can recognise ourselves with and implement the most significant change.

2 ZERO HUNGER

End hunger, achieve food security and improved nutrition and promote sustainable agriculture

3 GOOD HEALTH AND WELL-BEING

Enable healthy lives and promote well-being for all at all ages

4 QUALITY EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

5 GENDER EQUALITY

Achieve gender equality and empower all women and girls

6 CLEAN WATER AND SANITATION

Ensure availability and sustainable management of water and sanitation for all

7 AFFORDABLE AND CLEAN ENERGY

Ensure access to affordable, reliable, sustainable and modern energy for all

8 DECENT WORK AND ECONOMIC GROWTH

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

10 REDUCED INEQUALITIES

Reduce inequality within and among countries

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Take urgent action to combat climate change and its impacts

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FOCUS ON ROIC LED TO IMPROVED CASH FLOW

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EBITDA BREAKEVEN IN WHOLESALE

ACQUIRED BABY CITY

TELEMEDICINE IN ALL CLINICS

About this report

It is with great pleasure that we present our Integrated Annual Report ("IAR") for the financial year ended 29 February 2020 to our stakeholders, locally and abroad. The purpose of this report is to give our stakeholders an overview of our business, our performance and achievements over the past financial year as well as our future targets and opportunities.

The report is aimed primarily at our shareholders, who are the principal providers of the Group's financial capital. Our objective is to provide shareholders with insights into how the Group intends to create value in the short, medium and long-term.

We continue to improve our disclosure and strive for the highest reporting standards. However, the report excludes information which could lead to loss of the Group's competitive advantage.

The scope of the report

The IAR covers the operating performance of the Dis-Chem Group and its principal operating segments for the audited 2020 financial year and is supplemented by the Group's Annual Financial Statements ("AFS") which are available on our website at www.dischemgroup.com. In addition, the report includes the Group's vision, mission and values, its business model, stakeholder relationships and its material issues.

Where applicable, the report has been prepared per the King Code of Corporate Governance ("King IV"), the Johannesburg Stock Exchange ("JSE") Listings Requirements and the Companies Act. It draws on the International Integrated Reporting ("IR") Framework of the International Integrated Reporting Council ("IIRC") which was considered but not adopted, in the preparation of the report. The summary financial information is reported according to International Financial Reporting Standards ("IFRS") .

Materiality

The Integrated Report aims to provide concise and material information on the Group's strategy, performance and prospects. The Board and senior management have applied the Sustainable Development Goals ("SDGs") in determining the issues that could affect the Group's ability to create and sustain value for its stakeholders. In deciding its material issues, the Board considers internal and external factors and consists of both financial and non-financial risks.

The Group's material issues are reviewed each year by the executive and senior management. The outcomes of the review are considered and endorsed by the Board.

Integrated reporting framework

The Board believes that the IAR complies in all material respects with the IR Framework of the IIRC. Key to the framework is reporting with

respect to the six capitals, strategic matters, values and the applicable SDGs applied in creating value for the Group, all of which is covered in the relevant sections of this report.

Assurance

Dis-Chem applies a combined assurance model which seeks to optimise assurance obtained from management and external assurance providers. The Group's external auditor, Ernst & Young Inc. ("EY"), provided reasonable assurance on the the Group and Company AFS and expressed an unmodified audit opinion.

PricewaterhouseCoopers ("PwC"), the Group's internal audit providers, provided additional assurance for the Group. Certain non-financial information, such as market share statistics, was supplied by accredited service providers, while management has verified the processes for measuring all non-financial information.

The Dis-Chem Board and senior management have reviewed the content of the IAR, but it has not been independently assured.

Forward-looking information

Dis-Chem's IAR contains certain forward-looking information and statements concerning the financial condition and results of operations of the Group. The Dis-Chem Group has made every reasonable effort to ensure the accuracy of the information in the report. Still, forward-looking information by its very nature involves risk and uncertainty because it relates to events and depends on circumstances that may occur in the future. Past performance is not indicative of future results.

No assurance can be given that the forward-looking information will prove to be correct, and undue reliance should not be placed on such information. Factors that could cause actual results to differ materially from those in the forward-looking information include, but are not limited to: global and local economic conditions; changes in legislation; amendments to IFRS and interpretations; changes in trading space availability; changes in working capital and changes in margins achieved.

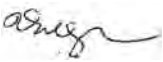
The Dis-Chem Group does not undertake to update or revise any of the forward-looking information, whether to reflect new or future events. The Dis-Chem Group accepts no liability for any direct or consequential loss arising due to reliance on all or any part of the information contained in this report.

Directors' approval

As part of the Board Charter, the Board is responsible for the integrity of the IAR and acknowledge this responsibility. The Board confirms that it has collectively assessed the content of this report and approved it for release to stakeholders.

The Audit and Risk Committee, which has oversight responsibility for the IAR, recommended the report for approval to the Board. The Board approved the IAR on 26 June 2020, and it was signed on its behalf by:

Larry Nestadt
Independent Non-executive Chairman



Ivan Saltzman
Chief Executive Officer

King IV

The board is cognisant that good corporate governance is a journey and requires continuous monitoring and improvement, particularly as the business develops and grows, and must be aligned to the achievement of strategy to create value for our shareholders.

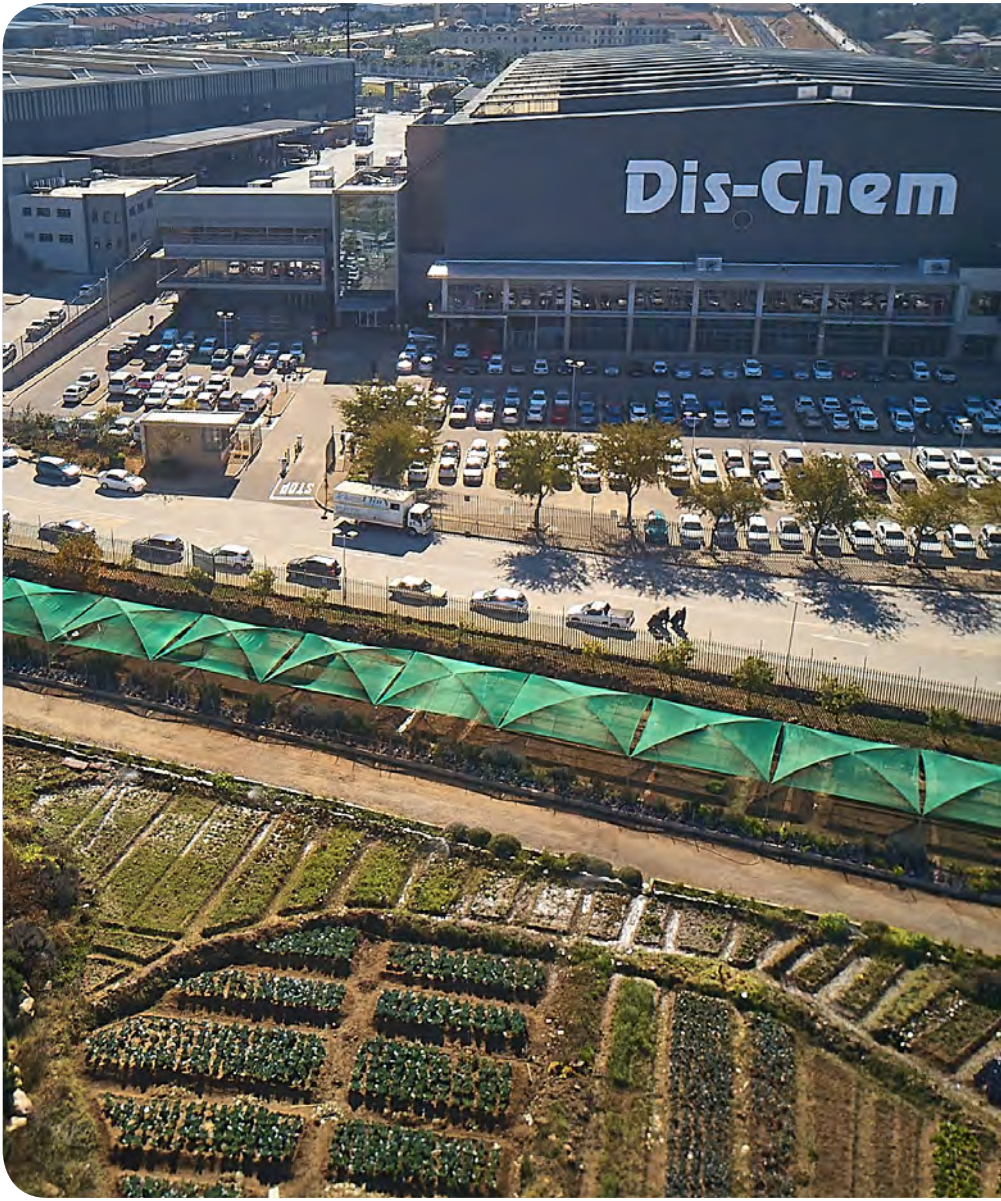
We include the King IV overview at the start of the report to guide stakeholders on how and where to find the general application of the King IV practices and the specific disclosures required by each principle.

We believe that the impact of poor corporate governance ultimately equates to poor business. The outcomes-based and holistic approach of King IV requires corporate governance to be integrated into the daily aspects of the business to achieve the realisation of an ethical culture, good performance, effective control and legitimacy. The Group continually seeks to improve and adjust its corporate governance practices in line with best practice and stakeholder expectations.

The application of King IV has been integrated throughout the report.

King IV reference guide:

Principal 1	Leadership	Pages 44, 60, 61, 62, 63, 64, 65, 66, 68, 80
Principal 2	Organisational ethics	Pages 66, 82,
Principal 3	Responsible corporate citizenship	Pages 3, 40, 41, 69, 80
Principal 4	Strategy and performance	Pages 32, 33, 35, 42
Principal 5	Reporting	Pages 2, 6, 65
Principal 6	Board	Pages 61, 63, 65, 69
Principal 7	Board composition	Pages 54, 55, 60, 61, 63
Principal 8	Board committees	Pages 63, 64
Principal 9	Board performance evaluations	Page 62
Principal 10	Appointment and delegation to management	Pages 60, 61
Principal 11	Risk governance	Pages 44 - 47
Principal 12	Technology and information governance	Page 67
Principal 13	Compliance governance	Page 66
Principal 14	Remuneration governance	Pages 70 - 78
Principal 15	Assurance	Pages 7, 66
Principal 16	Stakeholders	Pages 42 - 43


Dis-Chem
STOP

Highlights of the year

FINANCIAL CAPITAL

- Revenue increased by 12% to R24bn
- Total income increased by 9.8% to R6.8bn
- Total income margin at 28.5%
- Operating margin came in at 5.2%
- HEPS at 69.6 cents
- Return on invested capital paying off
- Net working capital days down to 33
- R18.6bn market capitalisation
- R781m increase in cash balance

MANUFACTURED CAPITAL

- Opened 21 new stores increasing the store footprint to 170
- 232 261m^2 of total retail space
- National wholesale footprint with all warehouses fully operational
- Fully SAP-integrated excluding Delmas, Quenets and some subsidiaries.
- Just under 350m units sold
- Click & Collect in every store
- Primary healthcare clinic/s in all stores
- Introduced Telemedicine
- Chronic adherence management

HUMAN CAPITAL

- More than 18 700 permanent, fixed-term and casual employees
- 65.5% of employees are black
- 62.2% of employees are women
- More than 7 000 employees completed learnership agreements
- Over R48.5m spent on training and education
- Approximately R3.4m in bursary grants to pharmacy students

INTELLECTUAL CAPITAL

- Gained market share in all key categories
- Over 200 years of experience among eight board members

NATURAL CAPITAL

- More than 4 500 tons of recycling
- Ethical waste management
- Over 10 000m² of cultivated land for the food garden
- Energy management initiatives
- Water waste management

SOCIAL AND RELATIONSHIP CAPITAL

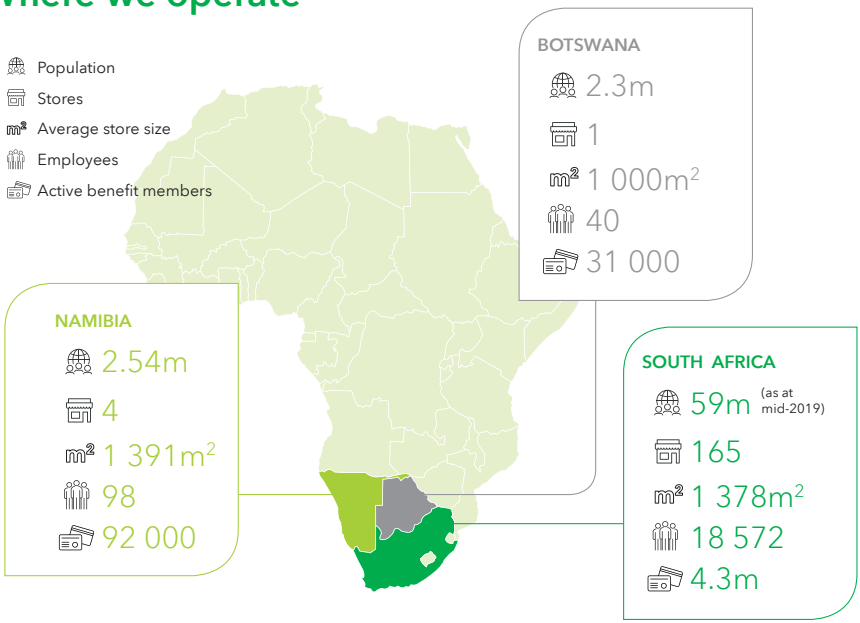
- 9.7m CRM customers
- 5.5m benefit members
- 4.4m active benefit members
- R368m redeemed through our loyalty programme
- Over R25m donated to the Dis-Chem Foundation
- Various social campaigns
- Dis-Chem Foundation projects
- Engagement with regulators
- Positive supplier relationships
- Trusted brand

Group profile

About Dis-Chem

Dis-Chem is a leading retail pharmacy group based in Midrand, South Africa with operations in South Africa, Namibia and Botswana. Co-founded in 1978 by husband and wife Ivan and Lynette Saltzman when they opened their first store in Mondeor, south of Johannesburg, the Group has grown into a well-known, desired brand amongst South African consumers. Our target customers are in the mid to upper Living Standards Measure ("LSM") categories. Our strategy is built around our PHARMACY FIRST approach, which means that we have a dispensary in all of our stores to service our customers at any time when they enter a Dis-Chem store. The brand is synonymous with excellent customer service, and we pride ourselves in being a destination discount brand following an Everyday Low Price ("EDLP") strategy.

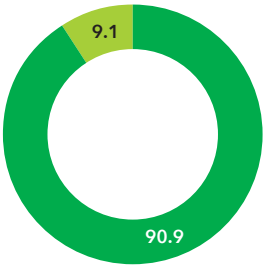
Where we operate



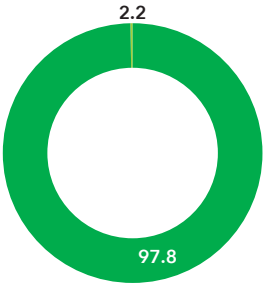
Operational structure

Dis-Chem operates two main segments, namely Retail, which contributes the most significant share to total revenue and earnings before interest, tax, depreciation and amortisation ("EBITDA"), and Wholesale.

REVENUE CONTRIBUTION (%)



EBITDA CONTRIBUTION (%)



Retail

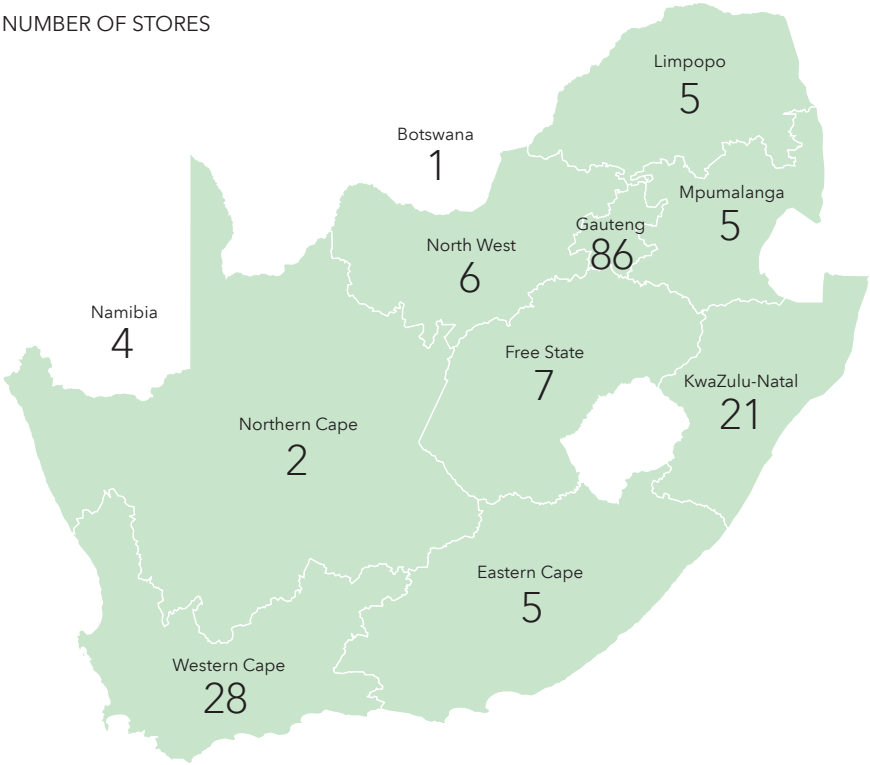
Dis-Chem is positioned to be a destination store, offering our customers a full basket of products from its core and other categories. It consists of retail stores, primary healthcare clinics, the courier business known as Dis-Chem Direct, e-commerce and ancillary services which include hair and beauty salons.

Stores

The Retail segment has a store base of 170 stores operating from formats including Dis-Chem Pharmacy and The Local Choice. In the 2021 financial year, we are opening three pilot stores in Mediclinic hospitals and we are rebranding three airport pharmacies as Dis-Chem pharmacies. We have minority partners in 20 of our stores.

STORE SIZE	< 500 m²	501 m² – 1 000 m²	1 001 m² – 1 500 m²	> 1 500 m²
Number of stores	5	32	69	64
Product range	75% core/ no ancillary	95% core/ no ancillary	Full core and ancillary	Full core and ancillary
Total floor space	1 293 m²	26 631 m²	90 237 m²	114 763 m²
Trading density ('000)	105	69	91	93

NUMBER OF STORES



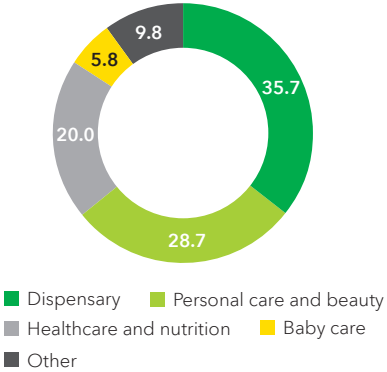
Core categories

The Group has four core categories, namely:

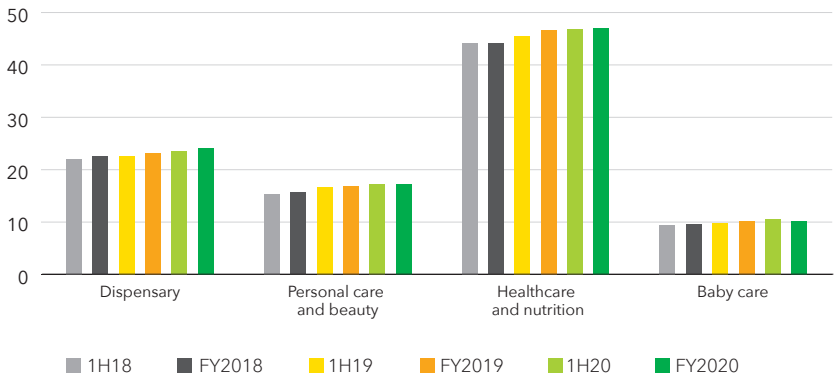
- **Dispensary**
- **Personal Care and Beauty**
- **Healthcare and Nutrition**
- **Baby Care**

It continues to gain market share in all of its core categories despite the challenging trading environment.

REVENUE CONTRIBUTION (%)



CATEGORY MARKET SHARE (%)



Source: Nielsen

Dispensary

The Dispensary is a highly regulated category where the selling prices of scheduled medicines comprising the Single Exit Price ("SEP") and the dispensing fees, are both determined by the Department of Health ("DOH"). The dispensary category contributes approximately 35.7% to total Retail revenue.

To drive dispensary volumes, the Group invested in a chronic script adherence technology business. Chronic scripts account for approximately 50% of our total dispensary sales. Adherence rates for managed patients are 55% higher than for unmanaged patients, and we aim to manage our chronic patients through the patient's preferred communication channel.

During the period the Group also introduced the "Pack My Meds" service which allows customers to order medicines on their smartphones every month as and when it suits them. The medication will be prepacked and ready when the customer comes to the pharmacy.

Personal Care and Beauty

Personal Care

Personal Care is a very competitive category, and our pricing strategy is a combination of Everyday Low Pricing ("EDLP") and competitive promotional pricing. Promotions include 2+1 offers, percentage-off promotions, segmented promotional offerings and promotional campaigns.

We are continuously increasing our exclusive brand assortments in key categories by developing and growing ranges based on the trends in consumer behaviour. We are also extending our private label range in low or unpenetrated categories.

Beauty

Our Beauty category focuses on three main areas – colour cosmetics, face care and fragrances. We are proud to be the leading retailer for dermaceutical face care which has become progressively more sought after amongst our customers and is a key focus area within our face care ranges.

We are the market leader in colour cosmetics and offer the broadest range in this sector which includes the market's leading brands as well as our top-performing exclusive brands.

Fragrance shows a steady growth within our business, and we are perceived as the leading fragrance destination and are continually growing our market share in this category.

As the trend in natural beauty products grows, and as we are cognisant of consistently meeting consumer demands, we prioritise the sourcing of new ranges and ranges that meet customers' needs. For both the face care and colour ranges, we are continuously adding trending new brands to our range, together with exclusive brands to continue to entrench ourselves as the retailer of choice for all beauty products.

Healthcare and Nutrition

Healthy living and wellness have become increasingly popular among South Africans. This has led to an increase in the sales of healthier alternatives, preventative herbal options as well as convenience and performance supplements. Our internally generated, exclusive brand, Biogen, is the largest Vitamins and Supplements brand in South Africa. Including all other vitamins and supplements sold in our stores, Dis-Chem has the largest market share in this category of well over 50%.

We introduced Cannabidiol ("CBD") products in our stores and expect more innovation in this space.

The approach to regulating Complementary and Alternative Medicines ("CAMs") changed when South African Health Products Regulatory Authority ("SAHPRA") published an updated roadmap in September 2019. While there are still challenges, the changes appear to be positive for the industry with more simplified product registration and the ability to launch low-risk products.

Specialised diet, "Free From" and healthier foods remain a key focus and represent the fastest expanding area within the Healthcare and Nutrition category. Dis-Chem is also the leader in sports and meal supplements with growth driven by fast-paced lifestyles and the need for convenient, healthy nutrition to support active customers.

Baby Care

Baby Care is one of our fastest-growing categories and also the category where we see much potential for future growth. The pricing strategy in this category is a combination of Everyday Low Pricing ("EDLP") and a high level of deep discounting on price-sensitive products.

We have extended our baby range to include clothing and bedding, as well as baby hardware such as strollers, infant carriers and travel systems. We also have an extensive private label range, Baby Things, which includes our recently launched baby diapers. We will continue to introduce new brands to keep abreast of worldwide trends.

Ancillary services

In some of our bigger stores, we have salons offering a variety of products and services.

Hair and Beauty Salons

Our hair and beauty salons are managed by qualified and experienced stylists and therapists with excellent industry knowledge. The salons offer a variety of services including facials, massages, haircuts and gents grooming. We currently have hair salons in eight of our stores.

Clinics

Dis-Chem has at least one clinic in all of its stores, providing preventative healthcare and early risk detection solutions. Our clinic service offerings are split into three categories: 1. Dis-Chem Wellness Clinic, 2. Baby Clinic, and 3. Wound Care Clinic

Dis-Chem Wellness Clinic

Services include:

- Diabetic care and dietary advice
- Vitamin injection
- Medical aid health assessments
- Blood pressure monitoring
- Glucose screening
- Cholesterol screening

Baby Clinic

Our Well Baby Clinics have nursing professionals who offer a wide range of services and expert advice which will help to ensure that the babies visiting the clinics remain healthy. Services include:

- Immunisation schedules
- Breastfeeding
- Potty training advice
- Teething

Wound Care Clinic

Our nursing professionals are trained to assist with correctly dressing simple wounds and burns for speedy healing.

Leveraging our clinic infrastructure through primary healthcare

The move towards National Health Insurance ("NHI") in South Africa will change the framework of private healthcare delivery where clinics will be the primary healthcare point of entry. The current primary care market size is estimated at eight million lives, and a clinic managed care path allows for lower cost of service.

We have a network of 325 consistently well-run clinics which are staffed by approximately 345 registered nursing practitioners. Our goal is to increase the scope of all clinic sisters through ongoing training to be able to facilitate a primary care point of entry role.

We invested in Telemedicine infrastructure and technology which has been accessible in our clinics from January 2020 with added advantages like access to General Practitioners ("GPs") at much lower rates and electronic scripting directly into dispensaries.

Dis-Chem Direct

Dis-Chem Direct is a courier service that does nationwide delivery of chronic and prescription medication. It services medical aids, corporates, individuals, healthcare providers and the government.

Employees

The Group's strength lies in its team of over 18 700 employees. We believe that in today's dynamic and continuously changing world, our human capital is what differentiates us from our competitors. Employee efficiency and talent determines the pace and growth of the organisation. In addition, employee satisfaction is a key element in reducing employee turnover, and as a result, the Group relaunched its company values during the financial period. (see vision, mission and values p28)

E-Commerce

We have invested significantly in our e-commerce platform to give our customers a convenient and hassle-free shopping experience. Our website has a new look and feel with enhanced user experience. We have multiple payment options, offer free delivery for orders over R600, and also have Click & Collect in all of our stores.

Loyalty Benefit Programme

Dis-Chem's Loyalty Benefit programme was first launched in 2003 and currently has around 4.4 million active Benefit members. These members are responsible for around 73% of total retail sales and have a higher spend per basket and increased shopping frequency compared to non-benefit members.

The benefits of being a member include Benefit points earned on all qualifying front shop purchases, instant cash discounts, a quarterly Benefits magazine, an exceptional baby programme, exclusive offers, ad hoc double and bonus points as well as automatic entry into competitions. We are able to engage with customers through the programme to ensure we target the correct people with the correct information.

By shopping and swiping your Loyalty Benefit card, a certain percentage will be donated to the Dis-Chem Foundation to assist worthy causes.

The Group differentiates its Benefit programme from others in the market through its real-time earn and redeem, as well as programme partnerships and customer-specific focus groups. Strategic partners include Discovery Vitality, Legacy Lifestyle, School-Days, Total, Momentum Multiply, Bestmed, Medihelp and the Dis-Chem Foundation.

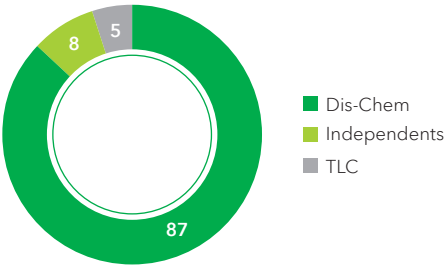
Private label and exclusive brands

Our strategy has always been to develop the correct balance between our private label brands and national brands. Our approach is to ensure high-quality products within a better value proposition. Private label brands bring variety and exclusivity onto our shelves. We source our private label and exclusive products from local and international manufacturers, distributors and suppliers, and we have in excess of 10 000 SKUs. In tough economic times, consumers tend to opt for private label brands as opposed to the national brand equivalent.

Wholesale

The wholesale segment operates a fine picking wholesale business. Its three contributors to revenue include Dis-Chem retail stores, independent pharmacies, and TLC franchisees. The Group has four fully operational distribution centres located in Midrand, Delmas, KwaZulu-Natal and the Western Cape.

REVENUE CONTRIBUTION (%)



Distribution centres

STORE SIZE	OPENING DATE	SIZE	OWNERSHIP
Midrand	2010	44 000 m²	50% The Bental Group 50% Dis-Chem Adventure Trust
Delmas	Controlling stake in 2013 Remaining stake in 2016	2 780 m² 6 030 m²	50% Adventure Commercial Holdings 50% Minlou Holdings
Kwazulu-Natal	October 2016	14 400 m²	100% Adventure Commercial Holdings
Western Cape	August 2017	2 250 m² 15 693 m²	100% Adventure Commercial Holdings
Quenets	October 2018	356 m²	Third-party

DIS-CHEM ADVENTURE TRUST	
The Saltzman Family Trust	**78%**
The Stanley Goetsch Family Trust	**12%**
The Niall Hegarty Family Trust	**6%**
The Kevin Sterling Family Trust	**2%**
The Busdis Trust	**2%**

ADVENTURE COMMERCIAL HOLDINGS (PTY) LTD	
Ivlyn Pty Ltd	**76.2%**
SGFT Investment Holdings (Pty) Ltd	**11.9%**
Niall Hegarty Family Properties (Pty) Ltd	**5.9%**
Busdis (Pty) Ltd	**2%**
Kevlu (Pty) Ltd	**2%**
Melnique (Pty) Ltd	**1%**
Sauta (Pty) Ltd	**1%**

The relevant related parties that own a material stake in the distribution centres of the Group have started with a process to sell its equity holding in the lessor companies.

Technology and efficiency enhancements

We have introduced new technology in our warehouses to improve capabilities and efficiencies in terms of managing bookings, monitoring delivery times, analysing supplier profitability and warehouse opportunity reports, amongst others. When it comes to supplier profitability, the technology enables us to understand the throughput and storage cost of a supplier leading to increased stock turn and logistic fees. The increase in cross-docking reduced our operational and net working capital costs and in turn, improved free cash flow.

Future growth

Our regional distribution centres are geared to accommodate growth of both internal and external customers well into the medium-term. We are analysing the Midrand facility for short, medium and long-term site development by upgrading the existing warehouse. Options that were identified include increasing automated mechanisms and the dispatch and cross-dock area.

Investment case

Dis-Chem offers local and international investor exposure to the Food and Drug Retail sector in South Africa. We believe that macroeconomic trends such as an ageing population, growing middle class, increased urbanisation and the move toward more convenience, together with the defensive nature of the business will continue to benefit the Group in the medium to longer-term.

ENTREPRENEURIAL, FOUNDER-LED MANAGEMENT TEAM

Our highly experienced founders, Ivan and Lynette Saltzman, are supported by a highly-skilled, competent and professional management team.

PROVEN FINANCIAL METRICS AND TRACK RECORD

There is strong compound growth in earnings and dividends from our cash generative operations. We enjoy large footfall and leading trading densities.

STRONG MARKET AND INDUSTRY POSITIONING

We are a recognised brand in South Africa targeting consumers in Living Standards Measure ("LSM") 6-10, a fast-growing LSM range. We also benefit from increased healthy living awareness, urbanisation, a higher disease burden and an ageing population.

ORGANIC AND ACQUISITIVE GROWTH

The Group's strong organic growth is complemented by our strategic acquisitions and the ability to integrate these acquisitions vertically.

OPERATE IN RESILIENT MARKETS

The Food and Drug Retail industry is fairly resilient and protects against a weak economic environment.

CUSTOMER-CENTRIC STRATEGY

Our category-specific customer service excellence is an ethos upon which the company was founded and is embedded in our corporate culture.

PHARMACY FIRST APPROACH

- We have a dispensary in every store with the same operating hours as the front shop
- The dispensary is the biggest driver of feet into our stores
- Our focused approach to pharmacy differentiates us
- Over 1 900 dispensing pharmacists employed
- Approximately two million scripts filled monthly

QUALIFIED STAFF

The Group employs highly skilled staff and continues to invest in training to improve service standards.

WELL INVESTED ASSET BASE

We have invested in our infrastructure to cater for growth mainly through new stores, warehouses and information technology.

WINNING RETAIL BUSINESS MODEL

We pride ourselves in having an extensive product range at everyday low prices.

External environment

COVID-19

During this year, the world as we knew it changed completely. The Coronavirus or COVID-19 which first came to light in December 2019 has been the primary headline over the last couple of months and has had a significant impact on markets locally and globally. Uncertainty regarding the virus exacerbated market reactions and saw sizable declines in indices and valuations reverting to long-term averages.

Governments around the world, South Africa included, implemented measures to help stem the health, social and economic impacts. The South African government's first step in flattening the curve was to close all educational institutions. A complete national lockdown followed, where all citizens were required to stay at home. Under strict regulations, essential services were allowed to operate, permitting Dis-Chem to continue its operations.

At Dis-Chem, we initiated several stringent protocols in place to ensure the safety of employees. We limit the number of employees and customers in stores at any given time in line with social distancing requirements. We installed Perspex screens, put sanitising measures in place, and we supplied all staff members with cloth masks which they are required to wear at all times. Being in the front line of the pandemic has placed employees at great risk. Some employees have tested positive for the virus and there will continue to be positive cases amongst some of them. In these instances, we strictly follow the Department of Health's protocols.

We have provided all employees with an annual salary increase this year, and as a token of our appreciation for their dedicated service as essential workers, we gave all permanent employees a R1 500 gift card, at a total cost of some R28 million. The Group accepted its corporate responsibility to the country and donated R2 million to the Solidarity Fund to assist in the provision of PPE to the nation, support struggling businesses and individuals during this time. In addition, we encouraged our Loyalty Benefit Card members to donate their benefit points to grow the contribution and committed to matching these donations rand for rand.

After employee and customer health and safety, business continuity and a strong statement of financial position are of utmost importance to the Group. Like most companies, Dis-Chem, despite being able to operate, was not immune to the impact of the virus. We experienced various disruptions in supply and demand just before the lockdown and during the different lockdown stages.

As the graphs below depict, we experienced inflated sales growth of 45.6% during the period leading up to the national lockdown as customers stocked up on products which we deemed the "Corona-identified basket". These items included hand sanitisers, disinfectant wipes, alcohol solution, masks, cold and flu medicines and immune boosters. This trading pattern was then reversed during stage 5 of the lockdown when only essential products could be sold. Retail sales declined by 20.9% compared to the corresponding period. When stage 4 of the lockdown came into effect, we started seeing a recovery in retail sales growth of 2.8%.

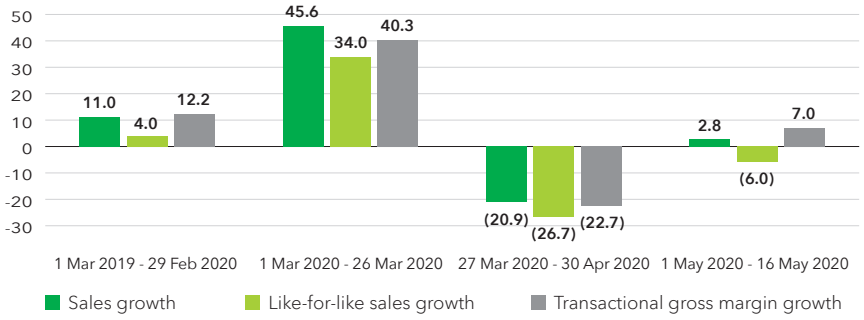
The Group has taken several steps to strengthen its financial position and maintain financial liquidity. We reduced operating costs by focusing on lowering unnecessary variable cost spend, suspending direct marketing expenditure, reducing capital expenditure and deferring the final dividend. The lowering of interest rates has also assisted the Group's financial position by reducing interest payable on its long-term loans.

The Wholesale division is not exposed to significant risk due to COVID-19 as the majority of its clients continued trading because of their essential service status. We will continue to monitor the position actively.

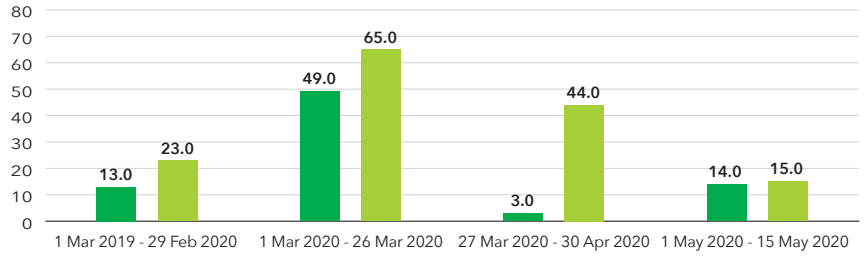
We don't expect any significant impairments of the Group's assets, and there has been no significant impact on the net realisable value of inventory.

Even though we do not know what the outcome or the full impact of the virus will be, we believe that the resilient nature of our business continues to position us well. The virus has emphasised the importance of personal hygiene and investment in personal well-being. We continue to adapt quickly to the changing environment, with a focus on mitigating the near-term impact while positioning ourselves for success in the future. For now, it is all hands on deck as we work together towards a better tomorrow.

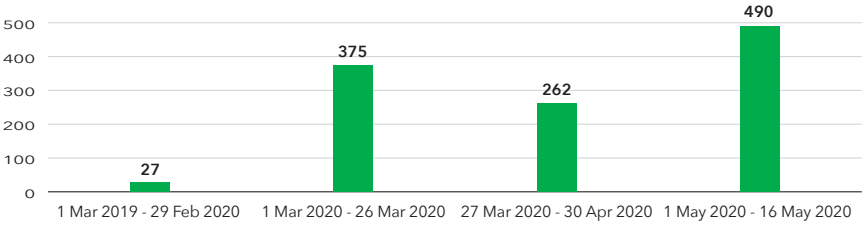
RETAIL (%)



WHOLESALE (%)



E-COMMERCE (%)



NATIONAL WHOLESALE FOOTPRINT

INCREASED FOCUS ON ROIC

Creating sustainable value

Vision, mission and values 28
Competitive advantage 31
Strategy 32
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Stakeholder relationships 42
Material issues 44

LOW STAFF TURNOVER

ACCREDITED TRAINING PROGRAMMES

MARKET SHARE GAINS

Vision, mission and values

In 2019, the Group reviewed and revised its Vision, Mission and Values to align with our company ethos and create value for all our stakeholders. We aim to provide customers with the best quality service and products at affordable prices and in fulfilling this we adhere to all applicable regulations, legislation and guidelines governing the industry in which we operate.

Vision

Our vision is to be the preferred and leading retail pharmacy group in Southern Africa, and

1. To be the preferred partner for our customers, employees, suppliers, the communities in which we operate, our shareholders and regulators
2. To lead the market in terms of product innovation and range, superior customer service and loyalty rewards
3. To be the destination outlet of choice for health, beauty and other personal needs of our customers without losing the advantage of convenience
4. To operate in Southern Africa to take advantage of supply chain and other operating efficiencies

Mission

Our mission is to be a committed and caring team that strives to provide consistent value, low prices and service excellence for our customers' health and beauty needs while caring for the communities and environments in which we operate.

Values

Our values are core to the success of the business and ensure that the business remains aligned with its strategic direction.

The following four values are the foundation in achieving our vision:

Excellence

Achieve Excellence by maintaining high Quality & Professionalism in everything we do, staying Committed & having Passion for what we do.

Quality:
- Adhere to standard operating procedures, compliance policies and procedures

Professionalism:
- Recognise the need for procedures and follow them.
- Professionally deliver information and services.

Commitment:
- Meet performance targets
- Care, attention and dedication even towards "the little things"

Passion:
- Go above and beyond the call of duty
- Remain dedicated to projects and work tasks

Customer service

Maintain excellent Customer Service by conveying Respect, Empathy and a constant desire to improve.

Display Engagement and Be the Brand.

Respect:
- Treat customers with courtesy, politeness and kindness
- Provide quality service to all customers

Be the brand:
- Consistently deliver on promises

Engagement:
- Increase levels of customer satisfaction through quality orientation

Empathy:
- Care for and understand customer needs
- Listen to and assist customers

Do the right thing

Always Do the Right Thing by maintaining Integrity, honesty & loyalty. Ensure Delivery through Teamwork and accept Accountability.

Integrity:
- Demonstrate honesty in an ethical and trustworthy manner
- Blow the whistle on suspicious behaviour
- Maintain confidentiality of private company information

Accountability:
- Take responsibility for work tasks and deadlines
- Take responsibility for our decisions and actions

Teamwork:
- Build constructive working relationships and remain a team player
- Show care and respect for co-workers
- Appreciate cultural richness and diversity

Delivery:
- Reliably deliver on commitments and work tasks
- Focus on results and desired outcomes and how best to achieve them

Entrepreneurial spirit

Display an Entrepreneurial Spirit through:

Innovation – being innovative in your approach to business and coming up with new ideas to stay ahead of the pack and Unique.

Accomplishing more with less by making the most of available resources and achieving goals.

Being flexible, adaptable & resilient to remain competitive.

Innovation:
- Develop new/enhance existing solutions

Unique:
- Encourage and develop new ideas

Flexible:
- Provide solutions to all types of workplace challenges
- effectively deal with change and diverse people
- adapt to changing business needs, conditions and responsibilities

Resilient:
- Cope well with pressure and recover quickly from difficulties;
- Learn from mistakes and celebrate success

Competitive advantage

Range	**Wide range of products making us a destination store satisfying all customers needs**	• Specialist buying teams • Active dialogue through social and digital media
Value	**Everyday low price strategy**	• Quality products offered at the best prices • Large order quantities and higher sales volumes to keep prices low
Accessible	**All stores have a pharmacy with operating hours the same for front shop and dispensary**	• No shutters dividing the front shop and the dispensary

Strategy

Dis-Chem aims to be the top-performing retail pharmacy in South Africa. Our strategy is built on six pillars, and the successful implementation of this strategy should result in a diversified earnings profile, improved returns for shareholders and more value being created for our stakeholders.

Our strategy is supported by strong human capital, information technology and sound financial and capital management. The Group applies its strategy throughout the fiscal year, and the Board confirms that the strategy remains relevant and unchanged for the year ahead.

1

INCREASING OUR STORE FOOTPRINT

- We plan to open 21 new stores in FY2021 across all formats and sizes.
- Our total retail floor space will increase by approximately 23 000 m^2

2

DRIVING SECONDARY RETAIL OPPORTUNITIES THROUGH INNOVATION

- Retain first to market, innovative practices to deliver revenue diversification
- Enhance customer convenience through Dis-Chem Direct and our clinics
- Continue to enhance our e-commerce platform
- Increase contribution from speciality medicines

3

DRIVING REVENUE, MARGIN AND MARKET SHARE GROWTH

- Continue to leverage off existing head office infrastructure cost base
- Negotiate better commercial terms with vendors
- Continue with EDLP strategy to drive volumes and grow market shares

4

ACHIEVE STRATEGIC ADVANTAGE THROUGH OUR INTEGRATED SUPPLY CHAIN

- Distribution cost savings
- Potential to expand into new geographies
- National footprint allows us to enter the pre-distribution market
- Potential industry consolidation
- Growth in TLC franchise

5

PRACTISE GOOD CORPORATE CITIZENSHIP

- Focus on environmental protection
- Partner with government through the NHI

6

CREATE SUSTAINABLE VALUE FOR ALL OUR STAKEHOLDERS

- Strong cash generation
- Drive customer loyalty
- Create strong brand recognition

Targets

Retail

short- to medium-term financial and operational targets

- Improve trading density
- Gain market share in all key categories
- Improve volume growth
- Drive and grow customer loyalty
- Enhance e-commerce platform
- Increase the number of loyalty partnerships
- Drive secondary retail opportunities
- Leverage off the existing head office cost base
- Open on average 20 stores per year
- Look for consolidation opportunities
- Train and motivate employees

Wholesale

short- to medium-term financial and operational targets

- Negotiate better commercial terms with vendors
- Leverage our infrastructure
- Gain scale through acquisitions
- Capture the supply chain by adding TLC franchisees
- Invest in price to attract independent volume
- Focus on productivity and cost-efficiency
- Extract more efficiencies from Finamics
- Focus on supplier management to improve supplier profitability


138
JLG

Business model

As a retail pharmacy selling medicines, personal care and beauty products, vitamins, supplements and healthy foods, baby care and other ancillary products, the Group's business model is to procure merchandise from third party suppliers and sell it to consumers for cash. Our business model is underpinned by our PHARMACY FIRST approach, and as such, we have a pharmacy in all our stores operating the same hours as the front shop.

Financial Capital

Key stakeholders

Shareholders and the investment community

Suppliers

We aim to create value for our stakeholders by increasing our revenue and profitability through expansion, both organically and acquisitively. Our goal is to manage our financial capital in such a way that we can sustain long-term economic growth.

Inputs

- Funds received from providers of capital
- Funds available through cash flow generated from operations
- Debt funding
- Reserves

Business activities

- Financial discipline and controls
- Capital deployment decision-making process
- Seek investment opportunities
- Focus on working capital management
- Organic growth prospects

Outputs

- Distribution to shareholders
- Sustained earnings growth
- Funding opportunities at competitive rates
- Strong free cash flow generation enabling strategic deployment

Outcomes

REVENUE ^ 12% TO R24BN

OPERATING PROFIT R1.2bn

EBITDA R1.8bn

HEADLINE EARNINGS PER SHARE 69.6c

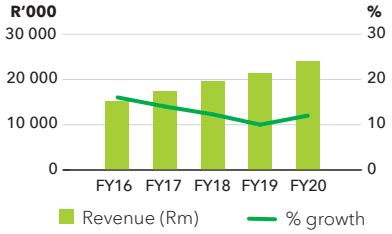
TRADING DENSITY R93 422 PER M²

CASH GENERATED FROM OPERATIONS R1 257m

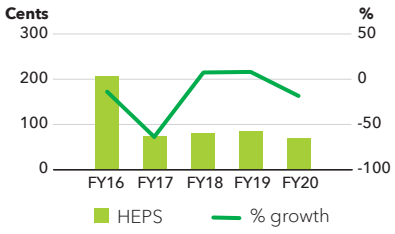
CAPITAL EXPENDITURE R363m

NET DEBT/EQUITY 24.5%

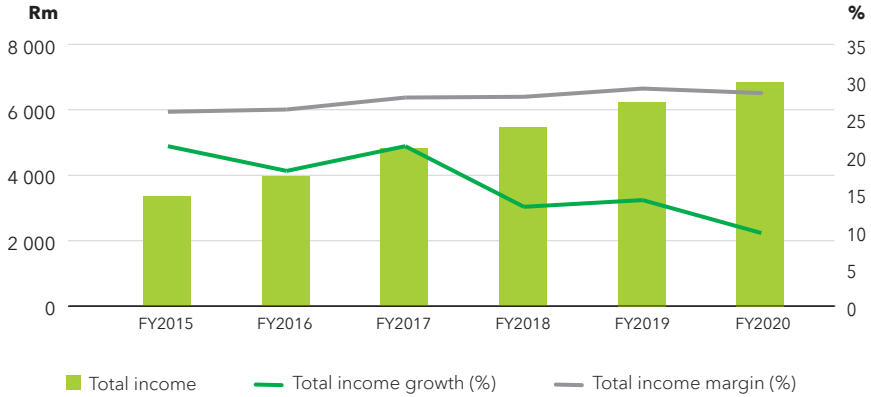
REVENUE



HEADLINE EARNINGS PER SHARE



TOTAL INCOME (Rm)



Manufactured Capital

Key stakeholders

Employees, associates and partners | Customers | Suppliers

The continued investment in our distribution centres and retail stores is a key enabler in supporting our mission to produce high quality, superior customer service.

Inputs

- National distribution footprint with warehouses in four major provinces
- Retail stores across South Africa, Namibia and Botswana
- External supply chain contracts with independent pharmacies
- Advanced e-commerce capabilities
- Partly automated warehouses

Business activities

- Distribution of stock to own retail stores and independent pharmacies
- Vertical integration between wholesale and retail
- Growth and maintenance of external contracts
- Continuous investment in warehouses and retail stores-IT, refurbishments
- Continuous improvements to remain cost-competitive
- Effective cost management

Outputs

- Economies of scale for key products
- Competitive, scalable and flexible warehousing facilities providing a competitive advantage
- Margin maintenance

Outcomes

80 479M² OF WAREHOUSE SPACE

ADDED 21 NEW STORES INCREASING OUR STORE FOOTPRINT TO 170

SPACE GROWTH OF **24 434m²**

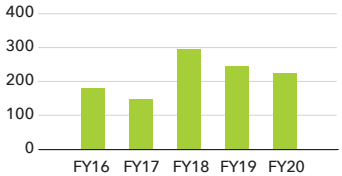
INVESTED **R363m** IN CAPITAL EXPENDITURE

BRANDING AIRPORT PHARMACIES AS DIS-CHEM PHARMACIES

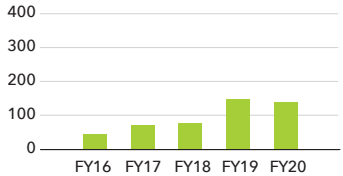
PILOTING THREE PHARMACIES IN MEDICLINIC HOSPITALS

SOLD JUST UNDER 350M UNITS

EXPANSION CAPEX (RM)



MAINTENANCE CAPEX (RM)



Human Capital

Key stakeholders

Employees, associates and partners

Government and society

Our people are our biggest asset, and our goal is to provide a safe and rewarding environment for all of our employees.

Inputs

- Appropriate skill sets and integrity in Wholesale and Retail
- Training and development
- Strong and diverse leadership team
- Organisational structures throughout the Group
- Well established culture

Business activities

- Appropriate remuneration, incentive and performance management practices
- Continued investment in skills development and training
- Focus on achieving diversity in the workforce
- Constructive engagement with employees

Outputs

- Competitive remuneration paid to employees
- Safe and healthy workforce
- Retention of skills
- Skilled, capable and diverse teams motivated to achieve objectives, and able to deliver high-quality service
- Low staff turnover
- Accredited training programmes for pharmacists and store managers

Outcomes

MORE THAN **18 700** EMPLOYEES

MORE THAN 7 000 EMPLOYEES TRAINED INTERNALLY & EXTERNALLY

OVER **R164m** PAID IN EMPLOYEE BENEFITS

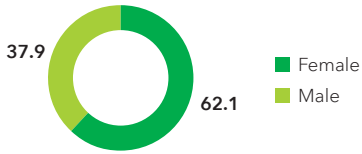
OVER **R48.5m** SPENT ON TRAINING AND EDUCATION

±**R3.4m** IN BURSARY GRANTS TO PHARMACY STUDENTS

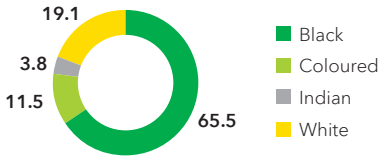
65.5% OF EMPLOYEES ARE BLACK

62.1% OF EMPLOYEES ARE WOMEN

GENDER (%)



RACE (%)



Intellectual Capital

Key stakeholders

Employees, associates and partners | Customers | Suppliers

By embracing technology and market shifts, we lead through innovation.

Inputs

- Goodwill
- IT solutions
- Entrepreneurial founder-led management team
- Established Dis-Chem brand

Business activities

- Responsible marketing and promotion of products
- Integration of acquired businesses into our value chain
- Identification of acquisition opportunities
- White space exercise to identify new store space
- Continuous IT investment
- Efficient product sourcing

Outputs

- E-commerce growth
- Click and Collect in every store
- Extensive range of products that meet our customer needs
- Market share gains in all key categories

Outcomes

OVER
R100m
SPENT ON IT

Natural Capital

Key stakeholders

Employees, associates and partners

Customers

We are committed to reducing our impact on the environment through responsible environmental management.

Inputs

- Natural resources used
- Paperless warehouses

Business activities

- Monitoring of emissions
- Responsible water management and usage across manufacturing sites
- Promotion of waste recycling initiatives

Outputs

- Utility management
- Ethical waste management
- Recycling of packaging
- Reduction of carbon footprint

Outcomes

MORE THAN **4 500** TONS RECYCLED

OVER **72 300** LITRES OF WATER SAVED

OVER **10 000m²** CULTIVATED LAND FOR DIS-CHEM FOUNDATION'S FOOD GARDEN

OVER **54 777** TREES SAVED

20 580m³ LANDFILL SAVING

Social and Relationship Capital

Key stakeholders

Shareholders and the investment community

Government and society

We strive to build and maintain relationships with our stakeholders and are committed to social initiatives. We believe that responsible corporate citizenship is vital to ensure sustainable growth.

Inputs

- Relationship with all our stakeholders through various platforms
- Responsible corporate citizenship
- More than 718 000 Facebook and more than 128 000 Instagram followers

Business activities

- Ongoing engagement with all our internal and external stakeholders
- Social campaigns run through the Dis-Chem Foundation

Outputs

- Upliftment of communities in which we work
- Programme of engagement such as roadshows

Outcomes

OVER **90%** OF INVENTORY PURCHASED LOCALLY

325 IN-STORE, CORPORATE AND TRAVEL CLINICS

4.4m ACTIVE BENEFIT MEMBERS

R368m PAID BACK TO BENEFIT PROGRAMME MEMBERS

OVER **R25m** DONATED TO THE DIS-CHEM FOUNDATION

Stakeholder relationships

It is vital for us to include our stakeholders in our activities to create sustainable value in the short, medium and long term. The Group identifies its key stakeholders through ongoing engagement with all internal and external parties. The Board is ultimately responsible for stakeholder management to ensure that our approach balances the needs, interests and expectations of

KEY STAKEHOLDERS	WHY WE ENGAGE
Shareholders and the investment community Our primary providers of financial capital and the broader investment context and fraternity in which they exist. Non-public versus public shareholders are 54.3% and 45.7% respectively. The split between local and offshore investors is 79% and 21%.	• To create an informed view of the Group • To disclose company performance, prospects and strategy timeously • To disclose Group returns • To give a view on the economic, social and environmental outlook
Employees, associates and partners The primary source of our human, social and relationship capital who drive our day-to-day operations and have face-to-face interactions with our customers. Our 18 700 plus employees create value by living our vision, mission and values.	• To enhance their sense of value, commitment and motivation • To align thinking with the Group's strategy • To receive feedback on areas for workplace and performance improvement • To discuss competitive and fair remuneration and incentives • To instil trust in management
Customers The primary market that we provide products and services to and who help us create a sustainable, value-creating organisation. They are the primary source of the Group's revenue.	• To understand what customers value • To meet customer needs and increase long-term loyalty • To enhance the Group's brands and grow market share • To encourage product and quality feedback • To improve customer service levels
Government and society Our broader national community and the representatives that serve their interests in public institutions. We work closely with the government to ensure we maximise our positive impact on the communities in which we operate.	• To fulfil legislative requirements • To contribute to community upliftment • Return through taxes • Transformation • Pharmacy licenses
Suppliers Members of our supply chain that drive our operations through the supply of, and connection to, key means of production. We have more than 2 000 suppliers.	• To gain visibility into order quantities, factory capacities, product costs and quality • To improve supplier performance • To track core competencies • To enhance quick response times • To enhance safety and quality

stakeholders and remains in the best interest of the company. We have a decentralised approach to engaging with stakeholders to form part of the various divisional operations and support functions. The implementation and monitoring of stakeholder engagement are entrusted to the management teams across the Group.

HOW WE ENGAGE	VALUE CREATION MEASUREMENT
• Results presentations • Local and offshore roadshows • One-on-one meetings • Conference calls • Integrated Annual Report • Annual General Meeting • Investor Relations website • SENS announcements • Trading updates • Conferences and investor days	• Investor Relations team • Investor days • Strong investment case • Good performance • Multiple one-on-one meetings and investor calls
• Management and team meetings • Internal publications • Performance reviews • Intranet • Training and development	• Market remuneration benchmark exercise done annually • Effective intranet to facilitate communication across the Group • Staff wellness programme • Share incentive schemes • Bonus payments
• Direct engagement with customers • Online and social media interaction • Call centres • Dis-Chem magazines • Advertising and promotional campaigns	• Customer complaint line monitored by senior management • Investment in social media teams • Promotional activities • Increase range • Internal quality control team ensuring product quality and credibility • Market share increase in core categories • Loyalty Benefits Programme
• Regular meetings with MCC, the South African Pharmacy Council and the Department of Health • Engagement with the Department of Labour	• Internal relations department has active engagement with the Department of Labour • Compliance teams in place to ensure adherence to regulations • Donating to the foundation • Clinic services • Taxes paid R232m • Over 90% local sourcing
• Regular meetings with suppliers • Site visits • Electronic communication • Quality audits and product testing	• Category-led business model encouraging engagement with suppliers • Consistent site audits by quality check team to ensure supplier standards are maintained

Material issues

The Group's material issues are reviewed annually by the Board and senior management where all relevant internal, industry and macroeconomic factors are evaluated. These are the key operational risks, both financial and non-financial, that could have the largest material impact on the Group's ability to create and sustain value for its stakeholders.

The Audit and Risk Committee plays an integral role in the risk management process and oversees the development and annual review of the risk policy and plan to manage the Group's risk. The Committee also ensures that senior management maintains a risk register and considers and implements appropriate risk responses.

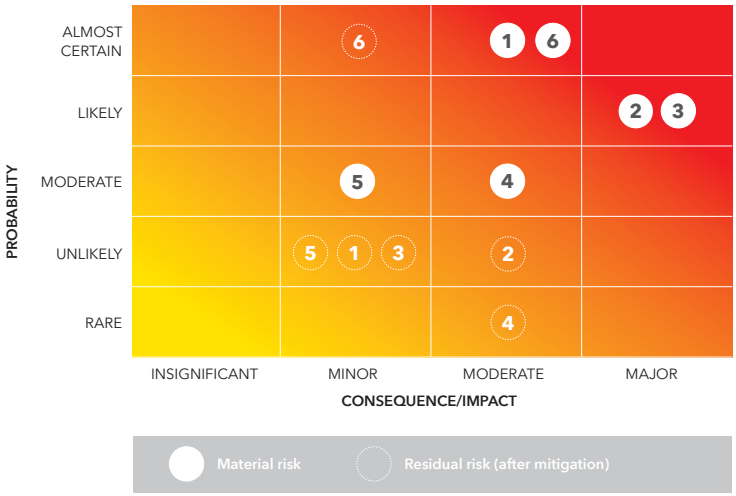
The Board, sub-committees and senior management considered the following factors in identifying the Group's material issues:

- **Political and macroeconomic environment**
- **Current and expected trading environment**
- **Competitive landscape**
- **Business strengths, weaknesses, opportunities and threats**
- **Capital resources**
- **Regulations**
- **Key risks as detailed in the Group's risk register**
- **Strategic objectives**

The following material issues have been obtained from our risk register and could significantly impact the Group's ability to create and sustain value:

1. Brand loss **2. Shortage of retail space** **3. Competition**

4. Skills shortage **5. Regulations** **6. COVID-19**



Managing our material issues, risks and opportunities

MATERIAL ISSUE	PRINCIPAL RISK	MITIGATION/ OPPORTUNITY
1 **Brand loss**	Dis-Chem's financial performance is influenced by the image, perception and recognition of the Dis-Chem brand, which, in turn, depends on many factors. These factors include: • the ability to maintain high levels of service in-store; • the ability to offer a wide range of products and services responsive to customers' needs; • the quality of its products; • the ability to provide competitive pricing; • the availability of stock in-store; • the image of its stores; • the perception of its loyalty programme; and • the strength of its communication activities, including advertising campaigns. Any failure to maintain favourable brand recognition could have a material adverse effect on Dis-Chem's business, results of operations and financial condition.	Dis-Chem focuses on having a wide range of products that meet its customers' needs: • Deliveries to stores are made regularly to ensure availability of stock in store. This will be further enhanced in areas outside of Johannesburg with the KwaZulu-Natal and Cape Town warehouses that are operational • Dis-Chem prides itself on excellent customer service • Benefits programme gives value back to customers for shopping in the DisChem stores • Dis-Chem has an "Everyday Low Price" strategy
2 **Shortage of retail space**	Part of Dis-Chem's growth strategy is to increase the number of stores it has by opening new stores or by acquiring existing independent pharmacies and converting them into Dis-Chem pharmacies. Dis-Chem's ability to acquire or open profitable new stores in line with its strategy depends on many factors, including its ability to identify and secure attractive acquisitions, and locations for new stores. If Dis-Chem does not open new stores on a timely or profitable basis, it may not realise its growth strategy.	• 21 new stores have already been identified and secured for FY2021 • Growth in Dis-Chem brand has made it an anchor store in malls • Concluded a deal with Mediclinic • Concluded an airport pharmacies deal • Should reach 200 stores by 2021/2022

MATERIAL ISSUE	PRINCIPAL RISK	MITIGATION/ OPPORTUNITY
3 **Competition**	The level of competition faced by Dis-Chem's network of retail pharmacy stores and its e-commerce website, its corporate wellness clinics and its courier service is high. This affects pricing, product range and quality, store location and format, customer service levels and advertising. Dis-Chem competes at the local, regional and national levels with a wide variety of retailers of differing sizes and with differing but competing offerings, including other pharmacy groups, independent pharmacies, courier prescription providers and various other retailers such as grocery stores, convenience stores and online retailers. If Dis-Chem cannot respond adequately to these multiple sources and types of competition, it could have a material adverse effect on Dis-Chem's business, operational results and financial condition.	Dis-Chem continues to look for opportunities to be price competitive including 2-plus-1 sale items • Dis-Chem focuses on having a wide range of products that meets its customers' needs • Benefits programme gives value back to customers for shopping in the DisChem stores • Dis-Chem prides itself on excellent customer service • 100% of stores have Click & Collect thereby ensuring convenience for customers • Dis-Chem works closely with key suppliers to optimise supply chain efficiency • Dis-Chem has an "Everyday Low Price" strategy
4 **Skills shortage**	Dis-Chem's operations are dependent on the efforts, ability and experience of the professionals it employs, in particular pharmacists, qualified pharmacy assistants and store managers. DisChem competes with other employers, including other pharmacies, healthcare providers and the government, in recruiting and retaining these professionals. If Dis-Chem is unable to hire qualified personnel when needed or experiences a higher than usual turnover rate for its employees, it could have a material adverse effect on DisChem's business, results of operations and financial condition.	• Competitive remuneration paid to employees • Short-term and long-term incentives in place including the introduction of a share scheme participation for senior management (refer to Remuneration section) • Implementation of measures to encourage and develop the pharmacy profession, such as through running an undergraduate bursary programme for pharmacy students and by facilitating ways for employees to fulfil continuing professional development requirements • Accredited training programmes for store management

MATERIAL ISSUE	PRINCIPAL RISK	MITIGATION/ OPPORTUNITY
5 **Regulations**	The healthcare industry in South Africa is subject to extensive government regulation. Dis-Chem is subject to and incurs costs to comply with, numerous laws and regulations, such as the Pharmacy Act, the Medicines Act and the Consumer Protection Act. There is uncertainty regarding the coming into force (either in their current form or at all) of various draft regulations which have been issued by the National Department of Health and the SAPC. Untimely compliance or non-compliance with these laws and regulations could result in increased expenditure or the imposition of civil and criminal penalties that could adversely affect the continued operation of Dis-Chem's business, such as loss of licences, inability to obtain new licences or significant monetary fines. Any changes in the legislation, regulation or healthcare policies in South Africa, or the imposition of further requirements or restrictions on Dis-Chem, could have a material adverse effect on Dis-Chem's business, results of operations and financial condition. The Competition Commission alleged on 24 April 2020 that during February and March 2020 the Group engaged in excessive pricing of surgical masks under and in terms of the Competition Act. The Group is still awaiting the outcome of the ruling.	• Dis-Chem actively monitors changes in regulation to ensure they are aware of any upcoming changes. This includes any draft regulations that are issued. • Regular meetings held with the National Department of Health and the South African Pharmacy Council • Internal quality check team to administer compliance programme and audit
6 **COVID-19**	Shortly before the end of the Group's financial year, the Coronavirus or COVID-19 pandemic spread across the globe including South Africa. The virus will have considerable consequences for consumers as their spending ability will be muted. This makes planning and forecasting for the Group complicated. While largely unknown and heavily dependent on the duration of the lockdown levels and normalisation of retail trade, we believe the virus may potentially have an impact on the Group's earnings..	• Stringent hygiene principles and protocols have been put in place • We believe that our Everyday Low Price strategy will assist in lessening the negative impact • Reassessed financial priorities to ensure cash conservation • Opportunity for digital developments • Focus on e-commerce strategies • We have Telemedicine in all our clinics promoting remote health services • Majority of wholesale customers continued to trade under essential services status


INVENTORY

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ENERGY MANAGEMENT INITIATIVES

USE RECYCLED PLASTIC BAGS

SUPPORT PEOPLE WITH DISABILITIES

Chairman's statement

South Africa and the rest of the world are continuing to count the human, social and economic cost of the most devastating crisis of our times.

Larry Nestadt

Shortly before the end of Dis-Chem's financial year, the Coronavirus (COVID-19) pandemic spread rapidly from China across the globe. Governments, our own included, have implemented measures to bring the disease under control while trying to strike a balance between the health imperative, economic recovery and social solidity.

In South Africa, swift measures have helped give the country time to prepare for the onslaught. Still, we remain vulnerable as the rate of infection rises and months of lockdown cripple our already fragile economy.

Our thoughts are with our fellow South Africans, including those who have lost loved ones, and the millions who face an uncertain economic future. We are in awe of the difficult work being done by the thousands of healthcare workers, and we express our heartfelt thanks and gratitude for their selfless commitment to bringing this tragic pandemic under some form of control.

The current crisis is unprecedented in its magnitude and severity, and it will take many months, if not years before anyone can expect a return to some form of normality, however that eventuates.

While there can be no comparison with the current situation, Dis-Chem has withstood a few challenges since listing in 2016. Besides difficult trading conditions, with consumers facing increasing strain year on year, the protracted labour strike negatively affected our performance over the last two financial years. Despite these challenges, the Group has seen steady growth and the defensive nature of the business and robustness of our 'Pharmacy First' business model was once again evident in the healthy 12% increase in revenue and ongoing market share gains.

COVID-19 has, naturally, thrown additional challenges at Dis-Chem.

Our absolute priority is to ensure the safety, health, well-being and security of our employees. Everything possible is being done to ensure that the Dis-Chem family is protected and that we all take the necessary precautionary measures while adhering to stringent hygiene principles and protocols.

We are expecting that the economic impact of COVID-19, while largely unknown at this stage, will be significant. However, we are confident that our proven, Everyday Low Price strategy is one of many factors that will see us through these turbulent times. At the same time, our financial priorities have been reassessed to ensure that cash conservation occupies the top spot on the agenda. We are tightly managing working capital and, where possible, postponing capital expenditure, while also deferring dividend payments until the next cycle. These measures will continue until we have better clarity on our markets, as well as our strategic environment.

It is becoming clear that, generally, business models may well need to adapt as a post-COVID-19 world will bring forward different trends in innovation, especially digital developments.

For retail businesses, we expect e-commerce strategies to assume far greater importance, while the size, design, and layouts of stores will be debated long and hard. Similarly, future property lease negotiations will need to take into account the distressed situation in which most sectors are operating, along with the expected increase in vacancies and the emerging growth in online options.

Dis-Chem's working capital and its supply chain will continue as key focus areas for strategic consideration. Stock availability in the short term, as well as longer-term considerations for securing product, will amplify internal discussions around offshore sourcing or the possibility of expanding and enhancing the localisation of product supply.

The consequences for consumers are considerable. Spending ability will be muted, especially as we anticipate a smaller consumer base with less money, ultimately resulting in price sensitivity becoming more pronounced.

This has all made planning and forecasting complicated. We believe the recovery phase will be played-out over stages: the first is the immediate post lockdown environment, and the second is over the longer-term where both consumer and market behaviours will dictate our strategic imperatives and interventions.

Thankfully, Dis-Chem had, in most cases, already started anticipating strategic changes, and management is adapting the business to meet the demands of any prolonged economic hardship. The Dis-Chem management team knows the business exceptionally well, which has given the board comfort that the business is well prepared to take on these challenges.

It is particularly encouraging that the Dis-Chem brand is stronger than ever. More and more consumers are choosing Dis-Chem as a destination store for value shopping across a wide range of categories, with pharmaceuticals and healthcare products and services at the core. The dispensary drives large numbers of consumers into our stores, and we have been highly effective at leveraging the 'Pharmacy First' model into numerous other areas of the business, which have grown exponentially over recent years. There is no change to this strategic purpose as a way to create and sustain value for our stakeholders.

The Group's expansion targets remain on track, with plans to add 21 new stores in FY2021.

COVID-19 has highlighted the importance of telemedicine, which involves the provision of remote health services. The Group's timely investment in telemedicine infrastructure and technology, which has been accessible in clinics from January 2020, has enabled access to General Practitioners (GPs) at much lower rates and electronic scripting directly into dispensaries, with the added benefit of social distancing.

Operating environment

The global and local turmoil caused by COVID-19 has exacerbated South Africa's social and economic woes, with GDP expected to drop significantly and unemployment expected to reach all-time highs.

During these difficult times, President Ramaphosa's leadership has risen to the fore, while the Minister of Health, Dr Zweli Mkhize, who has been leading the fight against COVID-19, has proven to be a skilled and transparent leader who has inspired confidence during the crisis.

Although the NHI bill, which was introduced to Parliament in August 2019 amid heated debate, has been postponed due to COVID-19, the state has made it clear that the plan to implement NHI by 2026 is unchanged. If anything, the pandemic has highlighted the inequalities in the current healthcare system and the urgent need to make quality healthcare accessible to all South Africans, which Dis-Chem supports.

Long-term sustainability

Through the Dis-Chem Foundation, Dis-Chem has continued to provide care and support aimed at improving the lives of individuals and communities in need, with over R25 million donated during the year.

This ethos of care is also evident in our 4.4 million active loyalty programme members. Having received R368 million in benefits in the period, many have recently added to Dis-Chem's initial donation of R2million to the COVID-19 Solidarity Fund set up by the President by converting their points to contribute to the fund. Dis-Chem is matching donations rand for rand.

We also recognise the tremendous contribution employees are making to continue to provide an essential service to South Africans. Each Dis-Chem employee has received a R1,500 food and healthcare voucher, at a total value of R28 million, as a token of our gratitude.

The battle against the virus is far from over. There is a critical need to do whatever we can to strengthen our health defences in the face of the inevitable increase in COVID-19 cases. Doing so while we work to return our economy to an acceptable level of productivity requires a behavioural change from all of us. At Dis-Chem, we have taken heed of the requirement for all our people to adapt to a new way of working by adhering to the stringent health, safety, and hygiene protocols required to combat COVID-19.

Ethics, leadership and corporate governance

It is the Board's responsibility to ensure that Dis-Chem's growth and development strategy creates value for our shareholders.

The Board believes that poor corporate governance ultimately equates to poor business and that achieving the highest corporate governance standards is a journey that requires continued monitoring and improvement.

The Group is committed to achieving the outcomes-based and holistic approach of King IV that requires corporate governance to be integrated into the daily aspects of the business to achieve the realisation of an ethical culture, good performance, effective control and legitimacy.

Prospects

The economic consequences of the pandemic, along with the likelihood of ongoing load shedding and an ever-depreciating rand paint a bleak picture of the growth outlook for South Africa in the short to medium term.

In the longer term, we believe that the outcome will be positive for the Group. Under normal circumstances, we benefit from increased healthy living awareness, urbanisation, a higher disease burden and an ageing population.

Ultimately, our exposure to this critical sector of South Africa's health, economic and social eco-system, together with our established and loyal customer base, remains intact and will continue to be attractive to current and potential shareholders.

The virus has emphasised the importance of personal hygiene and investment in personal well-being, and in our view will continue to do so.

Dis-Chem owes its strength to the outstanding efforts of its leadership team and all staff members who work tirelessly to deliver great results consistently.

In closing, my fellow board members and I salute our brave frontline staff – the essential workers who have continued to deliver excellent customer service throughout the lockdown, often under difficult and challenging circumstances.

You have our gratitude and respect.

Larry Nestadt
Chairman


Dis-Chem
WELLNESS
CLINIC


Dis-Chem
GOLD
R299.95
R89.95

Our Board

Laurence Michael Nestadt

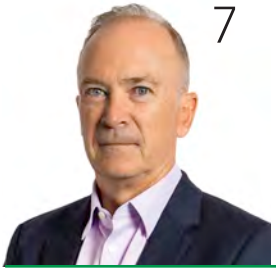
Ivan Leon Saltzman

Lynette Frances Saltzman

Rui Manuel Morais

Anuschka Coovadia

Joe Mthimunye



Mark Bowman

Saul Eytan Saltzman

Mahomed Gani

1 Laurence Michael Nestadt (69)

Appointed to the board in November 2016

Chairman
Independent non-executive director

Member of: Remuneration Committee

Background: Larry has a long and successful global corporate career. He is the co-founder of Investec Bank Ltd and has been instrumental in the creation and strategic development of several listed companies.

Other boards: Global Capital, Blue Label Telecoms, Universal Partners, National Airways Corporation, Morecorp Group, Melrose Motor Investments, SellDirect Marketing, Cell C.

2 Ivan Leon Saltzman (70)

DipPharm
Appointed to the board in November 2016

Chief Executive Director
Co-founder of Dis-Chem

Member of: Social and Ethics Committee

Background: As co-founder of Dis-Chem and a qualified pharmacist, Ivan has over 40 years of experience in the retail, pharmaceutical industry. He is fully committed to the business and is involved in the daily operations and decision making of the Group.

3 Lynette Francis Saltzman (68)

DipPharm
Appointed to the board in November 2016

Managing Director
Co-founder of Dis-Chem

Member of: Social and Ethics Committee

Background: Lynette is one of the co-founders of Dis-Chem with over 40 years of experience in the retail pharmacy industry. She is also the founder and director of The Dis-Chem Foundation and heads up the Beauty category as well as marketing for the Group.

4 Rui Manuel Morais (36)

BCom, CA(SA)
Appointed to the board in November 2016

Chief Financial Officer

Executive director

Background: Rui has over ten years of experience in the retail pharmacy industry and has been with Dis-Chem for nine years. Before joining Dis-Chem, he had various senior managerial roles at Ernst & Young.

5 Anuschka Coovadia (43)

MBChB, MAP, MSE
Appointed to the board in November 2016

Independent non-executive director

Member of: Audit Committee, Social and Ethics Committee (Chairman)

Background: Dr Anuschka is a partner at Usizo Advisory Solutions, which is an independent health advisory consultancy. She was the former Head of Healthcare for Africa for KPMG International, a director on a healthcare investment development fund – Ayurveda Investments and a member of a global task team on Universal Health Coverage. She has more than 15 years of experience in the health and research industry.

Other boards: Caprisa

6 Joe Mthimunye (54)

BCompt (Hons), CTA, CA(SA)
Appointed to the board in November 2016

Independent non-executive director

Member of: Audit Committee (Chairman), Nominations Committee, Remuneration Committee

Background: Joe is the co-founder and executive chairman of AloeCap, a boutique corporate finance and investment company. Before AloeCap he was one of the founding partners of Gobodo Inc, the accounting and auditing practice that is a forerunner to the newly merged SNG Grant Thornton.

Other boards: Blue Label Telecoms, Cell C, Hatfield Holdings, Interfile, Mining Pressure Systems.

7 Mark Bowman (54)

BCom, MBA
Appointed to the board in November 2016

Independent non-executive director

Member of: Audit Committee, Nominations Committee, Remuneration Committee (Chairman)

Background: Mark has over 24 years of experience in the South African corporate sector.

Other boards: Tiger Brands, MRP, Grand Parade Investments.

8 **Saul Eytan Saltzman** (40)

BCom

Appointed to the board in November 2016

Alternate executive director to Lynette Saltzman

Background: Saul has 19 years of experience in the retail, pharmaceutical industry, all of which have been at Dis-Chem. Saul has had numerous strategic roles in the business, including heading up the import division and focusing on the Group's private label strategy.

9 **Mahomed Gani** (67)

BCompt (Hons), C.T.A., CA(SA)

Appointed to the board in May 2017

Independent non-executive director

Member of: Audit Committee, Nominations Committee, Remuneration Committee, Social and Ethics Committee

Background: Mahomed is a Chartered Accountant with over 35 years of experience in the accounting and auditing profession. He was a founding partner of Saboor Gani and Co, MSGM Masuku Jeena Inc and a partner of PwC until his retirement in June 2013.

Other boards: Tsogo Sun Holdings Limited, Hosken Consolidated Investments Limited, Wits Health Consortium.

Member of IRBA's Investigations Committee.

Group leadership

Brian Epstein

Caryn Barker

Christopher Williams

Craig Fairweather

Stan Goetsch

Kevin Sterling

1 Brian Epstein

AGA(SA), CFA, ACIS, MBA

Operations Divisional Director

Background: Brian held various posts as Financial Manager of commercial firms, including Primedia Publishing. His experience includes labour relations, financial reporting and the importing of goods. Shortly after joining Dis-Chem, Brian was promoted to Financial Director. Due to a change in operational involvement, Brian was appointed as the Operations Divisional Director.

2 Caryn Barker

BSoc.Sci (Hons) – Organisational Psychology

Human Resources Director

Background: Caryn has 20 years of experience in the Human Resources field, spanning the FMCG, Logistics, Pharmaceutical and now Retail industries. Her experience within the HR field spans all HR disciplines, including Talent Acquisition and Management, Organisational Development, Employee Relations and Transformation.

3 Christopher Williams

BPharm, MBA

Supply Chain Director

Background: Chris owned and ran a group of Independent Pharmacies for about ten years whereafter he started a Pharma Wholesale business in 2004 (CJ Pharmaceuticals). 50% of the Wholesale business was sold off to Dis-Chem, and two years later, the remaining 50%. He is now the Supply Chain Director for the Dis-Chem Group and his division trades under CJ Distribution.

4 Craig Fairweather

Commercial Director

Background: Craig joined Dis-Chem in 2001 and has been involved in various roles including store management, sales, marketing and promotions, procurement, NPD and buying, brand management, private label, category management, strategy and leadership and most recently driving return on invested capital for the Group.

5 Stan Goetsch

BPharm

Director

Background: Stan obtained his pharmacy degree at Rhodes University after which he did his internship in the Eastern Cape. During his first year working as a qualified pharmacist, Stan joined Ivan and Lynette in 1983. During his time at Dis-Chem, Stan's had various roles including Head of Healthcare and Nutrition.

6 Kevin Sterling

DipPharm

Executive

Background: Kevin had his own pharmacy group in the Western Cape. He joined Ivan and Lynette in 2002 and has led the expansion of Dis-Chem's footprint into the Western Cape. He currently oversees the Cape region and Namibia.

Governance report

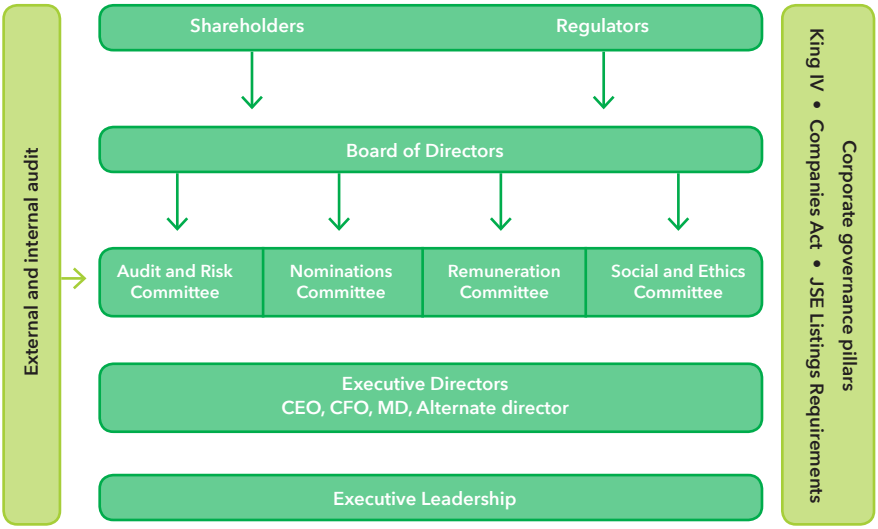
Dis-Chem is committed to best practice governance as it drives us to continuously improve the way we manage our business to create sustainable value. We aim to create an ethical culture where decisions are taken openly and transparently and will lead to good performance.

Framework and principles

The Group's governance framework is structured in such a way that it achieves our strategic objectives within compliance requirements. It balances the interests of our stakeholders to minimise and avoid conflicts of interest and to practice good corporate behaviour.

We aim to maintain a standard of reporting and disclosure, keeping in mind the best interest of our stakeholders. The Board ensures that reports issued by Dis-Chem enable stakeholders to make informed assessments of the Group's performance and its short-, medium-, and long-term prospects. We are committed to fully complying with the JSE Listings Requirements.

Governance structure



Concerns

Our shareholders and investors have brought to our attention their concerns within the Group regarding our corporate governance. We have tried our best to address legitimate and reasonable concerns and clarify any processes involved. The table below summarises these concerns and how we addressed them:

CONCERN	SOLUTION
Independence of the Chairman of the Board	The Chairman sold two-thirds of his shares held in the Group
Management KPIs	Improved disclosure
Succession planning	Being reviewed by the Nominations Committee
Conflicts of interest/ related party transactions	We strictly manage conflicts of interest and have increased disclosure where related parties are involved. The Group is also driving the process of selling its distribution centres.

Key issues addressed in the 2020 financial year

1. Approval of a plan to extend employer-funded primary care health insurance to lower-income earning employees

Board of directors

The Board of directors recognises that ethical and effective leadership is the starting point of good corporate governance and should be monitored, adapted and improved continuously. Board members, collectively and individually, are expected to conduct themselves in a manner which sprouts integrity, competence, responsibility, accountability, fairness and transparency, which in turn will result in achieving strategic objectives and positive outcomes over time.

Dis-Chem's unitary board structure consists of eight directors, five of which are independent, non-executive directors, and one alternate director. Independent, non-executive director, Larry Nestadt, is the Chairman of the Board. The age, tenure, experience and expertise of each director is briefly set out on pages 54 and 55.

The requirements of the non-executive directors include dedicating sufficient time and energy to the concerns of the Board. They are allowed to serve on other Boards provided that their other duties do not inhibit their commitment to adding value to the Dis-Chem Board.

The Group has a controlling shareholder with direct shareholder representation on the Board.

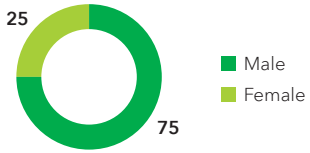
Appointment

The Board has adopted a policy detailing the procedures for appointments to the Board to ensure a balance of power and authority within the Board composition. Such appointments should be formal and transparent, and a matter for the Board assisted by the Nominations Committee who recommend such appointments. The Group's shareholders appoint the members of the Board, and even though the Board has the power to appoint additional directors, such appointments are subject to being approved by shareholders.

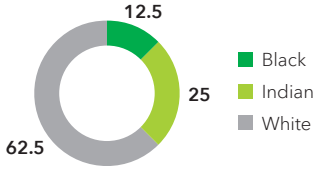
Diversity

The Board is diverse in terms of gender, race and professional backgrounds, contributing to strong decision making and ensuring a range of perspectives are brought to bear on matters considered by the Board. All members have a Board tenure of less than five years. The Group's Diversity Policy can be found in the Board Charter. All targets are reviewed and assessed annually.

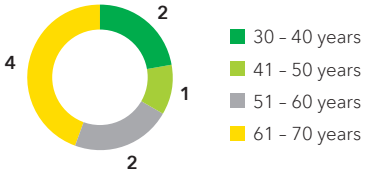
GENDER (%)



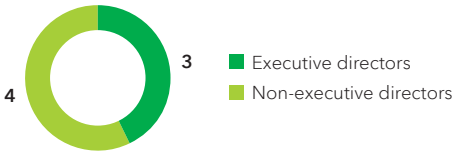
RACE (%)



AGE (YEARS)



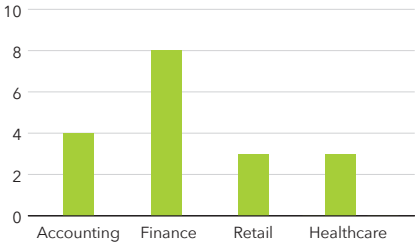
EXECUTIVE VS NON-EXECUTIVE



Skills

The Board possesses extensive business experience and specialist skills across a range of sectors including accounting, finance, retail and healthcare. The balance of knowledge, skills, experience, diversity and independence enables them to provide objective and independent advice and judgement in the decision-making process.

SKILLS (NUMBER OF BOARD MEMBERS)



Responsibilities

The Board is responsible for the Group's performance, its overall strategic direction, values and governance. Its primary function is to exercise prudent control over the Company and its affairs. The Board is actively involved in informing and approving the Group's strategy as opposed to passively receiving it from management. It provides the leadership required for the Group to meet its business objectives within the framework of its internal controls.

The Board ensures that the appointment of, and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.

The role and duties of the non-executive Chairman and the CEO are separated and clearly defined. The CEO, CFO and Managing Director ("MD") are the most senior decision-making executives in the Group. Assisted by relevant sub-committees they deliberate, take decisions or make recommendations on all matters of strategy and operations. The decisions are referred to the Board for final approval where required, while in other cases the power to take decisions is delegated to the CEO, CFO and MD.

Responsibilities included in the approved Board charter include the following:

- Act as the focal point for, and custodian of, corporate governance by managing its relationship with management, the shareholders and other stakeholders of the Company to build and maintain stakeholders' trust and confidence in the Company along with sound corporate governance principles. In this regard, the Board will be expected to:
  - Acquire a working knowledge and understanding of the Company's business and the laws, regulations and processes that govern its activities;
  - Be able to make sound business decisions and recommendations;
  - Exercise judgement independently; and
  - Exercise stewardship at all times and uphold the highest degree of ethics in all forms of conduct;
- Appreciate that strategy, risk, performance and sustainability are inseparable and to give effect to this by:
  - Contributing to and approving the strategy;
  - Satisfying itself that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by management;
  - Identifying key performance and risk areas, which includes the responsibility of setting the Company's level of risk tolerance and limits for its risk appetite on an annual basis and monitoring the same accordingly;
  - Ensuring that the strategy will result in sustainable outcomes; and
  - Considering sustainability as a business opportunity that guides strategy formulation;

Governance report

- Provide effective leadership on an ethical foundation;
- Ensure that the Company is and is seen to be a responsible corporate citizen by having regard to not only the financial aspects of the business of the Company but also the impact that business operations have on the environment and the society within which it operates;
- Ensure that the Company's ethics are managed effectively;
- Ensure that the Company has an effective and independent audit committee;
- Be responsible for the governance of risk;
- Be responsible for IT governance, which includes ensuring that information assets are identified, managed and treated as important business assets;
- Ensure that the Company complies with applicable laws and considers adherence to non-binding rules and standards;
- Ensure that there is an effective risk-based internal audit for approaching the Group's control environment which must be aligned with the risk assessment process;
- Appreciate that stakeholder's perceptions affect the Company's reputation;
- Ensure the integrity of the Company's integrated report;
- Act in the best interests of the Company by ensuring that individual directors:
  - Adhere to legal standards of conduct;
  - Are permitted to take outside or other independent advice as it deems necessary in connection with their duties following an agreed procedure;
  - Disclose real or perceived conflicts to the Board and deal with them accordingly; and
  - Deal in securities only according to the policy adopted by the Board;
- Commence business rescue proceedings as soon as the Company is financially distressed;
- Report on the effectiveness of the Company's system of internal control;
- Elect a Chairman of the Board that is an independent non-executive director; and
- Appoint and annually evaluate the performance of the Chief Executive Officer.

The Board is expected to meet at least four times a year. For any specific business issues that may come about between scheduled meetings, additional meetings may be arranged.

Performance evaluation

The Board gets evaluated annually to assess its effectiveness as a unit with the following factors taken into consideration:

- Role and responsibilities
- Composition, size and independence
- Director orientation and development
- Leadership, teamwork, and relationships with management
- Board and committee meetings productivity
- Director evaluation and compensation
- Succession planning
- Ethical leadership and culture
- Stakeholder engagement

Each director is required annually to assess the performance of the Board, its committees, the Chairman and the chief executive officer. This year's assessment indicated that in the opinion of the directors, the Board, its committees and the Company's most senior executives had discharged their responsibilities effectively. The directors believe that the Board is well balanced in terms of skills, qualifications and experience, and makes a meaningful contribution to the Group.

Share dealings

The directors' dealing policy governs directors' dealings in Dis-Chem shares. All directors and the company secretary must receive written

approval from the Chairman before buying or selling Dis-Chem shares. The Chairman is required to obtain approval from the Chairman of the Audit and Risk Committee before undertaking any share dealings. It is mandatory for directors to notify the Company Secretary of any dealings in the Company's shares. This information is then disclosed on SENS within 24 hours of receipt of such information.

The Group operates a closed period policy in line with the JSE Listings Requirements. During closed periods, directors are prohibited from dealing in Dis-Chem shares. Parties who may have access to confidential or price-sensitive information are cautioned against the possibility of insider trading during these periods. Embargoes may also be placed on share dealings at any other time if directors to executives have access to price-sensitive information which is not in the public domain.

Access to information and professional advice

The directors have unrestricted access to all Group information, records, documents and property. Information is distributed promptly before Board meetings to enable directors to prepare and apply their minds adequately. The Board recognises that there may be occasions where one or more directors feel it necessary to seek independent, professional advice and the Company has agreed to bear the expenses of such advice if specific procedures are followed.

Conflict of interest

Directors are required to declare any personal financial interest that poses a conflict of interest through a formal disclosure process which will take place periodically. Where a conflict of interest may exist, directors are required to excuse themselves from the meeting. The directors' share dealing policy also requires a declaration of interest.

Governance committees

The Board delegates certain functions to well-structured committees without abdicating its own responsibilities. The Board is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

Audit and Risk Committee

Current members: Joe Mthimunye (Chairman), Anuschka Coovadia, Mahomed Gani, Mark Bowman

The role of the Audit and Risk Committee is to assist the Board by:

- Providing additional assurance regarding the quality and reliability of financial information used by the Board.
- Reviewing the internal control systems, the financial control systems, the accounting systems and reporting, the internal audit functions
- Ensuring that a combined assurance model is applied to provide a coordinated approach to all assurance activities.
- Liaising with the Group's external auditors, monitoring compliance with legal requirements, ensuring management addresses any identified internal control weakness, assessing the performance of financial management, assessing the company's going concern status
- Approving external audit fees, budgets, plans and performance
- Conducting an annual review and assessment of the financial reporting risks the Group faces
- •Ensuring that senior management processes and procedures are adequate to identify, assess, manage and monitor Group-wide risk.

The Committee will meet at least twice a year.

Nominations Committee

Current members: Larry Nestadt (Chairman), Joe Mthimunye, Mahomed Gani, Mark Bowman

The role of the Nominations Committee is to assist the Board by:

- Leading the process of Board appointments, composition and balance
- Considering succession planning
- Ensuring the continuous development of Board members

The Committee will meet at least twice a year.

Remuneration Committee

Current members: Mark Bowman (Chairman), Joe Mthimunye, Larry Nestadt, Mahomed Gani

The role of the Remuneration Committee is to assist the Board by:

- Determining the specific remuneration packages for each of the executive directors and the Chairman
- Considering the bonuses, which are discretionary and based upon general economic variables, the performance of the Company and the individual's performance

The Committee will meet at least twice a year.

Social and Ethics Committee

Current members: Anuschka Coovadia (Chairman), Lynette Saltzman, Mahomed Gani

The role of the Social and Ethics Committee is to assist the Board by:

- Considering matters about the Group's activities having regard to any relevant legislation, other legal requirements and prevailing codes of best practice
- Advising on all relevant aspects that may have a significant impact on the long-term sustainability of the Group
- Embedding an ethical culture

The Committee will meet at least twice a year.

Board and Committee meetings and attendance

1 March 2019 – 29 February 2020

DIRECTOR	BOARD MEETING	AUDIT AND RISK COMMITTEE MEETING	NOMINATIONS COMMITTEE MEETING	REMUNERATION COMMITTEE MEETING	SOCIAL AND ETHICS COMMITTEE MEETING
LM Nestadt	4/4		1/1	1/1	
IL Saltzman	4/4				
LF Saltzman	4/4				2/2
RM Morais	4/4				
A Coovadiya	4/4	3/3			2/2
JS Mthimunye	4/4	3/3	1/1	1/1	
MSI Gani	4/4	3/3	1/1	1/1	2/2
MJ Bowman	4/4	3/3	1/1	1/1	
Other	4/4				

Accountability and control

The Board assumes ultimate accountability and responsibility for the performance and affairs of the Group and, in doing so, represents and promotes the legitimate interests of the Group and its stakeholders.

The Group's Annual Financial Statements ("AFS") are based on appropriate accounting policies and the external auditors independently examine the AFS under International Standards of Auditing.

The Board is satisfied that the Group's AFS for the 2020 financial year fairly represents the Group's operational results and financial position.

Company secretary

All the directors have access to the advice and services of the Company Secretary, who acts as a channel between the Dis-Chem Board and the Group and is not a director of the Group. The Company Secretary is responsible for the flow of information to the Board and its committees, and for ensuring compliance with Board procedures.

In line with the JSE Listings Requirements, the qualifications and experience of the Company Secretary get formally evaluated by the Nominations Committee and subsequently approved by the Board. The Committee evaluates the objective nature of the role explicitly, confirming that there is no affiliation or association to any single Board member that the incumbent holds, holds no directorship and provides independent advice to the Board as a whole.

The evaluation found that the current Company Secretary is suitably qualified, experienced and fit and proper to perform the function of Company Secretary and that an arms-length relationship with the Board is maintained. The appointment and removal of the Company Secretary is a matter for the Board and not the executive management team.

The Company Secretary coordinates the induction programme for newly appointed directors as well as the annual Board evaluation.

Compliance

The Audit and Risk Committee monitors the Group's compliance risk, which is managed through the compliance framework and compliance reviews. The legislative landscape is continuously monitored and the potential impact of new laws and regulations on the Group assessed. All business units, departments and subsidiaries are required to comply with all applicable legislation and regulation. The Board is satisfied that the Group complied with all relevant laws of establishment and the memorandum of incorporation ("MOI").

Ethics and managing unethical behaviour

Dis-Chem is committed to a policy of fair dealing and integrity in the conduct of its business. This commitment, which is actively endorsed by the Board of Directors, is based on a fundamental belief that business should be conducted honestly, fairly and legally. The directors expect all employees and other representatives to share the Board commitment to high moral, ethical and legal standards. Any employee who has questions regarding conduct in specific situations should obtain guidance from his or her manager, a director or the CEO.

It is the duty of all directors and all managers in the Group to ensure that the Group's ethical standards and policies are made known to all employees for whom they are responsible. Ultimately, however, it is up to each one of the employees to adhere to Dis-Chem's principles of honesty, integrity and fairness, and to perform their duties in accordance with all laws and regulations. The Board governs Dis-Chem's ethics in a way that supports the establishment of an ethical culture. The Social and Ethics Committee is tasked with monitoring organisational ethics.

As a responsible corporate citizen, Dis-Chem takes a zero-tolerance approach to theft, fraud and corruption. The Group evaluates reported incidents of theft, fraud and corruption to determine the appropriate manner in which these incidents should be investigated. All identified cases are reported to the South African Police Services and, where appropriate, to the applicable registered bodies such as the HPCSA. Civil recoveries are pursued by prejudiced business units where financially appropriate.

Several mechanisms are in place for stakeholders to report irregularities such as alleged theft, or fraudulent, corrupt or unethical behaviour, including unethical medical behaviour. These mechanisms are available to all Dis-Chem employees in South Africa and the public, including suppliers and consumers.

Going concern

The Group's financial statements have been prepared on a going-concern basis. The directors have reviewed the Group's budget and cash flow forecast and are satisfied that the Group is in a sound financial position with access to sufficient borrowing facilities to meet its foreseeable cash requirements.

Internal control and internal audit

The Dis-Chem Board is responsible for ensuring that an appropriate system of internal controls is maintained to provide reasonable assurance that:

1. Dis-Chem's assets are appropriately safeguarded and managed
2. Losses arising from fraud and/or other illegal acts are minimised
3. Accounting records, financial statements and operating information are accurate, complete and fairly presented

PricewaterhouseCoopers ("PwC") was appointed as the Group's internal auditors in March 2017. They fulfil an assurance and consulting function which is mandated to provide independent

and objective assurance on Dis-Chem's system of internal controls. They employ a systematic and disciplined approach when evaluating the effectiveness of risk management, control and governance processes. Internal Audit activities include highlighting process improvements and providing assurance to the Group's stakeholders that the organisation operates responsibly. They report to the Audit and Risk Committee and assist the Committee in effectively discharging the responsibilities delegated to it by the Board and ensuring this is achieved through independent financial, IT, compliance and operational process reviews.

Investor relations

The Group ensures effective dialogue with all shareholders, where practicable. Communications around Group strategies and financial performance in a timely, relevant and balanced manner is key to ensure transparency, objectiveness, and honesty. Regular contact assists the Group to improve shareholder relationships. Shareholders, potential shareholders, analysts and other relevant parties are invited to presentations by the Group after the announcement of their interim and final results. These presentations are published on the Dis-Chem Group website.

Care is exercised to ensure that all price sensitive information is released to all shareholders and relevant parties at the same time in accordance with the JSE Listings Requirements. Shareholders are also encouraged to attend the Annual General Meeting ("AGM"), which provides an opportunity for shareholders to raise pertinent questions and to interact with directors.

The Investor Relations policy is available on the Group's website at www.dischemgroup.com.

Information Technology governance

Information Technology ("IT") plays a critical role in achieving the Group's objectives and managing its risks. Integrating good governance into the Group's IT requirements ensures that our business practices are sustainable. IT governance is integrated into the Group's operations.

The IT governance policy is informed by King IV principles and the COBIT framework. Dis-Chem Pharmacies Ltd has adopted COBIT 5, which is a framework from the Information Systems Audit and Control Association ("ISACA") for the management and governance of information technology. COBIT starts from the premise that IT needs to deliver the information that the enterprise needs to achieve its objectives. In addition to promoting process focus and process ownership, COBIT looks at fiduciary, quality and security needs of enterprises and provides information criteria that can be used to define generically what the business requires from IT: effectiveness, efficiency, availability, integrity, confidentiality, reliability and compliance.

The COBIT 5 framework further divides IT into processes belonging to domains that address planning, implementation, delivery, support, monitoring and reporting.

There are five key elements of COBIT:

Strategic alignment focuses on ensuring the linkage of business, and IT plans, defining, maintaining and validating the IT value proposition, and aligning IT operations with enterprise operations. Value delivery is about executing the value proposition throughout the delivery cycle, ensuring that IT delivers the promised benefits against the strategy, concentrating on optimising costs and proving the intrinsic value of IT.

Resource management is about the optimal investment in, and the proper management of, critical IT resources: applications, information, infrastructure and people. Key issues relate to the optimisation of knowledge and infrastructure.

Risk management requires risk awareness by senior organisational officers, a clear understanding of the enterprise's appetite for risk, understanding of compliance requirements, transparency about the significant risks to the enterprise and embedding of risk management responsibilities into the organisation.

Performance measurement tracks and monitors strategy implementation, project completion, resource usage, process performance and service delivery, using, for example, balanced scorecards that translate strategy into action to achieve goals measurable beyond conventional accounting.

Dis-Chem's IT Governance framework guides the organisation for the use and deployment of IT as follows:

- The Dis-Chem Pharmacies Ltd Board assumes responsibility for IT governance and delegates this responsibility to the Audit and Risk Committee
- The Audit and Risk Committee has delegated to management the responsibility for the implementation of IT governance and management. It has duly appointed a suitably qualified and experienced Chief Information and Innovation Officer ("CIIO").

Collectively they assist in carrying out the Dis-Chem Pharmacies Ltd IT obligations:

- Oversee responsibility for information technology (IT and data) governance
- Ensure that IT and data are aligned with business objectives
- Delegate to management the responsibility for implementing an IT and data governance framework
- Ensure that IT and data form an integral part of the company's Enterprise Risk Management framework
- Ensure that information assets are managed effectively
- Monitor and evaluate significant IT investments and expenditure
- Ensure the promotion and awareness of an ethical IT governance culture

Key focus areas for Dis-Chem Pharmacies IT includes data management with a specific view to legislative compliance (such as POPIA) and an aggressive focus on cybersecurity management across the Group.

Legal and regulatory environment

Legal and regulatory compliance is a core part of our corporate governance given the vast regulatory environment in which we operate and the need to follow various legal and licence requirements. Although the outcomes of legal proceedings, claims and actions instituted against the Group cannot be predicted, the Group is suitably resourced to manage this process.

The Board governs compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports Dis-Chem being ethical and a good corporate citizen.

The Board is of the opinion that there is no current or pending legal action that will materially affect the operations of the Group.

Political party support

While the Group supports democracy in South Africa, it does not make financial donations to individual political parties.

Reporting frameworks

Reporting frameworks are in line with the requirements of the International Integrated Reporting Framework and the Compliance Act of South Africa.

Stakeholder relationships

The Group's relevance to the market depends on meaningful engagement with all stakeholders to ensure and maintain a good relationship. The Board considers its relationship with stakeholders imperative in creating value over the medium term and long term. This, in turn, assists the Group to understand the expectations of shareholders and minimise reputational risk. Financial and non-financial information is disseminated timeously and accurately to all stakeholders.

Sustainability

Dis-Chem's direct impact on the environment is limited, and we focus on implementing mechanisms to effectively manage the Group's utilities where applicable. This includes minimising our carbon footprint, energy and water efficiency considerations, and recycling and control of water waste.

Refer to our Environmental and Social report.

The Board is satisfied that it has fulfilled its responsibilities per its mandate for the 2020 financial year and has provided relevant information to stakeholders to satisfy the King IV disclosure requirements.

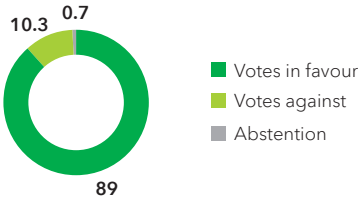
Remuneration report

Dis-Chem's Remuneration Committee is pleased to present the remuneration report for the financial year ended 29 February 2020. The report is presented in three parts to align with the principles of King IV.

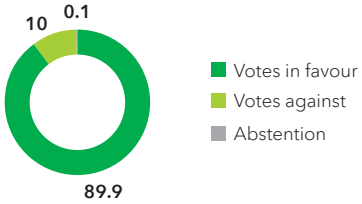
1. Background statement

Shareholders will be requested to vote on two separate non-binding advisory votes regarding the Remuneration Policy and the Implementation Report at the Annual General Meeting ("AGM") to be held on 31 July 2020. At the AGM held in July 2019, the Group's shareholders voted as follows:

REMUNERATION POLICY (%)



IMPLEMENTATION REPORT (%)



Should either our remuneration policy or implementation report be voted against by 25% or more of the voting rights exercised at the 2020 AGM, the Board and the Remuneration Committee will:

- Engage with shareholders to understand the reasons for voting against
- Address legitimate and reasonable concerns raised by the shareholders and clarify processes
- Amend the remuneration policy or implementation report if required
- Take additional steps to resolve the concerns

Any changes will be disclosed in the following year's IAR.

The below table illustrates shareholder concerns raised during the year and how Dis-Chem responded:

CONCERN	RESPONSE
Limited disclosure on STI and LTI performance metrics and targets	Amended disclosure

The Group values the input of its shareholders and will continue to engage with them and consider their feedback on its remuneration policy and implementation thereof.

Remuneration philosophy and principles

The Group's remuneration philosophy and principles are aimed at driving a high-performance culture that delivers the Group's long-term strategic objectives as well as sustainable shareholder returns within the Group's risk appetite. Remuneration practices are closely linked to the achievement of the Group, subsidiary companies, team and individual performance objectives. The composition of total remuneration is based on the employee's role and level in the Group.

Remuneration policy changes approved by the Remuneration Committee

Return on Invested Capital ("ROIC") targets were approved by the committee.

Remuneration policy proposals to the Remuneration Committee

To align with shareholders' expectations, the Remuneration Committee reviews its processes and the remuneration policy regularly. The committee will consider a Malus and Clawback provision to enhance the policy.

Fair and responsible pay

Following principle 14 of King IV, Dis-Chem aims to remunerate fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long-term.

A core component of the Group's executive incentive scheme is to reward individual, and team performance based on individual and collective success and output in meeting agreed performance objectives.

The Remuneration Committee will continue to review the suitability of the principles of fair and responsible pay relating to the Group's strategy and remuneration philosophy. It will report any changes in the next remuneration report.

Remuneration is made up of the following elements:

FINANCIAL	NON-FINANCIAL
Guaranteed package	Leave
Short-term incentives	Leaning and development
Long-term incentives	Diversity and inclusiveness

Remuneration arising from short-term incentives ("STIs") and long-term incentives ("LTIs") is linked to the Group's financial performance.

Members

All members of the remuneration committee are, as per King IV, independent non-executive directors.

Board approval

The remuneration committee reviewed and recommended the remuneration report to the Board for approval.

2. Overview of the remuneration policy

The Group's remuneration policy and philosophy were designed to ensure that all employees across the Group are rewarded appropriately for their contribution to the overall Group strategy. The Group's philosophy is to attract, motivate and retain the best people to ensure a workforce that is highly capable and motivated.

Remuneration arising from short-term incentives ("STIs") and long-term incentives ("LTIs") is linked to the Group's financial performance.

Summary of the Group's remuneration structure

	GUARANTEED PACKAGE	SHORT-TERM INCENTIVE
	BASE AND BENEFITS	BONUS
Design	Attract, motivate and retain the best people to ensure a workforce that is highly capable and motivated	Incentivise and reward employees for the achievement of company and personal short-term performance objectives
Nature	Market-related level of remuneration per specific role and includes salary and benefits: • retirement contribution based on years of service • car or travel allowance • medical aid • staff discounts	A 13th cheque or annual bonus
Basis for determination/ performance conditions	• Determined based on employee's role, market value, length of service, company performance and personal performance. • Salaries are also compared to external benchmarks • An annual assessment is performed and increases are awarded in March each year	• Employees at senior manager level receive an annual bonus Individual performance criteria must be met to receive a bonus • Dispensary/store manager: KPA(4) x TGP in May x number of cheques(5) • Head office/ warehouse manager: TGP(1) x bonus pool %(2) x manager tier %(3)
Method of payment	Monthly payment after deducting contributions to retirement funding and medical scheme	• Bonus paid in June • 13th cheque paid either in December or birthday month
Limit	n/a	n/a

Notes:

- *TGP: total guaranteed package*
- *The bonus pool percentage is the total bonuses earned as a percentage of the total annual packages of all of the regional and store managers. The regional and store managers' earnings are structured in a manner which ensures growth in profitability and therefore bonus affordability*
- *Three management tiers have been created, and each tier is linked to a range of percentages. The placement of the employees into tiers is primarily based on the following two criteria: 1. The level of responsibility linked to the employee's role*

	LONG-TERM INCENTIVE	
	SHARE APPRECIATION RIGHTS (SAR)	**FORFEITABLE SHARE PLAN (FSP)**
	• Align the long-term interest of employees and shareholders, such that employees are encouraged to consider the long-term future of the business • Retain high performing employees	
	Participants share in the growth of the share price between the grant price and the exercise price and receive shares to the value of the appreciation	Participants have all shareholder rights including dividends from date of award and comprise bonus and restricted shares
	• Annual award to tier 2 managers and upwards • CEO: 30% of TGP(1) • MD: 25% of TGP • CFO: 25% of TGP • Exco: 22.5% of TGP • T3 managers: 30% of TGP • T2 managers: 18% of TGP • HEPS threshold of CPI + 1% growth must be reached, and individual performance conditions met before any issues made • Three-year vesting period • Exercisable for three years after vesting after which award will lapse	• Annual bonus shares are awarded to regional managers and restricted shares to selected pharmacists • Bonus shares: 40% to 100% of the bonus earned under STI • Restricted shares: 15% of TGP • Three-year vesting period exercisable on vesting date
	Shares will be issued from vesting date until they lapse	Shares will be issued on vesting date
	Maximum number of shares that can be allocated to one employee is 1% of issued share capital	Maximum number of shares that can be allocated to schemes is 5% of issued share capital

2. The ability that the employee has in the current role to influence the profitability of the Group, through strategic decision-making

- *KPAs are based on the following rankings: 1. If employees achieve their net profit budget, their KPA will be 3/3 or 100% 2. If employees don't achieve their net profit budget, but they do achieve their turnover budget, the KPA will be 2/3 or 66.67%*
- *The number of cheques is based on years of achievable targets capped at four years*

On 31 May 2020, 276 270 shares vested on the FSP scheme. The beneficiaries elected to:

Sell all	75 019 shares
Sell to retain	177 919 shares
Retain all	23 332 shares

Executive directors' remuneration

It is the responsibility of the Remuneration and Nomination Committee to determine the remuneration packages for each of the executive directors and the Chairman. The committee also considers the bonuses paid, which are discretionary and based on general economic variables, company performance, individual performance and other employee benefits and schemes. No director's remuneration of any nature will be paid, increased or varied without the prior approval of the Remuneration and Nomination Committee. In terms of their respective service agreements, each executive director is entitled to a gross annual remuneration package which is allocated towards:

- A base salary
- Pension fund implementation report contributions by the Group
- Travel allowances
- Other benefits

The executive directors are also entitled to be considered for an annual incentive bonus payment based on the fulfilment of specific targets set by the Board. In this 2020 financial year, the executive directors did not receive a bonus as profit targets were not met.

The service contracts of executive directors contain a three month notice period for termination of employment exclusive of termination for any reason justifying summary dismissal in law. All of the executive directors are subject to restraints of trade.

Non-executive directors' fees

Non-executive directors have no fixed term of appointment; however, rotation of directors is required as per the company's Memorandum of Incorporation. Regarding their service agreement, non-executive directors who wish to resign from the Board are required to give three months written notice. The Chairman is entitled to a fixed annual fee, and non-executive directors receive a fee per meeting attended.

3. Implementation report

The average, annual performance-linked salary increase for all employees, linked to CPI, was 6.0% and came into effect on 1 March 2019. The same principle was applied in 2020, and the average annual increase came in at 5.5%.

Short-term incentives

The financial performance will be based on the Group's profit before tax ("PBT") and return on invested capital ("ROIC"). The targets and related financial multiplier agreed with management is as follows:

LEVEL	% OF BUDGET	FINANCIAL MULTIPLIER
Threshold	95%	75%
Target	100%	100%
Stretch	110%	125%

Linear vesting will be applied between the above levels with the maximum financial multiplier capped at 125%. Performance below the threshold will result in a 0% multiplier.

Personal performance will be based on personal objectives set for each employee by management. These objectives are approved by the Remco for directors and the Exco. Personal performance and the related personal multiplier will be based on a four-tiered performance matrix:

PERSONAL PERFORMANCE RATING	PERSONAL MULTIPLIER
4	125%
3	100%
2	50%
Below 2	0%

Long-term incentives

The main Long Term Incentive ("LTI") plan used is a Share Appreciation Rights ("SAR") plan supplemented by a Forfeitable Share Plan ("FSP").

Performance conditions

SAR	FSP
Linear vesting between the threshold and target performance levels are recommended, using a sliding scale for vesting between these points. The practice of using a sliding scale is implemented by using the following performance levels: • Threshold – The minimum level of performance before any vesting will occur. • Target – An adequate performance, given business and economic realities which contains an appropriate amount of stretch. Using the above approach full (100%) vesting will occur at target, with reduced vesting (30%) occurring at the threshold level. Following discussion with management, a Headline Earnings per share ("HEPS") growth performance condition is proposed (this is the most common condition for SAR plans). Targets should be set within the prevailing business context and the following targets are proposed (these targets should also be canvassed with the Group's investors): • Threshold: CPI + 1% growth per annum over the performance period. • Target: CPI + 3% growth per annum over the performance period. HEPS growth will be measured between the base year and the last year in the performance period. For the first award under the SAR, the base year HEPS will be adjusted to take into account the number of shares on listing.	Bonus Shares and Restricted Shares will not have any performance conditions. Once Performance Shares are implemented, appropriate performance conditions will be defined by the Remco at the time based on shareholder requirements and prevailing market conditions.

Directors' fees and remuneration

Summary of directors' fees and remuneration:

R'000	2020	2019
Non-executive directors	**5 199**	4 875
Executive directors	**55 923**	34 032
Total	**61 122**	38 907

Overview of directors' emoluments for 2020:

R'000	SERVICES AS DIRECTOR	SALARY AND ALLOWANCES	BONUSES	RETIREMENT AND RELATED BENEFITS	OTHER BENEFITS	TOTAL
Non-executive directors						
LM Nestadt	2 830	–	–	–	–	2 830
MJ Bowman	607	–	–	–	–	607
A Coovadia	535	–	–	–	–	535
JS Mthimunye	647	–	–	–	–	647
MSI Gani	580	–	–	–	–	580
Executive directors						
IL Saltzman	–	12 883	–	72	271	13 226
LF Saltzman	–	10 561	–	72	111	10 744
RM Morais	–	5 532	–	72	339	5 943
SE Saltzman	–	5 020	–	72	414	5 506
Prescribed officers						
S Goetsch	–	5 221	–	72	148	5 441
B Epstein	–	5 223	–	72	165	5 460
K Sterling	–	5 221	–	72	133	5 426
C Williams	–	3 969	–	72	136	4 177

Overview of directors' emoluments for 2019:

R'000	SERVICES AS DIRECTOR	SALARY AND ALLOWANCES	BONUSES	RETIREMENT AND RELATED BENEFITS	OTHER BENEFITS	TOTAL
Non-executive directors						
LM Nestadt	2 830	–	–	–	–	2 830
MJ Bowman	566	–	–	–	–	566
A Coovadia	362	–	–	–	–	362
JS Mthimunye	666	–	–	–	–	666
MSI Gani	451	–	–	–	–	451
Executive directors						
IL Saltzman	–	12 478	–	72	286	12 836
LF Saltzman	–	10 245	–	72	117	10 434
RM Morais	–	5 224	–	72	130	5 426
SE Saltzman	–	5 021	–	72	243	5 336

Proposed fees for 2021:

POSITION	FEE PER MEETING (R)	NUMBER OF ANTICIPATED MEETINGS	TOTAL FEE FOR MEETINGS (R)	BASE FEE (R)	TOTAL FEE (R)
Chair: Board	–	–	–	3 165 000	3 165 000
Non-executive director	73 430	4	293 720	–	293 720
Chair: Audit Committee	77 230	4	308 920	–	308 920
Member: Audit Committee	46 980	4	187 920	–	187 920
Chair: Remuneration and Nomination Committee	37 170	4	148 680	–	148 680
Member: Remuneration and Nomination Committee	19 940	4	79 760	–	79 760
Chair: Social and Ethics Committee	18 040	4	72 160	–	72 160
Member: Social and Ethics Committee	9 920	4	39 680	–	39 680
Chair: Special Committees	–	–	7 800 per hour	–	–
Member: Special Committees	–	–	7 110 per hour	–	–

Direct and indirect shares held by the executive and non-executive directors

	2020		2019	
	DIRECT INTEREST	INDIRECT INTEREST	DIRECT INTEREST	INDIRECT INTEREST
LM Nestadt		**500 000**		1 500 000
MJ Bowman	**81 081**	**-**	81 081	
A Coovadia	**-**	**162 162**	-	162 162
JS Mthimunye	**-**	**81 162**	-	81 162
MSI Gani	**-**	**-**	-	
IL Saltzman and LF Saltzman	**-**	**453 041 396**	-	453 041 396
RM Morais	**-**	**8 490 374**	-	8 490 374
SE Saltzman	**-**	**6 734 781**	-	6 734 781
S Goetsch	**-**	**47 090 995**	-	50 020 121
B Epstein	**-**	**11 890 063**	-	11 890 063
K Sterling	**-**	**11 644 246**	-	11 644 246
C Williams	**-**	**14 915 147**	-	14 915 147

** 4 181 818 of RM Morais and 1 818 812 of S Goetsch shares are part of an off-market collar hedge*

During the financial year:

- Mr Larry Nestadt sold 1 000 000 shares on 5 August 2019 for R22.4246 per share amounting to R22 424 600

Between the end of the 2020 financial year and the approval date of the annual financial statements, there have been no changes to the directors' interests.

Shares bought or sold by prescribed officers

During the financial year under review, the following prescribed officers bought or sold shares

- Mr Stan Goetsch sold 1 409 738 shares on 9 December 2019 for R26.00 per share amounting to R36 653 188.00
- Mr Stan Goetsch sold 960 657 shares on 11 December 2019 for R25.8501 per share amounting to R24 833 079.52
- Mr Stan Goetsch sold 397 981 shares on 22 January 2020 for R27.6252 per share amounting to R10 994 304.72
- Mr Stan Goetsch sold 160 750 shares on 23 January 2020 for R27.5021 per share amounting to R4 420 962.58

Social and ethics committee report

The Social and Ethics Committee is a formal subcommittee of the Board operating under a mandate from the Board and by its terms of reference. The Committee monitors the activities of Dis-Chem and its subsidiary companies with regard to any legislation or current codes of best practice as prescribed by law. It also focuses on ensuring sustainable social responsibility, ethics, health, safety and transformation initiatives with specific emphasis on transformation regarding ownership, procurement, Employment Equity and skills development.

Members of the Social and Ethics Committee

The Committee is represented by the following individuals:

- A Coovadia (Chairman)
- LF Saltzman
- MSI Gani

Meetings

The Committee had two meetings during the reporting period.

Duties

The Committee is responsible for assisting the Board with the following:

- Monitoring the Group's activities regarding any relevant legislation, other legal requirements or current codes of best practice regarding matters relating to
  - Social and economic development via the ten principles set out in the United Nations Global Compact Principles

Authority and reporting

The Chairman of the Social and Ethics Committee formally reports to the Board on the proceedings after each meeting. The Committee acts under its statutory duties and the delegated authority of the Board as recorded in its mandate and terms of reference.

Anuschka Coovadia
Independent, non-executive Chairman

Environmental and social report

Environmental and social reporting has grown substantially over the last decade. This report presents an overview of Dis-Chem's impact on society and the environment and our commitment to responsible business practice.

Every day, people across the country choose our stores to provide their families with the necessary personal care and hygiene, healthy nutrition and medicine, amongst others. Meeting people's basic needs illustrates how we make a positive contribution to society. Our commitment is to manage our environmental and social impacts responsibly to contribute to sustainable development.

Environment

Water

Dis-Chem encourages responsible water consumption and has implemented initiatives to save water which include:

- Recycling of rain and stormwater for our vegetable garden
- Attenuation pond and Jojo tanks
- No hot water supply to restrooms
- Timers on restroom taps

Energy

Solar

The majority of our stores are located in malls and convenience centres, limiting the opportunity for alternative power sources like solar. We are investigating solar opportunities at all our distribution centres.

We currently have solar geysers at our Head Office building in Midrand supplying the kitchens with hot water.

LED

During the reporting period, Dis-Chem piloted 13 stores by installing check meters to the main electricity supply lines to select the most optimal tariff structures. The meters allowed for daily monitoring of data as well as same-day response to any abnormal changes in consumption levels. In addition, the stores' lights were replaced by high quality LED lighting. The assessment resulted in Dis-Chem's lighting electricity requirements reducing by an average of 65% or 176 039 kWh. This led to carbon footprint savings of approximately 170.91 tons a year and can lead to a total emissions saving of 850 tons over five years.

More stores have been retrofitted with, and all new stores will be fitted with LED lighting.

Waste

The Group continues to look for ways in which it can reduce, reuse and recycle packaging material in an environmentally friendly manner. During the reporting period, the Group recycled the following volumes of packaging:

DISTRIBUTION SITE	TOTAL TONS RECYCLED 2020	TOTAL TONS RECYCLED 2019
Cosmetic DC	**143.75**	29.17
Cape Town DC	**685.26**	778.50
KZN DC	**465.7**	487.33
Midrand DC	**3 469.08**	2 686.91
Total	**4 763.79**	4 005.68

One of Dis-Chem's key environmental obligations is to dispose of medical waste such as needles and syringes correctly. For several years we have implemented systems to ensure that medical waste which could pose a healthcare risk is managed according to applicable legislative requirements to protect staff and members of the pubic from any form of risk. Certified waste management service providers collect the Group's medical waste for treatment and disposal, and once collected, it is the responsibility of the service provider to dispose of the waste appropriately. The Group monitors its service providers to ensure compliance with regulatory obligations.

Computers and other IT equipment get sold to a service provider who in turn provides a certificate of destruction.

Waste reduction initiatives include:

- Recycled shrink wrap used in the DCs
- Biodegradable and recycled bags

Social

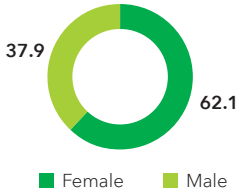
Human Capital

The Group's strength lies in its people, and we strive to be the retail pharmacy employer of choice. We respect our employees' rights through human resources, industrial relations and legal compliance frameworks implemented throughout the Group. We continuously invest in attracting, developing and retaining talented, qualified employees by spending on training and development and investing in their financial and broader well-being.

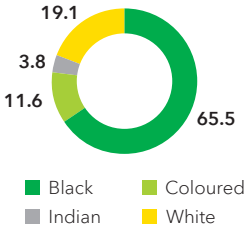
The Group's workforce encompasses fixed-term contract, locum and casuals, and permanent employees. Work hours of locums and casuals are dependent on demand. The Group follows responsible and cautious staffing strategies to ensure we remain a stable, reliable employer for all our employees.

	2020	2019
Total number of employees	**18 710**	17 866
Fixed-term contract	**492**	431
Locums and casuals	**3 250**	3 206
Permanent	**14 968**	14 189
Employee turnover rate		18.05%

GENDER (%)



RACE (%)



Employment Equity

Dis-Chem recognises the value in diversity and the need for its workforce to be representative of South Africa's national and regional demographics. We are committed to employing and developing people from designated groups to further our employment equity objectives. There is a strong focus on diversity and inclusion in all organisational culture and leadership initiatives to help identify a representative workforce.

Dis-Chem Pharmacies currently has an Employment Equity Plan which represents the organisation's Employment Equity goals and objectives for the period 2016 to 2021. The goals and objectives developed in the plan have taken cognisance of the purpose and scope of the Employment Equity Act. Affirmative action measures have been designed to ensure the achievement of these goals and objectives. Still, they have also taken into account the constraints presented by the labour market and the significant shortage of designated employees with the qualifications, skills and work experience necessary to occupy senior occupational levels within the organisation. The company continues to upskill and develop its employees to achieve its objectives and goals. The Employment Equity Plan is monitored annually through our Department of Labour workforce movement and income differentials reporting, including quarterly monitoring through Employment Equity committee meetings.

Policies and procedures

The Group has policies and procedures in place to ensure that all employees are aware of the conduct which aligns our ethos and their rights as employees. These policies and procedures include:

- Social and ethics policy
- Employment equity policy
- Whistleblowing
- Disciplinary policy
- Bonus policy
- IT policy
- Code of Good Conduct
- HIV and AIDS policy
- Leave policy

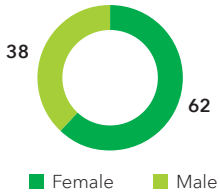
Training, talent and skills development

During the reporting period, Dis-Chem invested a total of R51 128 185 in learning and development programmes, of which 88% was dedicated to accredited or registered programmes.

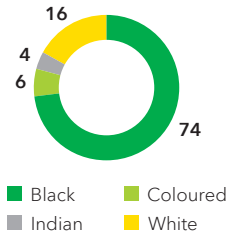
1. Learnerships

The Group implemented 19 learnership programmes, enrolling 577 learners. Two hundred and seventy learners were current employees, while the remaining 307 learners were unemployed persons who were given the opportunity to enter the job market. All learnership programmes that were implemented aligned with current job requirements. With 62% enrolment being female, it is positive for transformation to assist women in entering the workforce.

GENDER (%)



DEMOGRAPHIC SPLIT (%)



2. Bursaries

We invested just under R4 million in various higher education bursaries to 123 recipients, of which 81 bursaries were for pharmacy students.

3. Internship and graduate development programmes

During the reporting period, Dis-Chem opened its doors to 280 unemployed graduates. With newly acquired qualifications, they were able to gain valuable work experience under the guidance of a qualified mentor. The graduate programme forms an integral part of our specialist and management pipeline.

4. People with disabilities

Dis-Chem supported 143 people with disabilities to enter the workforce through various retail learnership programmes. Ninety-eight learners completed the programme successfully, and the remainder will complete the programme in August 2021.

5. Dis-Chem retail training management programme

This programme is an intense management and mentorship programme to develop new managers in the retail environment. We enrolled 121 candidates with more than 50% internal promotions.

Health, Safety and Well-Being

We intend to ensure the safety and well-being of all our employees as well as our customers. There were no severe or fatal workplace injuries during the reporting period.

Corporate Social Responsibility

The Dis-Chem Foundation

Corporate Social Responsibility ("CSR") is a vital component of Dis-Chem's corporate ethos, and we are committed to contributing to the society in which we operate. We aim to impact communities in a meaningful and enduring way through Foundation initiated projects.

Based on their concern about the growing level of poverty in South Africa, founders Ivan and Lynette Saltzman established the Dis-Chem Foundation in 2006. The Foundation heads, Shereen Saltzman and Melanie Saltzman, together with their dedicated team of compassionate workers and caregivers work closely with registered non-profit organisations ("NPOs") to support and improve the lives of struggling communities.

The Foundation provides support in areas of health, nutrition and education to babies, children, the elderly, abused and the homeless. It is funded through the Dis-Chem Benefits Programme where a percentage of turnover is donated to the Foundation.

The Dis-Chem Foundation receives multiple requests for donations from individuals and charities daily. We place community needs at the forefront of our selection process and choose credible, registered NPOs as our beneficiaries.

Requests for funding are considered on the NPOs community merits within the ambit of the Foundation's CSR budget. Each application is evaluated for challenges, opportunities and its problem-solving potential to the beneficiaries.

The Dis-Chem Foundation campaigns include:

1. Million Comforts

An initiative to keep girls in school while they are on their period. The campaign ran for a sixth consecutive year and is going from strength to strength. Together with Caring4Girls we reach out to less fortunate girls in communities by donating sanitary pads.

2. Dis-Chem Food Garden

The Food Garden is a thriving farm feeding over 10 000 people a month. Fresh produce is delivered to various NGOs across Gauteng weekly including the African Children's Feeding Scheme, Feed SA, Victory Outreach and Ladies of Hope.

The project reaches beyond food provision. Education and training have become an essential part of this dynamic. The garden team includes 18 community members who have been upskilled over the years to become fully self-sustainable farmers and have received full-time employment. The garden hosts educational school visits, agricultural sector interns, drug rehab patients, and mentally and physically challenged individuals who come to learn and heal from this environmentally friendly haven.

3. Random Acts of Kindness

The Dis-Chem Foundation has been in partnership with Primedia for seven years with an on-air "Random Act of Kindness" monthly on 947, 702, Cape Talk, KFM, and East Coast Radio. This platform allows our chosen beneficiary to create awareness on the tough issues and challenges they experience.

4. Wellness Busses

A mobile health clinic programme in the Western Cape which provides a smart solution to ensure primary healthcare is made accessible to all school children – especially those who do not have easy access. The Foundation sponsors two nursing practitioners to assist and support government clinics in the Paarl area and Graafwater.

5. Community Clinics

An initiative to bring health services to those in need, rather than them going to the services. The clinics are continually roaming around South Africa to help those in need regularly.

Conclusion

Dis-Chem's goal is to maintain an appropriate balance between its financial and non-financial operations and its Environmental, Social and Governance ("ESG") responsibilities.


Western Cape
Government
Dis-Chem
Dis-Chem
Foundation
Caring for the Community
WELLNESS MOBILE
On the road to make healthcare Better Together.


Dis-Chem
Foundation
Food Garden

Financial Performance

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IMPROVED NET WORKING CAPITAL DAYS

INCREASED CASH BALANCE

EBITDA BREAKEVEN IN WHOLESALE

CEO's report

The Group approached the end of our financial year in February 2020 amid growing concerns about the rapid spread of the coronavirus and its potential impact. Since then, the world has been turned upside down by this pandemic and its devastating economic, health and social consequences.

Ivan Leon Saltzman

The past financial year can be characterised by the continued weak macroeconomic environment in South Africa that has severely constrained consumer spending, and which has been evident in the declining basket size and spend.

I am very pleased, however, that our focus on Return on Invested Capital (ROIC), cost control, operational adaptability and strategic agility has provided some benefit in this extremely tough trading environment. These factors have all, ultimately, resulted in Dis-Chem reporting positive results with improved market share across all our core categories.

Group performance

The Group continues to report revenue growth ahead of market growth. Overall revenue was 12% higher at R24 billion, which was on the back of a 10% increase in revenue growth in the previous financial year. Retail revenue rose 11% to R21.8 billion with like-for-like retail sales growing 4.0%, which is commendable considering selling price inflation of 2.2%. Retail gross margins improved, with dispensary margins under pressure in a competitive market.

The external revenue growth of 14% in the wholesale environment is mainly due to the successful acquisition and integration of Quenets – the Western Cape wholesaler acquired in the latter half of the previous financial year – and an increase in TLC franchise stores from 91 to 104. TLC's revenue grew by 29.8%, which reemphasises the feasibility and success of this business model. We have also made a strategic decision to embark on a corporate TLC model, which allows us to purchase smaller stores that would not normally be suitable for a Dis-Chem store format. Independent customers grew by 4.3%, as independent pharmacies continue to consolidate.

Cost efficiencies remained a core focus throughout the period, with expense growth influenced by a number of once-off expenses, including higher bonus pay-outs as a result of a change in our bonus policy as well as residual strike-related costs. Retail expenses grew by 13% to R4.7 billion as we invested in new stores while contending with increased store rental and electricity costs. Within wholesale, expenditure grew by 5.2%, to R1.4 billion, excluding one-off items. Wholesale's costs were well contained, largely as a result of the earlier investments in technology, as well as other productivity and performance enhancements.

The ROIC focus in particular has been on enhancing margins, specifically in terms of the in-store retail environment, improving trade terms with suppliers, and better stock days following the rationalisation of stock and

improved buying efficiencies, while also taking advantage of an extension in creditors days. This resulted in the necessary inventory reductions and rationalisation across the wholesale space. Pleasingly, this was achieved without compromising revenue, or any impact on our customers' access to our products and services, and ultimately was one of the leading levers that led to our enhanced ROIC.

The effect of the ROIC focus is also evident in the net working capital days that reduced to 33, as well as the year's vastly improved free cash generation, which increased by a significant 115%, or R671 million, year on year. At year-end, the Group's cash and cash equivalents had turned around by a remarkable R782 million, from an outflow of R481 million last year to a positive inflow of R300 million. This is after taking into consideration the improved working capital movement, dividend payments, growth capex, acquisition costs, finance costs, taxation and other payments.

Overall expansion and maintenance capex reduced by 8% to R363 million. We opened 18 new stores over the last year and acquired three new pharmacies resulting in a total of 170 stores as at 29 February 2020.

While we improved market share across all core categories, our earnings in the current period were impacted by one-off items such as the adoption of the new accounting standard IFRS 16, and the low growth in purchases from suppliers, which resulted in the total income margin declining.

The majority of the inventory rationalisation occurred in the first half of the year and this period's earnings decreased by 37.4% compared to the corresponding period. However, as purchases increased in the second half of the year, this was convincingly reversed, with earnings increasing by 16.7%.

The Group's total earnings, excluding one-off items, decreased by 5.9% over the corresponding period, while earnings attributable to shareholders and headline earnings both declined by 16.8%. Earnings per share and headline earnings per share were both 69.6 cents, a decrease of 16.7%.

Through our pharmacy focus, reward-driven campaigns and availability of choice for our customers we continued to drive strong footfall into our stores, while also growing our Dis-Chem loyalty membership base to over 5.5 million, which is up from 4.7 million in the previous year – that is nearly one million additional people welcomed to the Dis-Chem family since last year. The increase was primarily driven by the exponential membership growth in our FOR YOUTH Programme and as well as our Baby programme, which has seen numbers doubling.

Digital future

Overall, the COVID-19 lockdown period has seen a revolution in terms of Dis-Chem's e-commerce programmes. There was sales growth of 375% on these platforms during March; sales increased 262% month-on-month in April, while the first two weeks of May saw another exponential surge of 490%.

Although this phenomenal growth has originated on the back of the situation presented by COVID-19, we were already leveraging our e-commerce strategy and innovation, which is led by our overall purpose of winning and retaining patients and customers. Our intent remains on increasing our store footprint, while driving secondary retail opportunities through innovation. We are, for example, enhancing customer convenience through our courier pharmacy Dis-Chem Direct and our 325 in-store, corporate and travel clinics. We also have Click and Collect in every store and we intend to continue investing in ongoing enhancements to our e-commerce platform.

Our HealthWindow platform has delivered good growth in additional sales and services, which we estimate to be valued in the region of some R150 million. It has also been given a significant boost from the lockdown situation.

COVID-19 impact

Post year-end, the effect of the coronavirus pandemic has damaged the entire nation. The economic impact on the South African consumer is expected to be long-lasting and severe. As management, we have placed an extraordinary amount of focus and attention on mitigating the impact on our people, and our business. Our priority has remained the care and wellbeing of our employees, customers, suppliers and so many others who are part of the Dis-Chem community.

From the outset, Dis-Chem has played a critical role in the provision of essential goods and services to protect consumers against COVID-19. This has meant keeping our stores open throughout the lockdown, with stringent measures in place to protect our employees and customers.

We have introduced a number of very strict in-store protocols and will continue to update these as any new risk is identified or in accordance with regulatory changes.

We must acknowledge President Cyril Ramaphosa and Health Minister Zweli Mkhize who have displayed outstanding leadership in the fight to contain and combat the enormous threat to our country and our society. As a Group, we have supported this intent in different ways; we donated an initial R2 million to the independent Solidarity Fund set up by the President as a platform for the public and private sector to fund various COVID-19 initiatives. We are proud that so many of our loyalty programme members have joined us in contributing to the Fund. The Dis-Chem Foundation is also more active in alleviating hunger during these times.

As a result of the urgent need to speed up COVID-19 testing, we introduced drive-through testing stations at a number of stores across the country, with thousands of tests conducted during April and May alone.

As was to be expected, March 2020 saw a massive 45.6% growth in sales as consumers stocked up before the lockdown began. Sales declined by 21% in April as the full effect of the lockdown was felt but started recovering in the first two weeks of May with some 3% growth in sales materialising. The net effect has been sales growth of 6% over the 11 weeks since 1 March 2020, with Group revenue rising 9.6%. The Covid-19 period has resulted in additional expenses as we have aligned ourselves with the regulatory environment and landscape.

The ultimate impact on trade in the 2021 financial year is currently unknown and will depend heavily on the duration of the lockdown levels and the normalisation of retail trade. The Group is continuing to adapt quickly to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future. We have, for example, taken several steps to strengthen our financial position and maintain financial liquidity.

Operating and regulatory environment

COVID-19 has also highlighted the inequalities in our healthcare system. While the NHI will only come into effect in 2026, the urgent need for affordable access to healthcare is expected to lead to reform in the delivery and consumption of care in the private space once the pandemic is under control.

As Dis-Chem, we are well placed to be part of the solution. We have the largest and most consistent clinic offering and we are expanding the service scope of our Clinic sisters as well as investing in Telemedicine technology across all our clinics to increase the reach and reduce the costs of specialist services for patients. I am excited about the fruition of our vision for Dis-Chem, to play a significant role in bringing affordable healthcare to the many South Africans that are in need.

Strategic progress

After year-end, we announced our intention to acquire 100% of the well-known baby care products retailer Baby City from its founder shareholder, the Aronoff family, for R430 million, which is payable on transaction closure. Baby City is a specialist destination baby retailer and operates a network of 33 stores across South Africa, selling a comprehensive range of branded baby products at reasonable "Everyday Low Prices". For the 12 months to February 2020, Baby City generated revenue of R855 million.

We greatly admire what Michel Aronoff, who conceptualised and strategised Baby City's direction, has achieved with this brand. We are extremely pleased that he has agreed to continue serving as managing director of Baby City and that their current staff will all be retained. This is an exciting acquisition which has interested us for many years; our businesses were built with similar philosophies, there is a good cultural fit and both teams recognise the significant synergies that can be extracted from this transaction, which will ultimately be of benefit to all stakeholders.

Cash preservation

With much uncertainty about the duration and impact of the pandemic, and how quickly South Africa will recover, there has been an intensive focus on preserving cash. The dividend payment will therefore be deferred until the next dividend cycle, once the Group better understands normalised trading conditions and after it considers the funding sources for the Baby City transaction.

We have reduced our capex programme and will take a cautious approach to new IT investments over this period. Operating cost reductions are also being driven by a focus on reducing unnecessary variable cost spend, suspending direct marketing expenditure and postponing the dividend payment, among other initiatives.

There has been a lot said about our rental payment intentions during this COVID-19 period. It must be made clear that Dis-Chem, in line with the market trend and essential services trade, paid 83% of April rentals, and 100% of all utility amounts. May rentals were paid in full, in line with the return to normal trade.

We have strongly rejected allegations by the Competition Commission that we engaged in excessive pricing of surgical masks during February and March 2020. The Group has presented a legal response and as of 26 June 2020 the matter is still under review. As such, neither the outcome nor the costs of the legal proceedings can be determined.

Looking ahead

Despite the devastating impact that will be felt in most sectors of the economy for the coming year, with consumers under more pressure than ever before, we will continue our store footprint growth strategy with 21 new retail stores planned for the 2021 financial year.

While the ultimate impact on trade in the 2021 financial year is unknown, our continued focus on ROIC, our existing cash and expected cash generation ability, our iconic brand, focused management team and dedicated employees provides great comfort that we will adapt quickly to a new normal, however, that transpires in the years ahead.

We remain extremely confident about our offering and will continue our investment in our distribution centres and retail stores, enabling us to deliver high quality products, superior customer service and an ever-improving shopper experience. An important element of this success remains our supplier base. Our Supplier Profitability Model has therefore been refocused to deliver better efficiencies and ensure an increased stock turn and logistic fees, the conversion to cross-docking or flow-through model from warehousing, while removing non-profitable suppliers from the distribution environment.

Appreciation and conclusion

Our mission is to be a caring team that strives to provide consistent value, low prices and service excellence for our customers' health and beauty needs while caring for the communities and environments in which we operate. Despite an extremely difficult trading environment, the Dis-Chem family rose to the challenge to help deliver on all aspects of our mission with commitment and care.

I am extremely grateful to all our people for their contribution to making Dis-Chem the destination outlet of choice for millions of loyal customers, as is evident in our revenue growth and increased market share.

My sincere gratitude is also directed toward my fellow board members for their unstinting contributions and dedication during this challenging time. Our many strategic advantages will ensure that we transition through this period as a united team and emerge even stronger than before COVID-19.

Ivan Saltzman
CEO


Dis-Chem
STOP

CFO's statement

We are pleased with the traction that our ROIC focus is gaining which is evident in our numbers, considering the challenges faced this year.

Rui Morais

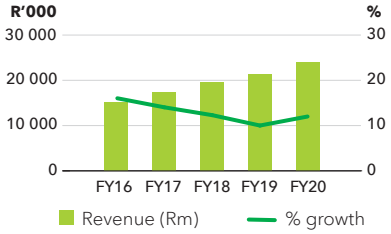
Highlights

- NET WORKING CAPITAL DAYS DOWN TO **33** DAYS
- INCREASED CASH BALANCE BY **R781m**
- FOCUS ON **ROIC** IMPROVED FREE CASH FLOW GENERATION
- WHOLESALE EBITDA BREAKEVEN
- ACQUIRED BABY CITY
- INTRODUCED TELEMEDICINE IN ALL CLINICS

Revenue

Group

The Group's revenue increased by 12% to R24bn driven by our strong brand positioning, continued store roll out and maturing store base.

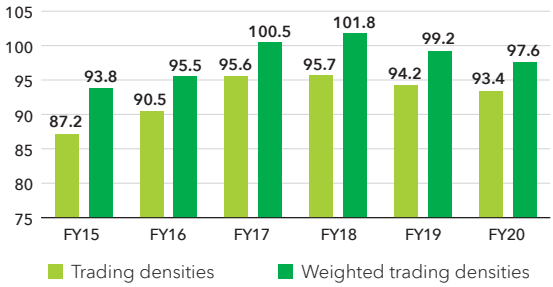


Retail

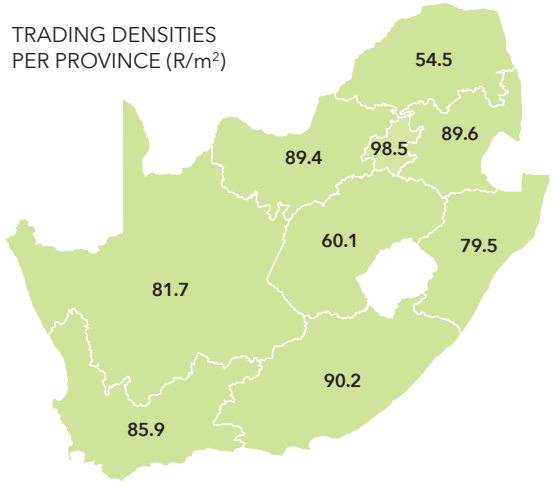
Retail revenue increased by 11% to R21.8bn due to a combination of positive like-for-like sales growth of 4%, the opening of 18 new stores and the acquisition of three pharmacies. Selling price inflation came in at 2.2% resulting in positive volume growth.

The 21 new stores added in the reporting period increased total floor space by 24 434 m^2. Our trading densities remained superior in the retail industry and was R93 784/m^2 at year-end. We now have a total of 170 stores.

TRADING DENSITIES (R/m²)



TRADING DENSITIES PER PROVINCE (R/m²)



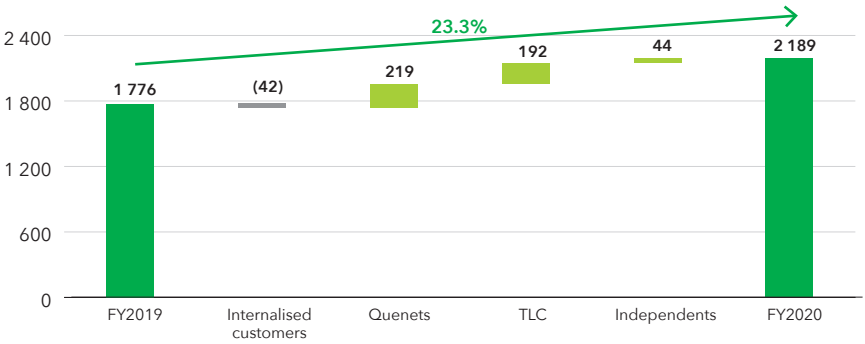
Wholesale

Wholesale revenue increased by 14% to R16.6bn with internal revenue, still the most significant contributor to wholesale revenue, increasing by 12.8% to R14.4bn. The lower internal sales growth than total wholesale growth was as a result of stock rationalisation. The external revenue growth of 23.3% was underpinned by the acquisition of Quenets, which grew by 27.5% and an increasing TLC franchise base now with 104 stores up from 91.

New stores opened in FY2020

Store name	size (m²)
Groblersdal Pharmacy	592
Knysna Mall	1 212
Sitari Fields	880
Kenilworth	1 515
Woodburn Square	849
Pearls Pharmacy	1 049
Sasolburg Mall	800
Birch Acres	800
Lynnwood Lane	1 600
Chatsworth	1 273
Constantia Park Pharmacy	148
TLC Medipark (acquired)	608
Ferndale Mall	1 400
Witrivier	1 000
Fleurdal	1 500
Culemborg (acquired)	827
Weskus Mall	990
Springbok (acquired)	4 000
Masingita Mall	1 101
Haasendal	1 000
Durbanville	1 290

WHOLESALE REVENUE (Rm)

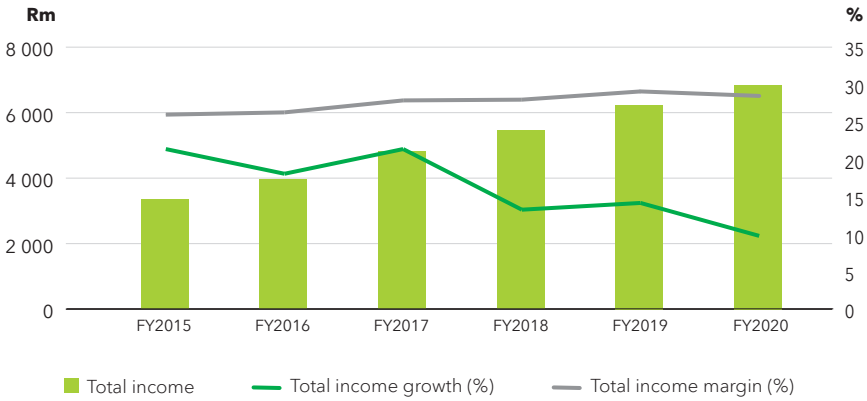


Total income

Total income, consisting of gross profit and other income, increased by 9.8% to R6.8bn. Due to stock rationalisation in our distribution centres, low growth in purchases from our suppliers impacted growth rebates and fee for service income, negatively impacting total income margin of 28.5% down from 29.1%. The increase in the total income margin from the first half of the year to the second half was due to the majority of inventory rationalisation taking place in the first half.

Retail total income grew by 7.5%, carrying the majority of the terms sacrifice as a result of the lower purchases while wholesale total income increased by 5.8%.

TOTAL INCOME (Rm)



Operating expenditure

The Group's operating expenses increased by 15.2% to R5 597bn impacted by new store openings, the change in the bonus policy and strike-related costs.

Retail expenses increased by 14.4% and excluding once-off items by 13% as the Group invested in new stores.

Wholesale expenses increased by 3.2%. The implementation of our supplier profitability model is gaining traction as we continue to focus on operational efficiencies to decrease costs. We invested in new technology, allowing greater visibility of productivity and customer performance.

	FY2020	FY2019*	% CHANGE
Depreciation and amortisation	**576**	491	17.2%
Occupancy cost	**299**	239	23.7%
Employment cost	**3 280**	2 825	17.0%
Other operating costs	**1 442**	1 321	9.1%
Total operating expenditure	**5 597**	4 875	15.2%

** Restated for IFRS 16*

Net finance costs

The 10.1% increase in net finance costs to R380m was mainly due to additional interest from the new term loan that was taken out on 1 March 2019 and the additional interest from the working capital facility used during the first part of the financial year before inventory levels were reduced.

The lower interest of R61m in the second half of the year vs R77m in the first half was as a result of the improved cash position (excluding IFRS 16).

	1H20	2H20	FY2020
Finance income	**9**	**14**	**22**
Finance costs	**(210)**	**(192)**	**(402)**
Net finance costs	**(202)**	**(178)**	**(380)**

Taxation

The Group's effective tax rate of 27.7% was consistent year-on-year.

EFFECTIVE TAX RATE	FY2020
Standard tax rate	**28.0%**
Prior year adjustment	**0.60%**
Non-taxable items	**(1.43%)**
Non-deductible items	**0.71%**
Other	**(0.18%)**
Total	**27.7%**

Earnings

Our earnings per share ("EPS") and headline earnings per share ("HEPS") both came in at 69.6 cents. Our weighted average number of shares ("WANOS") and diluted WANOS was 859 740 811.

'000	FY2020	FY2019
Reconciliation of profit for the year to headline earnings		
Profit attributable to equity holders of the parent	**598 225**	718 723
Net (profit)/loss on disposal of property, plant and equipment and intangible assets	**(153)**	(15)
Taxation	**43**	4
Headline earnings	**598 115**	718 712
Earnings per share (cents)		
Basic	**69.6**	83.6
Diluted	**69.6**	83.6
Headline earnings per share (cents)		
Basic	**69.6**	83.6
Diluted	**69.6**	83.6

Working capital

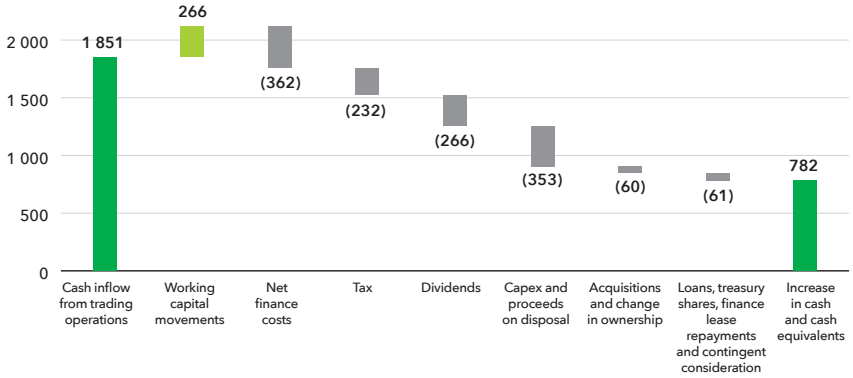
Our net working capital days improved to 33 days from 38 days as our focus on ROIC is starting to pay off. Debtors days increased slightly due to higher external sales. Inventory days decreased by 6.5 days through the monitoring of purchases, ensuring more efficient replenishment cycles and focussing on excess stock levels in the wholesale environment. Creditors days remained consistent.

'000	FY2020	FY2019	FY2018
Debtors days	**23**	21	20
Inventory days	**96**	102	89
Creditors days	**85**	85	73
Total net working capital days	**33**	38	36

Cash management

During the financial year, cash and bank moved into a net positive balance mainly due to the net inflow of cash from working capital through the reduction in inventory levels as well as the inflow from the new term loan taken out.

Cash flow from operating activities increased 115%, resulting in an inflow of R1.3bn predominantly due to the movement in working capital of R266m. Cash and cash equivalents increased by R781m.



Capital management

The reduction in capital expenditure ("CAPEX") was due to the Group only adding 18 new stores (we acquired the other three). Expansionary CAPEX relates to new stores and Maintenance CAPEX relates to replacement expenditure incurred to maintain the existing retail and wholesale networks.

'000	FY2020	FY2019	% CHANGE	% REVENUE
Expansion CAPEX	**224**	247	(9.3)	0.9
Maintenance CAPEX	**140**	148	(5.5)	0.6
Total CAPEX	**363**	395	(7.9)	1.5

Dividends

With the ongoing Covid-19 pandemic and the uncertainty around how quickly South Africa will transition through the new stage-based plan announced by the government, it has been decided to preserve cash resources. The dividend payment will be deferred until the next dividend cycle once the Group better understands normalised trading conditions and considers the funding sources for the Baby City transaction. The Group returned R266 million to shareholders in dividend payments during the year, 11.7% lower than the prior period.

Outlook

At this stage it is unclear what the future holds, but we are committed as a Group to continue delivering the best value for our stakeholders.

Appreciation

I would like to thank my team and all involved in the preparation of the integrated report for their diligence, self-motivation and professionalism shown throughout the year. Your efforts and dedication paid off and I am truly grateful.

Rui Morais
Chief Financial Officer

Summarised consolidated statement of comprehensive income

	YEAR TO 29 FEBRUARY 2020 R'000	RESTATED* YEAR TO 28 FEBRUARY 2019 R'000	% CHANGE
Revenue from contracts with customers	**23 984 296**	21 420 023	12.0
Cost of sales	**(18 428 773)**	(16 197 190)	13.8
Gross profit	**5 555 523**	5 222 833	6.4
Other income	**1 290 082**	1 010 258	27.7
Total income	**6 845 605**	6 233 091	9.8
Other expenses	**(5 597 204)**	(4 857 179)	15.2
Operating profit	**1 248 401**	1 375 912	(9.3)
Net financing costs	**(379 752)**	(344 787)	10.1
– Finance income	**22 297**	20 183	
– Finance costs	**(402 049)**	(364 970)	
Profit from associates and joint ventures	**195**	–	
Profit before taxation	**868 844**	1 031 125	(15.7)
Taxation	**(240 647)**	(284 185)	(15.3)
Total profit for the year, net of tax	**628 197**	746 940	(15.9)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
– Exchange differences on translating foreign subsidiaries	**73**	44	
Other comprehensive income for the year, net of tax	**73**	44	
Total comprehensive income for the year	**628 270**	746 984	(15.9)
Profit attributable to:			
– Equity holders of the parent	**598 225**	718 723	
– Non-controlling interests	**29 972**	28 217	
Total comprehensive income attributable to:			
– Equity holders of the parent	**598 298**	718 767	
– Non-controlling interests	**29 972**	28 217	
Earnings per share (cents)			
– Basic	**69.6**	83.6	
– Diluted	**69.6**	83.6	

* *Restated due to adoption of IFRS 16 Leases – refer to note 2*

Summarised consolidated statement of financial position

	AS AT 29 FEBRUARY 2020 R'000	RESTATED* AS AT 28 FEBRUARY 2019 R'000	RESTATED* AS AT 28 FEBRUARY 2018 R'000
ASSETS			
Non-current assets	**3 754 625**	3 672 379	3 351 276
Property, plant and equipment (including right-of-use asset)	**3 095 352**	2 994 756	2 815 059
Intangible assets	**456 263**	447 112	300 461
Investment in associates and joint ventures	**13 703**	–	–
Deferred taxation	**189 307**	230 511	235 756
Current assets	**6 832 006**	6 849 048	5 470 665
Inventories	**4 506 760**	5 115 579	3 947 937
Trade and other receivables	**1 655 782**	1 354 016	1 118 855
Loans receivable	**213 338**	198 317	113 876
Taxation receivable	**4 282**	3 704	9 998
Cash and cash equivalents	**451 844**	177 432	279 999
Total assets	**10 586 631**	10 521 427	8 821 941
EQUITY AND LIABILITIES			
Equity and reserves	**2 253 379**	1 885 604	1 496 416
Share capital	**6 155 554**	6 155 554	6 155 554
Retained earnings/(loss)	**717 816**	344 888	(37 095)
Other reserves	**(4 619 991)**	(4 614 838)	(4 622 043)
Non-controlling interest	**60 814**	64 125	51 095
Total equity	**2 314 193**	1 949 729	1 547 511
Non-current liabilities	**3 109 234**	2 852 220	2 992 681
Lease liability	**2 374 961**	2 443 204	2 438 576
Loans payable	**679 450**	346 000	499 605
Contingent consideration	**19 494**	40 797	54 500
Deferred taxation	**35 329**	22 219	–
Current liabilities	**5 163 204**	5 719 478	4 281 749
Trade and other payables	**4 258 659**	4 294 456	3 237 897
Lease liability	**350 721**	309 317	255 695
Loans payable	**142 432**	170 989	198 798
Employee-related obligation	**190 015**	163 933	146 014
Deferred revenue (contract liability)	**36 323**	43 798	81 292
Contingent consideration	**25 627**	23 548	21 749
Taxation payable	**7 860**	54 967	32 790
Bank overdraft	**151 567**	658 470	307 514
Total equity and liabilities	**10 586 631**	10 521 427	8 821 941

* *Restated due to adoption of IFRS 16 Leases – refer to note 2*

Summarised consolidated statement of changes in equity

	SHARE CAPITAL R'000	RETAINED EARNINGS/ (LOSS) R'000	OTHER RESERVES R'000	NON-CONTROLLING INTEREST R'000	TOTAL R'000
As previously reported	6 155 554	97 481	(4 622 043)	55 147	1 686 139
Adjustment for IFRS 16	–	(134 576)	–	(4 052)	(138 628)
Restated balance at 28 February 2018*	6 155 554	(37 095)	(4 622 043)	51 095	1 547 511
Profit/total comprehensive income for the year	–	718 723	44	28 217	746 984
Profit for the year, net of taxation	–	718 723	–	28 217	746 940
Other comprehensive income for the year, net of taxation	–	–	44	–	44
Change in ownership interest in subsidiary and acquisitions	–	(49 190)	–	(1 038)	(50 228)
Share-based payment expense	–	–	7 161	–	7 161
Dividends paid	–	(287 550)	–	(14 149)	(301 699)
Restated balance at 28 February 2019*	6 155 554	344 888	(4 614 838)	64 125	1 949 729
Profit/total comprehensive income for the year	**–**	**598 225**	**73**	**29 972**	**628 270**
Profit for the year, net of taxation	**–**	**598 225**	**–**	**29 972**	**628 197**
Other comprehensive income for the year, net of taxation	**–**	**–**	**73**	**–**	**73**
Change in ownership interest in subsidiary and acquisitions (note 7)	**–**	**617**	**–**	**7 191**	**7 808**
Share-based payment expense	**–**	**–**	**7 926**	**–**	**7 926**
Treasury shares acquired	**–**	**–**	**(13 152)**		**(13 152)**
Dividends paid	**–**	**(225 914)**	**–**	**(40 474)**	**(266 388)**
Balance at 29 February 2020	**6 155 554**	**717 816**	**(4 619 991)**	**60 814**	**2 314 193**

* *Restated due to adoption of IFRS 16 Leases – refer to note 2*

	YEAR TO 29 FEBRUARY 2020 CENTS	YEAR TO 28 FEBRUARY 2019 CENTS
Dividend per share		
– Interim paid	**12.8**	20.7
– Final declared/paid	**–**	13.5

Summarised consolidated statement of cash flows

	YEAR TO 29 FEBRUARY 2020 R'000	RESTATED* YEAR TO 28 FEBRUARY 2019 R'000
Cash flow from operating activities	**1 256 978**	585 716
Cash inflow from trading operations	**1 851 142**	1 860 725
Movement in working capital	**265 680**	(403 526)
Finance income received	**22 297**	20 183
Finance costs paid	**(383 925)**	(349 979)
Taxation paid	**(231 828)**	(239 988)
Dividends paid	**(266 388)**	(301 699)
Cash flow from investing activities	**(413 218)**	(549 721)
Additions to property, plant and equipment and intangible assets		
– To maintain operations	**(139 737)**	(147 850)
– To expand operations	**(223 617)**	(246 659)
Proceeds on disposal of property, plant and equipment and intangible assets	**10 058**	9 313
Acquisition of subsidiaries, assets and liabilities in business combination, net of cash acquired	**(43 922)**	(164 525)
Investment in joint ventures	**(16 000)**	–
Cash flow from financing activities	**(61 436)**	(489 663)
Purchase of treasury shares	**(13 152)**	–
Contingent consideration repayment	**(29 672)**	(23 133)
Change in ownership interest in subsidiary	**(536)**	(50 439)
Long-term loans repaid	**(593 750)**	(150 000)
Receipt of long-term loans	**900 000**	–
Lease liability repayment	**(324 326)**	(266 091)
Net increase/(decrease) in cash and cash equivalents	**782 324**	(453 668)
Foreign currency	**(1 009)**	145
Cash and cash equivalents at beginning of year	**(481 038)**	(27 515)
Cash and cash equivalents at end of year	**300 277**	(481 038)

* *Restated due to adoption of IFRS 16 Leases – refer to note 2*

Earnings per share

	AS AT 29 FEBRUARY 2020 R'000	RESTATED* AS AT 28 FEBRUARY 2019 R'000
Reconciliation of profit for the year to headline earnings		
Profit attributable to equity holders of the parent	**598 225**	718 723
Net loss/(profit) on disposal of property, plant and equipment and intangible assets	**(153)**	(15)
Taxation	**43**	4
Headline earnings	**598 115**	718 712
Earnings per share (cents)		
– Basic	**69.6**	83.6
– Diluted	**69.6**	83.6
Headline earnings per share (cents)		
– Basic	**69.6**	83.6
– Diluted	**69.6**	83.6

* *Refer to note 2 for the impact of IFRS 16 on basic and diluted earnings per share.*

	AS AT 29 FEBRUARY 2020 '000	AS AT 28 FEBRUARY 2019 '000
Reconciliation of shares in issues to weighted average number of shares in issue		
Total number of shares in issue at beginning of the period	**860 084 483**	860 084 483
Treasury shares/shares issued during the year weighted for the period outstanding	**(343 672)**	–
Total weighted number of shares in issue at the end of the period	**859 740 811**	860 084 483
Share options issued during the period	**–**	6 115
Total diluted weighted number of shares in issue at the end of the period	**859 740 811**	860 090 598

Segmental information

The Group has identified two reportable segments being Retail and Wholesale.

29 FEBRUARY 2020	RETAIL R'000	WHOLESALE R'000	INTER-GROUP/ CONSOLI-DATION R'000	TOTAL R'000
External customers	21 794 968	2 189 328	-	23 984 296
Inter-segment	-	14 372 136	(14 372 136)	-
Total turnover	21 794 968	16 561 464	(14 372 136)	23 984 296
Cost of sales	(17 063 709)	(15 273 055)	13 907 991	(18 428 773)
Gross profit	4 731 259	1 288 409	(464 145)	5 555 523
Other income	1 314 528	47 992	(72 438)	1 290 082
Total income	6 045 787	1 336 401	(536 583)	6 845 605
Other expenses (excluding depreciation and amortisation)	(4 261 667)	(1 285 083)	525 306	(5 021 444)
Depreciation and amortisation	(470 945)	(104 815)	-	(575 760)
Operating profit	1 313 175	(53 497)	(11 277)	1 248 401
Net finance costs	(283 585)	(96 167)	-	(379 752)
Share of profit from associates and joint ventures	195	-	-	195
Profit/(loss) before tax	1 029 785	(149 664)	(11 277)	868 844
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 784 315	51 318	(11 277)	1 824 356
Capital expenditure	(311 339)	(52 015)	-	(363 354)
Total assets	8 116 537	5 598 149	(3 128 055)	10 586 631
Total liabilities	5 379 153	4 372 156	(1 478 871)	8 272 438
Total income margin	27.7%	8.1%		28.5%
EBITDA margin	8.2%	0.3%		7.6%
Operating margin	6.0%	(0.3%)		5.2%

29 FEBRUARY 2020	RETAIL R'000	WHOLESALE R'000	INTER-GROUP/ CONSOLI-DATION R'000	TOTAL R'000
External customers	19 643 739	1 776 284	–	21 420 023
Inter-segment	–	12 745 625	(12 745 625)	–
Total turnover	19 643 739	14 521 909	(12 745 625)	21 420 023
Cost of sales	(15 051 513)	(13 307 293)	12 161 616	(16 197 190)
Gross profit	4 592 226	1 214 616	(584 009)	5 222 833
Other income	1 034 346	47 942	(72 030)	1 010 258
Total income	5 626 572	1 262 558	(656 039)	6 233 091
Other expenses (excluding depreciation and amortisation)	(3 725 449)	(1 265 479)	624 666	(4 366 262)
Depreciation and amortisation	(409 707)	(81 210)	–	(490 917)
Operating profit	1 491 416	(84 131)	(31 373)	1 375 912
Net finance costs	(251 519)	(93 268)	–	(344 787)
Share of profit from associates and joint ventures	–	–	–	–
Profit/(loss) before tax	1 239 897	(177 399)	(31 373)	1 031 125
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 901 123	(2 921)	(31 373)	1 866 829
Capital expenditure	(303 548)	(90 961)	–	(394 509)
Total assets	7 585 905	5 262 217	(2 326 695)	10 521 427
Total liabilities	5 083 895	4 236 282	(748 479)	8 571 698
Total income margin	28.6%	8.7%		29.1%
EBITDA margin	9.7%	–		8.7%
Operating margin	7.6%	(0.6%)		6.4%

* *Refer to note 2.*

Fair value hierarchy

The information below analyses financial assets and liabilities that are carried at fair value or financial assets and liabilities that have carrying amounts that differ from their fair values:

FEBRUARY 2020	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Financial liabilities at fair value through profit and loss			
– Contingent consideration	**–**	**–**	**45 121**
February 2019			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	64 345

The contingent consideration relates to the acquisition of the non-controlling shareholders and is based on the future performance of each respective partner store each year for five years to be paid in cash if performance targets are met. The performance targets will be agreed on an annual basis with each selling non-controlling shareholder.

It is currently assumed that the majority of the partner stores will meet performance targets in the remaining two years and that the selling non-controlling shareholders will therefore be entitled to the contingent consideration. The present value of the estimated contingent consideration is recognised as a liability which will be unwound over the remaining two-year period (2019: three-year period).

The fair value of the contingent consideration payable is measured with reference to the performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 10.1% (2019: 12.3%) used to determine the present value of the future cash flows.

	AS AT 29 FEBRUARY 2020 R'000	AS AT 28 FEBRUARY 2019 R'000
Reconciliation of recurring level 3 fair value movements:		
Opening balance	**64 345**	76 249
Payments	**(29 672)**	(23 133)
Interest	**7 075**	7 588
Fair value adjustment	**3 373**	3 641
Closing balance	**45 121**	64 345

A reasonable movement in the unobservable inputs would not significantly impact the fair value of the contingent consideration as at the end of the reporting period and therefore not significantly impact profit after tax or equity.

There were no transfers of financial instruments between Level 1, Level 2 and Level 3 fair value measurements during the period ended February 2020 and 2019.

Additional information

		29 FEBRUARY 2020	28 FEBRUARY 2019
Ordinary shares in issue (000s):		**860 084 483**	860 084 483
Closing share price	(R/share)	**21.62**	25.80
Twelve-month share price (high)	(R/share)	**29.17**	38.00
Twelve-month share price (low)	(R/share)	**19.85**	24.00
Net asset value per share (WANOS)	(cents/share)	**269.17**	226.69
Net asset value per share (actual shares at year-end)	(cents/share)	**269.07**	226.69

Notes to the summarised consolidated results

1. These summarised consolidated financial results for the 12 months ended 29 February 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 Financial Reporting and the requirements of the Companies Act of South Africa. The Listings Requirements of the JSE require summarised consolidated financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ('IFRS') and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting, the JSE Listings Requirements and the requirements of the Companies Act, 71 of 2008 of South Africa.

   The accounting policies and methods of computation used in the preparation of the summarised consolidated financial results are consistent in all material respects with those applied in the Group's annual financial statements as at 28 February 2019, except for the adoption of IFRS 16 Leases which is shown in note 2. None of the other new standards, interpretations and amendments effective as of 1 March 2019 have had a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

2. **Restatement of comparative figures**

   The Group adopted IFRS 16, 'Leases' in the current financial period and elected to apply the standard on the full retrospective approach whereby the cumulative effect of the retrospective application is recognised by adjusting the opening retained profits for the earliest comparative period presented (which for the Group is the comparative period beginning on 1 March 2018). The Group has used the expedient where the Group is not required to reassess whether a contract is, or contains a lease.

   The impact of adopting IFRS 16 resulted in most of our leases being brought onto the statement of financial position as a lease liability with a corresponding right-of-use asset (reflected in property, plant and equipment). The current operating lease costs in the Statement of Comprehensive Income have been replaced by depreciation of the right-of-use asset and finance costs in relation to the lease liability. The operating lease obligation in the Statement of Financial Position was reduced to Rnil.

   The Group has adopted a new accounting policy for leases as:

   At inception, the Group assesses whether a contract is or contains a lease. The Group recognises a right-of-use (ROU) asset and lease liability at the commencement date of the lease.

   The ROU asset is measured based on the present value of the lease payments, initial direct costs incurred when entering in the lease less any lease incentives received. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. An impairment review in undertaken for any right-of-use asset that shows indicators of impairment and an impairment loss recognised against any right-of-use lease assets that are impaired.

   The lease liability is measured at the present value of the lease payments net of cash lease incentives that are not paid at the balance date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees and other costs.

The impact of the standard is shown below:

	IFRS 16 R'000	FEBRUARY 2020 R'000
Statement of financial position		
Non-current assets		
Property, plant and equipment	1 571 395	**3 095 352**
Deferred taxation	65 113	**189 307**
Equity and reserves		
Retained earnings	(163 737)	**717 816**
Non-controlling interest	(3 652)	**60 814**
Other reserves – Foreign Currency Translation Reserve	(45)	**(4 619 991)**
Non-current liabilities		
Lease liability	1 765 221	**2 374 961**
Operating lease obligation	(245 308)	**-**
Current liabilities		
Lease liability	315 664	**350 721**
Trade and other payables (including current portion of operating lease obligation)	(31 635)	**4 258 659**
Statement of comprehensive income		
Other expenses	165 802	**(5 597 204)**
– Occupancy costs	492 566	
– Depreciation	(326 764)	
Net financing costs	(181 269)	**(379 752)**
– Finance income	–	
– Finance costs	(181 269)	
Taxation	4 331	**(240 647)**
	(11 136)	**(6 217 603)**
Earnings per share – basic and diluted (cents)	(1.3)	**69.6**
Statement of cash flows		
Cash flow from operating activities		
Cash inflow from trading operations	479 869	**1 851 142**
Finance costs paid	(181 269)	**(383 925)**
Cash flow from financing activities		
Lease liability repayment	(298 600)	**(324 326)**

	FEBRUARY 2019 (PREVIOUSLY STATED) R'000	IFRS 16 IMPACT R'000	ADJUSTED TOTAL R'000
Statement of financial position			
Non-current assets			
Property, plant and equipment	**1 370 310**	1 624 446	2 994 756
Deferred taxation	**169 745**	60 766	230 511
Equity and reserves			
Retained earnings	**497 165**	(152 277)	344 888
Non-controlling interest	**68 101**	(3 976)	64 125
Other reserves – Foreign Currency Translation Reserve	**(4 614 836)**	(2)	(4 614 838)
Non-current liabilities			
Lease liability	**620 724**	1 822 480	2 443 204
Operating lease obligation	**236 375**	(236 375)	–
Current liabilities			
Lease liability	**22 593**	286 724	309 317
Trade and other payables (including current portion of operating lease obligation)	**4 325 818**	(31 362)	4 294 456
Statement of comprehensive income			
Other expenses	**(5 015 225)**	158 046	(4 857 179)
– Occupancy costs		462 365	
– Depreciation		(304 319)	
Net financing costs	**(162 254)**	(182 533)	(344 787)
– Finance income		–	
– Finance costs		(182 533)	
Taxation	**(291 040)**	6 855	(284 185)
	(5 468 519)	(17 632)	(5 486 151)
Earnings per share – basic and diluted (cents)	**85.4**	(1.8)	83.6
Statement of cash flows			
Cash flow from operating activities			
Cash inflow from trading operations	**1 428 516**	432 209	1 860 725
Finance costs paid	**(167 446)**	(182 533)	(349 979)
Cash flow from financing activities			
Lease liability repayment	**(16 415)**	(249 676)	(266 091)

	FEBRUARY 2018 (PREVIOUSLY STATED) R'000	IFRS 16 IMPACT R'000	ADJUSTED TOTAL R'000
Statement of financial position			
Non-current assets			
Property, plant and equipment	1 182 394	1 632 665	2 815 059
Deferred taxation	181 845	53 911	235 756
Equity and reserves			
Retained earnings	97 481	(134 576)	(37 095)
Non-controlling interest	55 147	(4 052)	51 095
Non-current liabilities			
Lease liability	621 543	1 817 033	2 438 576
Operating lease obligation	213 198	(213 198)	–
Current liabilities			
Lease liability	9 943	245 752	255 695
Trade and other payables (including current portion of operating lease obligation)	3 262 280	(24 383)	3 237 897
Statement of comprehensive income			
Other expenses	(4 330 728)	135 430	(4 195 298)
– Occupancy costs		404 665	
– Depreciation		(269 235)	
Net financing costs	(160 082)	(173 127)	(333 209)
– Finance income		–	
– Finance costs		(173 127)	
Taxation	(266 696)	10 556	(256 140)
	(4 757 506)	(27 141)	(4 784 647)
Earnings per share – basic and diluted (cents)	79.6	(3.1)	76.5
Statement of cash flows			
Cash flow from operating activities			
Cash inflow from trading operations	1 323 624	363 878	1 687 502
Finance costs paid	(164 424)	(173 127)	(337 551)
Cash flow from financing activities			
Finance lease repayment	(6 226)	(190 751)	(196 977)

The movement in the right-of-use asset and lease liability is as follows:

	FEBRUARY 2020		FEBRUARY 2019	
	ROU ASSET R'000	LEASE LIABILITY R'000	ROU ASSET R'000	LEASE LIABILITY R'000
Opening balance	**2 249 906**	**2 752 521**	2 248 802	2 694 266
Additions (including acquisitions)	**349 101**	**349 101**	324 346	324 346
Modifications in lease terms and disposals	**(54 848)**	**(53 847)**	–	–
Depreciation	**(361 696)**	**–**	(323 242)	–
Foreign currency	**2 388**	**2 233**	–	–
Finance costs	**–**	**242 371**	–	243 100
Payments	**–**	**(566 697)**	–	(509 191)
Closing balance	**2 184 851**	**2 725 682**	2 249 906	2 752 521

Many of the store and warehouse leases across the Group contain extension options. In many cases these terms are not reflected in measuring the lease liabilities until management is reasonably certain they will be exercised. The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Lease payments relating to variable lease payments (for example, turnover based rental) amounted to R5 million and R37 million relating to short-term leases. There was no expense in the current or prior period relating to low-value assets.

3. Revenue from contracts with customers can be disaggregated between the following retail categories:

	AS AT 29 FEBRUARY 2020 %	AS AT 28 FEBRUARY 2019 %
Dispensary	**36**	36
Personal care and beauty	**28**	28
Healthcare and nutrition	**20**	20
Baby care	**6**	6
Other	**10**	10
	100	100

4. Dis-Chem enters into certain transactions with related parties including the rental of certain stores and warehouses. This finance lease obligation relating to these leases amounted to R1 billion at 29 February 2020.

   Amounts owing from Eleador Proprietary Limited and Mathimba Proprietary Limited at 29 February 2020 amounted to Rnil and R24 million respectively (2019: R3 million and R22 million respectively). Amounts owing to Minlou Proprietary Limited at 29 February 2020 amounted to Rnil (2019: R2 million).

   Loans receivable from Dis-Chem Bothomed, Dis-Chem Namibia, Dis-Chem Swakopmund, Dis-Chem Dunes, Geniob and Origin Brands (all Proprietary Limited's) at 29 February 2020 amounted to R117 million (2019: R91 million). Other related party transactions for the current year are similar in nature to those disclosed in the annual financial statements for the year ended 28 February 2019.

5. There were no material impairments of assets in the current and prior comparable period.

6. No shares were issued during the current and prior comparable period.

7. During the current year, the Group acquired the following companies:
   - The acquisition of 65% of Mundel Gien Proprietary Limited (trading as Springbok Pharmacy), a pharmacy in Alberton, for R32.5 million on 1 April 2019.
   - The acquisition of 50% of Health Window Proprietary Limited and 51% of Differenza Proprietary Limited, pharmaceutical adherence businesses for R17.5 million, on 31 May 2019.
   - The acquisition of 100% of Culemborg Pharmacy Proprietary Limited, a pharmacy in Cape Town, for R1 million on 1 March 2019.
   - The acquisition of 100% of TLC Medipark, a pharmacy in Gauteng, for R9.5 million on 1 September 2019.

   These are not categorised transactions in terms of the JSE Listings Requirements.

The provisional fair values of the identifiable assets and liabilities of the company as at the date of acquisition of the subsidiaries were:

	SPRING-BOK R'000	DIFFER-ENZA R'000	CULEM-BORG R'000	TLC MEDIPARK R'000	TOTAL R'000
Assets					
Property, plant and equipment	1 461	–	–	176	1 637
Right of use asset	24 726	–	–	3 644	28 370
Other intangibles	2 890	–	–	2 338	5 228
Trade and other receivables (1)	2 815	279	116	1 315	4 525
Inventories	34 332	–	503	4 497	39 332
Bank	–	359	291	1 604	2 254
Tax receivable	1 241	52	–	1 206	2 499
Deferred tax	366	11	–	(655)	(278)
Liabilities					
Lease liability	(24 726)	–	–	(3 644)	(28 370)
Loans	(2 379)	–	–	–	(2 379)
Bank overdraft	(1 646)	–	–	–	(1 646)
Trade and other payables	(15 989)	(175)	(878)	(5 182)	(22 224)
Total identifiable net assets at fair value	23 091	526	32	5 299	28 948
Non-controlling interest at proportionate interest	(8 082)	(263)	–	–	(8 345)
Goodwill arising on acquisition	17 491	1 267	968	4 201	23 927
Purchase consideration transferred	32 500	1 530	1 000	9 500	44 530

(1) *The carrying amount reflects the gross contractual amounts receivable and we expected to receive the full amount raised at the date of acquisition.*

The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised.

From the date of acquisition, R217 million in revenue and R6 million loss before tax was contributed to the Group from the above acquisitions. If the acquisitions had taken place at the beginning of the year, R262 million in revenue and R4 million loss before tax would have been contributed to the Group from the above acquisitions. Immaterial acquisition related costs were expensed in the period.

Health Window Proprietary Limited was purchased for R16 million and is a joint venture and equity accounted for in the Group.

During the current year, the Group acquired an additional 5% interest in Dis-Chem Amanzimtoti and sold 15% interest in Dis-Chem Goodwood and 5.9% in Dis-Chem Airport Junction.

8. Events after the balance sheet date

Baby City acquisition

The Group is pleased to announce that on 11 May 2020 it entered into inter-conditional agreements in terms of which it will acquire 100% of the issued share capital in and shareholder claims of the well-known baby care products retailer Baby City ("Baby City"), from the Baby City's founder shareholders, the Aronoff family ("the Transaction"). Michel Aronoff, who conceptualised and strategised Baby City's direction, will continue to serve as managing director of Baby City following closure of the Transaction and current staff will be retained. The Group will pay a purchase consideration of R430 million upon closure. The Transaction contains both a shareholder loan and a net working capital guarantee which ensures that Baby City's position upon closure resembles the pre-COVID-19 level, while incremental earnings accrue to Dis-Chem. The Transaction remains subject to suspensive conditions, including approval from competition authorities.

For the 12 month period to February 2020, Baby City generated revenue of R855 million. It has continued to trade well relative to the COVID-19 lock down environment demonstrating both the resilient nature of the industry and the inherent brand equity of the retailer.

The Group's current offering is very focused on the FMCG and basic essentials categories which are extremely sensitive to price and promotion. In order to both deliver a destination baby experience to the first time parent and allow growth into the more specialised baby categories such as Baby Gear (prams, car seats, swings, bouncers and other nursery equipment), clothing, developmental toys, amongst other categories, the Group requires a standalone baby destination store network whose brand positioning aligns with its own brand.

The transaction is subject to the fulfilment of the suspensive conditions by 31 October 2020.

For additional information, refer to SENS released on 15 May 2020.

COVID-19

During the lockdown and as required by the state to ensure that all South African corporate citizens assist in flattening the curve, the Group has taken and continues to take every possible step to safeguard the wellbeing of its employees, customers and patients. The Group has put a number of very strict protocols in place and will continue to update these as any new risk is identified or in accordance to regulatory changes. The number of staff and employees in store have been limited in line with social distancing requirements, all employees in stores have been issued with masks which are compulsory to wear and daily screening of all employees is facilitated on their arrival to work. As a result of being in the front line of the pandemic and assisting the sickly – there have been and will continue to be employees who test positive in our stores. In these instances Department of Health protocol is followed prior to the reopening of the store.

The Group recognises the part its employees are playing to continue to provide an essential service to South Africans. The Group is making every effort to avoid retrenchments and has given every Dis-Chem staff member a R1,500 food and healthcare voucher, at a total value of R28 million, to demonstrate its gratitude to their commitment to the front-line fight against the virus.

In addition the Group accepts its corporate responsibility to contribute to the Solidarity fund so as to help South Africans in need. The Group has contributed R2 million to date and it is encouraging its Benefit Card members to convert their points to grow the contribution, where it will furthermore match consumer donations rand for rand.

After health and safety, business continuity is of utmost importance and ensuring the Group retains a healthy statement of financial position to continue as a going concern.

The Group has seen disruption in trading conditions with its retail store revenue. During March, before the lockdown came into effect on 27 March 2020, retail stores experienced a substantial increase in revenue compared to the corresponding period of 45.6% as customers stocked up on products. Increased revenue was seen across all categories but especially in the pharmacy, healthcare and nutrition category. This trading pattern was then reversed during the lockdown (27 March to 30 April 2020), when only essential products could be sold, and retail revenue decreased by 20.9% compared to the corresponding period.

Since level 4 came into effect the Group has started to see a recovery in revenue with retail revenue increasing by 2.8% from 1 May until 16 May 2020 compared to the corresponding period.

The Group has taken several steps to strengthen its financial position and maintain financial liquidity, which include: operating cost reductions driven by a focus on reducing unnecessary variable cost spend, suspending direct marketing expenditure, reducing capital expenditure and deferring the final dividend. The Group's financial position has also been assisted by the lowering of interest rates thus reducing interest payable on its long term loan. The Group has engaged with financial institutions to ensure the availability of additional liquidity to the value of R850 million (currently unutilised) should this be needed for working capital management as it understands the trading cycles over this pandemic period, the Group believes the adaptation of the business to a focussed Return on Invested Capital ("ROIC") approach positions it well to fast changing trading patterns.

The wholesale division is not exposed to significant credit risk as a result of COVID-19 due to the majority of its customers continuing to trade as a result of their essential services status - no significant change in credit risk has been noted, however this will continue to be actively monitored. No significant impairments of the Group's assets are expected to arise and there has been no significant impact on the net realisable value of inventory as a result of the crisis. To date, the Group has not had to seek relief from the government or other suppliers in the face of COVID-19. The Group has continued to pay its creditors with no extension on payment terms being required. The Group has paid 83% of April rentals, representing the essential portion of the rental amount, and full payments continued from May.

The ultimate impact on trade in the 2021 financial year is currently unknown, as it will depend heavily on the duration of the lock down levels and the normalisation of retail trade. The Group is continuing to adapt quickly to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future.

Competition Commission

The Competition Commission ("Commission") alleged on 24 April 2020 that during February and March 2020 the Group engaged in excessive pricing of surgical masks under and in terms of the Competition Act, read with the Consumer and Customer Protection and National Disaster Management Regulations and Directions (the "Regulations").

The Group presented a legal response within the 2-week period imposed by the Commission and tabled arguments on 4 and 6 May 2020. We presented three major arguments that our pricing behaviour for surgical masks does not comprise excessive pricing, under either the Competition Act or the Competition Act read with the Regulations.

The Commission indicated that it has no additional queries in terms of the original submission but has not yet communicated a ruling to the Tribunal. As this matter is still under review, the cost of the legal proceedings as well as the outcome cannot yet be determined.

9. These summarised consolidated results are extracted from audited information, but is not itself audited.

The annual financial statements have been audited by Ernst & Young Inc. and their unmodified audit report, including key audit matters, is available for inspection at the Company's office.

The Audited Annual Financial Statements were approved on 26 June 2020 and published on the Group's website www.dischemgroup.com

The directors take full responsibility for the preparation of these summarised consolidated financial results, and that the financial information has been correctly extracted from the underlying audited financial information. The preparation of the summary consolidated Group Financial statements was prepared under the supervision of Mr Rui Morais CA(SA), the Chief Financial Officer of the Group.

The financial information on which any forward-looking statements are based have not been audited, reviewed or reported on by the Group's external auditors.

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Analysis of ordinary shareholders

as at 29 February 2020

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	9 891	62.55%	2 742 511	0.32%
1 001 – 10 000	4 784	30.25%	15 117 310	1.76%
10 001 – 100 000	854	5.40%	25 331 527	2.95%
100 001 – 1 000 000	229	1.45%	69 359 636	8.06%
Over 1 000 000	56	0.35%	747 533 499	86.91%
Total	**15 814**	**100.0%**	**860 084 483**	**100.0%**

Distribution of shareholders	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Assurance companies	110	0.70%	18 011 850	2.09%
Close Corporations	77	0.49%	263 191	0.03%
Collective Investment Schemes	253	1.60%	93 533 952	10.87%
Custodians	16	0.10%	517 709	0.06%
Foundations and Charitable Funds	53	0.34%	2 211 152	0.26%
Hedge Funds	13	0.08%	534 934	0.06%
Insurance Companies	11	0.07%	1 950 724	0.23%
Investment Partnerships	41	0.26%	349 948	0.04%
Managed Funds	43	0.27%	8 981 704	1.04%
Medical Aid Funds	19	0.12%	959 472	0.11%
Organs of State	10	0.06%	73 697 381	8.57%
Private Companies	296	1.87%	576 398 529	67.02%
Public Companies	8	0.05%	1 328 853	0.15%
Public Entities	4	0.03%	76 565	0.01%
Retail Shareholders	13 332	84.31%	25 349 091	2.95%
Retirement Benefit Funds	219	1.38%	42 850 096	4.98%
Scrip Lending	8	0.05%	901 034	0.10%
Sovereign Funds	2	0.01%	586 345	0.07%
Stockbroker and Nominees	109	0.69%	3 403 209	0.40%
Trusts	1 190	7.52%	8 178 744	0.95%
Total	**15 814**	**100.0%**	**860 084 483**	**100.0%**

Shareholder type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-public shareholders	12	0.08%	513 411 570	59.69
Directors and associates	12	0.08%	513 411 570	59.69
Public shareholders	15 802	99.92%	346 672 913	40.31
Total	**15 814**	**100.00%**	**860 084 483**	**100.00**

Fund managers with a holding greater than 3% of the issued shares	Number of shares	% of issued capital
Coronation Fund Managers	54 568 775	6.34
Public Investment Corporation	37 683 832	4.38
Mazi Capital	26 482 415	3.08
Total	**118 735 022**	**13.80**

Beneficial shareholders with a holding greater than 3% of the issued shares	Number of shares	% of issued capital
Ivlyn (Pty) Ltd	453 041 396	52,67
Government Employees Pension Fund	68 072 614	7,91
Stansh (Pty) Ltd	47 090 995	5,48
Total	**568 205 005**	**66,06**

Share Price Performance	
Opening Price 1 March 2019	R25.80
Closing Price 28 February 2020	R21.62
Closing High for period	R29.17
Closing low for period	R19.85
Number of shares in issue	860 084 483
Volume traded during period	310 825 687
Ratio of volume traded to shares issued (%)	36.14%
Rand value traded during the period	7 512 229 327
Price/earnings ratio as at 28 February 2020	33.42x
Earnings yield as at 28 February 2020	2.99%
Dividend yield as at 28 February 2020	0.97%
Market capitalisation at 28 February 2020	18 595 026 522

Notice of annual general meeting

Dis-Chem Pharmacies Limited
(Incorporated in the Republic of South Africa)
(Registration number 2005/009766/06)
JSE share code: DCP
ISIN: ZAE000227831
("Dis-Chem" or the "Group")

Notice is hereby given that the eleventh Annual General Meeting of shareholders of Dis-Chem Pharmacies Limited ("Dis-Chem" or "the Company") will be held virtually on Friday, 31 July 2020 at 10:00. The Annual General Meeting will be conducted entirely by electronic communication as contemplated in Section 63(2)(a) of the Companies Act, 2008. Shareholders or their proxies may only participate in the Annual General Meeting by way of electronic participation. Shareholders will need to access an online meeting platform. Details as to how to participate on the voting platform have been included in the email accompanying this notice of the Annual General Meeting.

Only shareholders who are registered in the register of the Company on Friday, 24 July 2020, will be eligible to participate in the electronic Annual General Meeting.

The purpose of the Annual General Meeting is to propose the passing of the following ordinary and special resolutions:

1. Ordinary resolution number 1

Approval of annual financial statements

Resolved that the annual financial statements of the Company and its subsidiary companies for the year ended 29 February 2020, together with the reports of the Directors, Auditors and Audit and Risk Management Committee be and are hereby considered and adopted.

2. Ordinary resolution number 2

Appointment of auditors and designated auditor

Resolved that Ernst and Young Inc. be and are hereby re-appointed auditors of the Company and that Mr Derek Engelbrecht is hereby appointed the designated auditor to hold office for the ensuing year.

The Company's Audit and Risk Committee has recommended the re-appointment of Ernst & Young Inc. as auditors of the Company with Mr Derek Engelbrecht being appointed the designated auditor for the current financial year.

3. Ordinary resolution number 3

Re-election of director

Resolved that Mr Mark John Bowman, who retires in terms of the Company's Memorandum of Incorporation, be re-elected a director of the Company.

The *curriculum vitae* for Mr Bowman appears on page 55 of this annual report.

4. Ordinary resolution number 4

Re-election of director

Resolved that Mr Mahomed Salim Ismail Gani, who retires in terms of the Company's Memorandum of Incorporation, be re-elected a director of the Company.

The *curriculum vitae* for Mr Gani appears on page 56 of this annual report.

5. Ordinary resolution number 5

Appointment of Audit and Risk Committee member

Resolved that Ms. Anuschka Coovadia be appointed a member of the Company's Audit and Risk Committee and that this appointment shall be valid up to the date of the next Annual General Meeting of the Company. The curriculum vitae for Ms Coovadia appears on page 55 of this annual report.

6. Ordinary resolution number 6

Appointment of Audit and Risk Committee member

Resolved that Mr Mark John Bowman be appointed a member of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next Annual General Meeting of the Company.

7. Ordinary resolution number 7

Appointment of Audit and Risk Committee member

Resolved that Mr Mohamed Salim Ismail Gani be appointed a member of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next Annual General Meeting of the Company.

8. Ordinary resolution number 8

Appointment of Audit and Risk Committee member

Resolved that Mr Johannes Sanyana Mthimunye be appointed a member of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next Annual General Meeting of the Company. The curriculum vitae for Mr Mthimunye appears on page 55 of this annual report.

9. Ordinary resolution number 9

Remuneration Philosophy and Policy and Implementation Report

Section 3.84 (j) of the JSE Listings Requirements require the Company to submit its Remuneration Philosophy and Policy and Implementation Report every year to shareholders for consideration and to provide shareholders with an opportunity to indicate whether they do or do not support the material provisions of the remuneration philosophy and policy of the Company and the implementation thereof. Shareholders are referred to the Remuneration Philosophy and Policy and Implementation Report set out on pages 70 to 78 of the integrated annual report.

9. Ordinary resolution number 9 (continued)

As the above are not matters that are required to be resolved or approved by shareholders, no minimum voting threshold is required. Nevertheless, for record purposes, the minimum percentage of voting rights that is required for each resolution to be adopted as non-binding advisory votes is 50% (fifty percent) of the voting rights plus 1 (one) vote to be cast on the resolution.

Ordinary resolution 9.1

Resolved that, as a non-binding advisory vote, the Remuneration Philosophy and Policy, as tabled, be and is hereby approved.

Ordinary resolution 9.2

Resolved that, as a non-binding advisory vote, the Implementation Report, as tabled, be and is hereby approved.

10. Special resolution number 1

Non-executive directors' fees for the financial year ending 28 February 2021 and quarter ending 31 May 2021

Resolved that the fees, to be paid to the non-executive directors for their services as directors of the Company, for the year ending 28 February 2021 and the quarter ending 31 May 2021 (being a quarter of the fees payable for the year ending 28 February 2021) be approved as follows:

	28 February 2021	31 May 2021
• Chairperson	R3 165 000	R791 250
• Non-executive director	R293 720	R73 430
• Chairperson of the Audit Committee	R308 920	R77 230
• Member of the Audit Committee	R198 240	R49 560
• Chairperson of the Remuneration and Nomination Committees	R148 680	R37 170
• Member of the Remuneration and Nomination Committees	R79 760	R19 940
• Chairperson of the Social and Ethics Committee	R72 160	R18 040
• Member of the Social and Ethics Committee	R39 680	R9 920
• Chairperson of Special Committees	R7 800 per hour	R7 800 per hour
• Member of Special Committees	R7 110 per hour	R7 110 per hour

Further that the payment for the adjustment in the directors' fees for the quarter ended 31 May 2020 amounting to R56 130.00 (5.5%) be approved.

The reason for this special resolution is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company for the financial year ending 28 February 2021 and for the quarter ending 31 May 2021 in accordance with Section 66(9) of the Companies Act, 2008. The passing of this special resolution will have the effect of approving the remuneration of each of the non-executive directors of the Company for the financial year ending 28 February 2021 and quarter ending 31 May 2021. The fees payable for the quarter ending 31 May 2021 will be based on a quarter of the fees as approved above. Shareholders will be requested to approve any adjustment to the fees payable for the quarter ending 31 May 2021 at the 2021 Annual General Meeting.

11. Special resolution number 2

Loans or other financial assistance

Resolved that the Company be authorised, in terms of Section 45 of the Companies Act, 2008, to provide any direct or indirect financial assistance to any related or inter-related companies as defined in Section 2 of the said Companies Act, 2008.

The reason for special resolution number 2 is to approve generally the provision of financial assistance to any related or inter-related companies. Any financial assistance given will be subject to the Company complying with the Solvency and Liquidity Test as more fully set out in Section 4 of the Companies Act, 2008. The Board will ensure that the terms of the financial assistance granted are fair and reasonable to the Company.

12. Ordinary resolution number 10

General authority over unissued shares

Resolved that 5% of the authorised unissued ordinary shares in the Company i.e. 43 004 224 shares be and are hereby placed under the control of the directors until the date of the next Annual General Meeting, subject to the provisions of the JSE Listings Requirements and the condition that no issue of these shares will be made if it could have the effect of changing control of the Company.

No issue of these shares is contemplated at the present time and no issue will be made that could effectively change the control of the Company without the prior approval of shareholders in a general meeting.

13. Ordinary resolution number 11

General authority to issue shares for cash

Resolved that the directors of the Company be and are hereby authorised, by way of a general authority, to issue shares for cash for up to 5% i.e. 43 004 224 of the issued shares in the capital of the Company as and when they in their discretion deem fit, subject to the Companies Act, No. 71 of 2008, as amended, the Memorandum of Incorporation of the Company and the JSE Listings Requirements as presently constituted and which may be amended from time to time.

13. Ordinary resolution number 11 (continued)

The reason for the above ordinary resolution number 11 is to give the directors authority to issue up to 5% of the unissued shares for cash to enable the Company to pursue suitable business opportunities as and when they arise.

Additional requirements imposed by the JSE Listings Requirements

It is recorded that the Company may only make an issue of shares (as defined in the JSE Listings Requirements) for cash under the above general authority if the following JSE Listings Requirements are met:

(a) The shares, which are the subject of the issue for cash, must be of a class already in issue, or where this is not the case, must be limited to such equity securities or rights that are convertible into a class already in issue;

(b) The general authority shall only be valid until the Company's next Annual General Meeting or for 15 (fifteen) months from the date of passing of this ordinary resolution, whichever period is shorter;

(c) A SENS announcement will be published giving full details, including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 (thirty) days prior to the date that the price of the issue was agreed in writing between the Company and party/ies subscribing for such shares at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) of the number of shares in issue prior to that issue;

(d) That issues in the aggregate in any 1 (one) financial year may not exceed 10% (ten percent) of the number of the shares of the Company in issue of that class of shares before such issue, taking into account the dilution effect of convertible equity securities and options in accordance with the JSE Listings Requirements;

(e) In determining the price at which an issue of shares may be made in terms of this general authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed to between the Company and the party/ies subscribing for the shares; and

(f) Any issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to related parties.

14. Ordinary resolution number 12

Directors' or Company Secretary's authority to implement special and ordinary resolutions

Resolved that any director of the Company or the Company Secretary be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting.

15. Social and ethics committee

A report on the Social and Ethics Committee, in terms of Regulation 43 of the Companies Act, 2008, has been included in the annual report (page 79). The report sets out the matters as required in terms of the Social and Ethics Committee's terms of reference. Shareholders will not be asked to vote on any matters contained in the Social and Ethics Committee's terms of reference but may raise any questions they may have regarding the said terms of reference.

Voting and Proxies

All ordinary resolutions (except for Ordinary resolution number 11) will, in terms of the Companies Act, 2008, require the support of more than 50% of the voting rights of shareholders exercised thereon to be approved.

A general issue of shares for cash must be approved by ordinary resolution with a 75% majority of shareholders voting in favour thereof. Accordingly, ordinary resolution number 11 will require the support of more than 75% of the voting rights of shareholders exercised thereon to be approved.

All the Special resolutions will, in terms of the Companies Act, 2008, require the support of at least 75% of the total voting rights exercised thereon to be approved.

General instructions and information

The annual report to which this notice of the Annual General Meeting is attached, provides details of:

- the directors of the Company on pages 54 to 56;
- the major shareholders of the Company on page 123;
- the director's shareholding in the Company on pages 78 and 123; and
- the share capital of the Company in note 18 of the AFS on page 59.

Entitlement to participate and vote at the Annual General Meeting in person or by proxy

All shareholders are encouraged to participate, speak and vote at the Annual General Meeting.

If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own-name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant ("CSDP") to hold your shares in your own name in the Company sub-register), as at Friday, 24 July 2020:

- You may participate and vote at the Annual General Meeting; or alternatively
- You may appoint an individual as a proxy, (who need not also be a shareholder of the Company) to participate and vote in your place at the Annual General Meeting, by completing the attached form of proxy and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited, the details of which are set out on page 139 of the annual report. Please note that your proxy may delegate his/her authority to act on your behalf to another person, subject to the restrictions set out in the attached form of proxy. Please also note that the attached form of proxy must be delivered to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited as aforesaid, before your proxy may exercise any of your rights as a shareholder at the Annual General Meeting.

Any shareholder of the Company that is a company may authorise any person to participate as its representative at the Annual General Meeting. Section 63(1) of the 2008 Companies Act, requires that persons wishing to participate at the Annual General Meeting (including the abovementioned representative) provide satisfactory identification before they may so participate.

Please note that if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic ("STRATE") held through a CSDP or broker (or their nominee) and are not registered as an "own-name dematerialised shareholder" then you are not a registered shareholder of the Company, but your CSDP or broker (or their nominee) would be.

Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:

- If you wish to participate at the Annual General Meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; or alternatively
- if you are unable to participate at the Annual General Meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the Annual General Meeting and/or request your CSDP to appoint a proxy.

You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the Company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the Annual General Meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited, the details of which are set out on page139 of the annual report.

By order of the Board

W T Green
Company Secretary

Johannesburg
29 June 2020

Form of proxy

Form of proxy for use at the Annual General Meeting of Dis-Chem Pharmacies Limited ("the Company") to be held at 10:00 on Friday, 31 July 2020. Shareholders listed in the shareholder register as at Friday, 24 July 2020 will be eligible to vote at the Annual General Meeting.

This form of proxy is not to be used by beneficial owners of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless you are recorded on the sub-register as an own-name dematerialised shareholder. Generally, you will not be an own-name dematerialised shareholder unless you have specifically requested your CSDP to record you as the holder of the shares in your own name in the Company's sub-register.

This form of proxy is only for use by certificated, own-name dematerialised shareholders and CSDPs or brokers (or their nominees) registered in the Company's sub-register as the holder of dematerialised ordinary shares.

Each shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy (who need not also be a shareholder of the Company) to attend, participate in and speak and vote in place of that shareholder at the Annual General Meeting, and at any adjournment thereafter.

Please note the following:

- The appointment of your proxy may be suspended at any time to the extent that you choose to act directly in the exercise of your rights as a shareholder at the Annual General Meeting;
- The appointment of the proxy is revocable; and
- You may revoke the proxy appointment by:
  (i) Cancelling it in writing, or making a later inconsistent appointment of a proxy; and
  (ii) delivering a copy of the revocation instrument to the proxy, and to the Company.

Please note that any shareholder of the Company that is a company may authorise any person to act as its representative at the Annual General Meeting. Please also note that section 63(1) of the Companies Act, 2008 requires that persons wishing to participate in the Annual General Meeting (including the abovementioned representative) provide satisfactory identification before they may so participate.

Note that voting will be performed by way of a poll so each shareholder present or represented by way of proxy will be entitled to vote.

I/We _____ Address: _____

Contact telephone number: _____

being the holder/s of _____ ordinary shares in the Company, hereby appoint:

1. _____ Or failing him/her,

2. _____ Or failing him/her,

3. The Chairman of the Annual General Meeting,

as my/our proxy to participate in and vote at the meeting in my/our place and on my/our behalf at the Annual General Meeting which will be held for the purpose of considering and, if deemed fit, passing the resolutions to be proposed thereat and at any adjournment thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name/s, in accordance with the instructions set out below.

My/our proxy may delegate to another person his/her authority to act on my behalf at the Annual General Meeting, provided that my/our proxy:

- May only delegate his/her authority to act on my behalf at the Annual General Meeting to a director of the Company; and
- Must provide written notification to the transfer secretaries of the Company, namely Computershare Investor Services Proprietary Limited, of the delegation by my/our proxy of his/her authority to participate on my behalf at the Annual General Meeting; and
- Must provide to his/her delegee a copy of his/her authority to delegate his/her authority to participate on my behalf at the Annual General Meeting.

Number of votes (one vote per ordinary share)	For	Against	Abstain
ORDINARY RESOLUTION NUMBER 1: Adoption of annual financial statements as at 29 February 2020			
ORDINARY RESOLUTION NUMBER 2: Appointment of the auditors and designated auditor			
ORDINARY RESOLUTION NUMBER 3: Re-election of Mr MJ Bowman as a director			
ORDINARY RESOLUTION NUMBER 4: Re-election of Mr MSI Gani as a director			
ORDINARY RESOLUTION NUMBER 5: Appointment of Audit and Risk Committee member Ms A Coovadia			
ORDINARY RESOLUTION NUMBER 6: Appointment of Audit and Risk Committee member Mr MJ Bowman			
ORDINARY RESOLUTION NUMBER 7: Appointment of Audit and Risk Committee member Mr MSI Gani			
ORDINARY RESOLUTION NUMBER 8 Appointment of Audit and Risk Committee member Mr JS Mthimyune			
ORDINARY RESOLUTION NUMBER 9.1: Approval of Remuneration Policy and Report			
ORDINARY RESOLUTION NUMBER 9.2 Approval of Implementation Report			
SPECIAL RESOLUTION NUMBER 1: Approval directors' remuneration			
SPECIAL RESOLUTION NUMBER 2: Approval loans or other financial assistance			
ORDINARY RESOLUTION NUMBER 10: General authority over unissued shares			
ORDINARY RESOLUTION NUMBER 11: General authority to issue shares for cash			
ORDINARY RESOLUTION NUMBER 12: Authority for any director or Company Secretary to sign documents			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you desire to vote.

Signed at on 2020

Signature: Telephone number:

(Authority of signatory to be attached if applicable – see note 8)

Notes to the form of proxy

Summary of shareholders rights in respect of proxy appointments as contained in section 58 of the Companies Act, 2008

Please note that in terms of section 58 of the Companies Act, 2008:

- This proxy form must be dated and signed by the shareholder appointing the proxy;
- You may appoint an individual as a proxy, including an individual who is not a shareholder of the Company, to participate in and speak and vote at the Annual General Meeting on your behalf;
- Your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this proxy form;
- This proxy form must be delivered to the Company, or to the transfer secretaries of the Company, namely Computershare Investor Services Proprietary Limited, before your proxy exercises any of your rights as a shareholder at the Annual General Meeting;
- The appointment of your proxy or proxies will be suspended at any time to the extent that you choose to act directly and in person in the exercise of any of your rights as a shareholder at the Annual General Meeting;
- The appointment of your proxy is revocable unless you expressly state otherwise in this proxy form;
- As the appointment of your proxy is revocable, you may revoke the proxy appointment by
  - (i) Cancelling it in writing, or making a later inconsistent appointment of a proxy; and
  - (ii) Delivering a copy of the revocation instrument to the proxy and to the Company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the later of (i) the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the Company and the proxy as aforesaid;
- If this proxy form has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act, 2008 or the Company's Memorandum of Incorporation to be delivered by the Company to you will be delivered by the Company to you or your proxy or proxies, if you have directed the Company to do so, in writing and paid any reasonable fee charged by the Company for doing so;
- Your proxy is entitled to exercise, or abstain from exercising, any voting right of yours at the Annual General Meeting, but only as directed by you on this proxy form;
- The appointment of your proxy remains valid only until the end of the Annual General Meeting or any adjournment or postponement thereof or for a period of 6 (six) months, whichever is shortest, unless it is revoked by you before then on the basis set out above.

1. Only shareholders listed in the shareholder register as at Friday, 24 July 2020 will be eligible to vote at the Annual General Meeting to which this proxy forms part.
2. The person whose name stands first on the proxy form and who participates at the Annual General Meeting will be entitled to act as a proxy to the exclusion of those whose names which follow thereafter.
3. If no proxy is inserted in the spaces provided, then the Chairperson shall be deemed to be appointed as the proxy to vote or abstain as the Chairperson deems fit.

4. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy form will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat.
5. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
6. Proxy forms must be lodged at the Head Office of the Company, 23 Stag Road, Midrand or posted to the Company Secretary at PO Box 260362, Excom, 2023, or lodged with or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (Private Bag X9000, Saxonwold, 2132).
7. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company Secretary or waived by the Chairperson of the Annual General Meeting if he is reasonably satisfied that the right of the representative to participate and vote has been reasonably verified. CSDPs or brokers registered in the Company's sub-register voting on instructions from beneficial owners of shares registered in the Company's sub-register, are requested that they identify the beneficial owner in the sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the Company Secretary or to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (Private Bag X9000, Saxonwold, 2132), together with this form of proxy.
8. Any alteration or correction made to this proxy form must be initialed by the signatory/ies, but any such alteration or correction will only be validly made if it is accepted by the Chairperson.
9. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Company Secretary.

Definitions

Annual Financial Statements	Financial reports based on a 12-month consecutive period that convey the business activities and the financial performance of the company.
Capital expenditure to expand operations	Capital expenditure ("CAPEX") undertaken by the Group to further growth prospects and expand existing operations.
Capital expenditure to maintain operations	Capital expenditure required by the Group to continue operating in its current form i.e. to maintain or replace assets.
Cash flow	
Financing activities	Activities that result in changes to the capital and funding structure of the Group.
Investing activities	Activities relating to the acquisition, holding and disposal of capital assets and long-term investments.
Operating activities	Activities that are not financing or investing activities that arise from the operations conducted by the Group.
Creditor days	The numbers of days it takes the Group to pay its creditors. The ratio indicates the amount of credit given to the business by our suppliers.
Calculation	$\frac{\textit{Average trade and other payables}}{\textit{Cost of goods sold x 365}}$
Debtors days	A ratio that measures how quickly cash is being collected from debtors.
Calculation	$\frac{\textit{Average trade and other receivables}}{\textit{Revenue x 365}}$
Dividend payout ratio	The amount of dividends paid to shareholders relative to the amount of total net income of the Group.
Calculation	$\frac{\textit{Dividends paid}}{\textit{Net income}}$
Dividend per share ("DPS")	The sum of declared dividends issued by a company for every ordinary share outstanding.
Calculation	*Headline earnings per share x Payout ratio*
Earnings before interest and tax ("EBIT")	A measure of the Group's profit that includes all incomes and expenses excluding interest and income tax expenses.
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	A measure of the Group's operating performance without factoring in financing or accounting decisions or the tax environment.
Earnings per share ("EPS")	The portion of the Group's profit allocated to each outstanding share of common stock.
Calculation	$\frac{\textit{Earnings attributable to equity holders of the Group}}{\textit{WANOS}}$

Effective tax rate	The average tax rate paid by the Group.
Calculation	$\frac{\textit{Taxation paid (as per income statement)}}{\textit{Profit before tax}}$
Free float	The number of ordinary shares that are freely tradable on the JSE Limited. It excludes treasury shares, shares held by directors and employee share schemes.
Gross profit margin	A financial metric used to assess the Group's financial health and business model by telling the amount of money left over from revenue after deducting the cost of goods sold ("COGS").
Calculation	$\frac{\textit{(Revenue – COGS)}}{\textit{Revenue}}$
Headline earnings	A measurement of the Group's earnings based solely on operational and capital investment activities i.e. it excludes exceptional and once-off profits and losses.
Headline earnings per share ("HEPS")	The per-share value of the headline earnings attributable to holders of the Group.
Calculation	$\frac{\textit{Headline earnings}}{\textit{WANOS}}$
Integrated Annual Report	A concise communication about how the Group's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.
Integrated Reporting	A process that results in communication about the Group's value creation over time.
International Financial Reporting Standards ("IFRS")	Standards that specify how companies must maintain and report their accounts, defining types of transactions and other events with financial impact.
International Integrated Reporting Council	A global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs.
Inventory days	An efficiency ratio that measures the average number of days the company holds its inventory before selling it i.e. the number of days that funds are tied up in inventory.
Calculation	$\frac{\textit{Average inventory}}{\textit{Cost of goods sold x 365}}$
King Code of Corporate Governance	A code that sets out what ethical and effective leadership is.
Like-for-like revenue growth	A measure of growth in sales, adjusted for new or divested businesses. Dis-Chem takes into account stores that have been open for at least two full financial years.
Materiality	An accounting standard can be ignored if the net impact of doing so has such a small impact on the financial statements that a user of the statements will not be misled.

Net asset value per share – actual shares at year-end	
Calculation	$\frac{\text{Total assets – total liabilities}}{\text{Actual number of shares outstanding}}$
Net asset value per share – WANOS	
Calculation	$\frac{\text{Total assets – total liabilities}}{\text{WANOS}}$
Net working capital days	The average number of days it takes the Group to convert working capital into revenue.
Calculation	*Debtor days + Inventory days – Creditor days*
Operating margin	A measure of profitability that indicates how much of each rand of revenue is left over after both cost of goods sold and operating expenses are considered.
Calculation	$\frac{\text{Operating profit}}{\text{Revenue}}$
Return on capital employed ("ROCE")	Determines a company's profitability after taking into account the amount of capital used.
Calculation	$\frac{\text{EBIT}}{\text{Capital employed}}$
Return on equity ("ROE")	A measure of profitability that calculates how many rands of profit a company generates with each rand of shareholders' equity.
Calculation	$\frac{\text{Net income attributable to equity holders}}{\text{Average shareholders' equity}}$
Return on invested capital ("ROIC")	The percentage return made over invested capital
Calculation	$\frac{\text{Net income – dividend}}{\text{Debt + Equity}}$
Sustainable Development Goals	A collection of 17 global goals designed to be a blueprint for achieving a better and more sustainable future for all.
Weighted average number of shares ("WANOS")	The number of shares at year-end taking into account any changes in the number of outstanding shares over the specific reporting period.

Abbreviations

AGM	Annual General Meeting
CAMs	Complementary and Alternative Medicines
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIIO	Chief Information and Innovation Officer
COBIT	Control Objectives for Information Technologies
CSR	Corporate Social Responsibility
DC	Distribution Centre
DOH	Department of Health
DSP	Designated Service Provider
EDLP	Everyday Low Price
ETI	Employment Tax Incentive
Exco	Executive Committee
EY	Ernst & Young Inc.
FSP	Forfeitable Share Plan
GDP	Gross Domestic Product
HPCSA	Health Professions Council of South Africa
IAR	Integrated Annual Report
IFRS	International Financial Reporting Standards
IRBA	The Independent Regulatory Board for Auditors
ISACA	Information Systems Audit and Control Association
IT	Information Technology
JSE	Johannesburg Stock Exchange
King IV	King Code of Corporate Governance
LED	Light Emitting Diode
LSM	Living Standards Measure
LTI	Long-term Incentives
MCC	Medicine Control Council
MD	Managing Director
MOI	Memorandum of Incorporation
NHI	National Health Insurance
POPIA	Protection of Personal Information
PwC	PricewaterhouseCoopers
SAHPRA	South African Health Products Regulatory Authority
SAR	Share Appreciation Rights
SDGs	Sustainable Development Goals
SENS	Stock Exchange News Service
SENS	Stock Exchange News Service
SEP	Single Exit Price
STI	Short-term Incentives
TGP	Total Guaranteed Package
TLC	The Local Choice

Corporate information

Dis-Chem Pharmacies Limited
Registration number 2005/0097/66/06
JSE code: DCP
ISIN: ZAE000227831

Registered office
23 Stag Road
Glen Austin
1685

Company secretary
WT Green

Registered office
23 Stag Road
Glen Austin
Midrand

Contact details
Tel: 011 589 2200
www.dischemgroup.com
www.dischem.co.za

Registered auditors
Ernst & Young Inc.
102 Rivonia Road
Sandton
Johannesburg
2196
South Africa

Sponsor
The Standard Bank of South Africa Limited
3rd Floor, East Wing
30 Baker Street
Rosebank
2196
Johannesburg

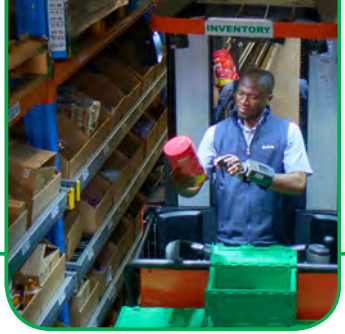
Transfer secretaries
Computershare Investor Services
Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank
Johannesburg
2196
South Africa

Investor relations
Leandri van Jaarsveld
investorrelations@dischem.co.za
011 589 2200

Shareholders' diary

ANNUAL GENERAL MEETING	
AGM	31 July 2020
REPORTS	
Final results to 29 February 2020	20 May 2020
Publication of the financial year 2020 Integrated Annual Report	29 June 2020
Interim results to 31 August 2020	22 October 2020
DIVIDENDS	
Last day to trade cum dividend on the JSE: FY2021 interim dividend	November 2020
Payment date: FY2021 interim dividend	November/December 2020

Notes


INVENTORY


Gluten
Sugar