



OUR BUSINESS MODEL

Our business model describes how the Pick n Pay Group creates long-term sustainable value for all its stakeholders – through the effective and balanced use of our capitals, while keeping the customer at the centre of everything we do. Our business model is underpinned by strong corporate and social governance, with our unique values at its core.

OUR CAPITALS

- Financial capital**
The financial resources raised and utilised by the Group, consisting of equity and debt funding, and earnings generated and retained by the Group.
- Manufactured capital**
The physical infrastructure used in the Group's operations, which includes its real estate, distribution channel and the information technology used throughout the Group.
- Intellectual capital**
The knowledge, systems, processes, intellectual property and brands contained within the Group.
- Human capital**
Our valued Pick n Pay and Boxer staff, with their skill, talent, ambition and diversity, that underpin a winning team.
- Social and relationship capital**
The relationships the Group has developed with all its stakeholders, governed by its values and the enduring principle that doing good is good business.
- Natural capital**
The environmental resources utilised throughout the Group's operations, through its production, distribution and retailing of consumer products.

OUR PRIMARY BUSINESS ACTIVITIES AND VALUE DRIVERS

The Group is a food, grocery, clothing and general merchandise retailer, selling a wide range of products at competitive prices under our Pick n Pay and Boxer brands. The Group's operating model utilises its capital inputs in its retail operations in the most effective and efficient manner in order to optimise its capital outputs and outcomes for all.

- Leading product range at competitive prices
- High-quality stores within customer reach
- More convenience, including value-added services

See how our strategy is aimed at supporting our competitive customer offer on page 45.



The Group has created value for our stakeholders for over 50 years. Our business model maintains a virtuous circle which balances the needs of our stakeholders in a fair and effective manner while managing the trade-offs between our capitals.

This virtuous circle enables growing and sustainable returns for shareholders, while supporting ongoing investment in the communities which we serve and meaningful reinvestment into our business and our people.

- Customer focused
- Talented and diverse retail team
- Employment through growth

See how our strategy is aimed at building a winning team on page 48.



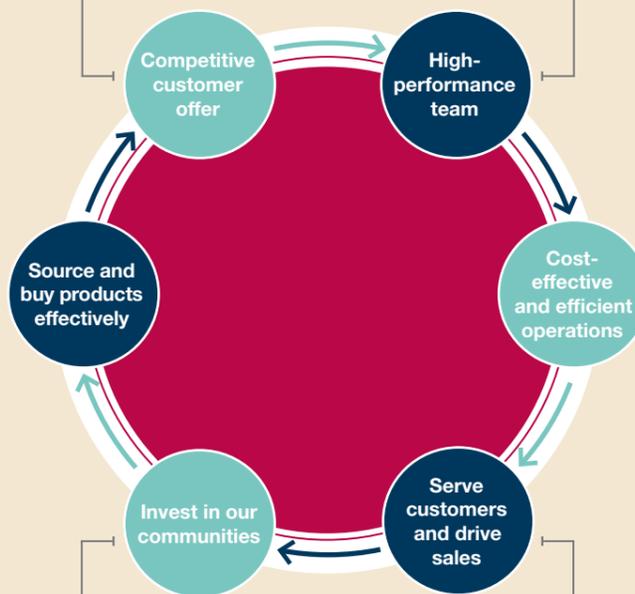
- Buying better for our customers
- Ethical sourcing and food safety
- Securing sustainable future supply

See how our strategy is aimed at supporting our effective sourcing and buying of products on page 48.



- An increasingly efficient supply chain
- Lean operating model in stores and support offices
- Most attractive franchise model

See how our strategy is supporting efficient and cost-effective operations on page 47.



The economic and social upliftment of the communities we serve leads to growth for all.

Our successful strategy supports investment in our communities, in line with our ethos of doing good is good business. See pages 44 to 51.



Most inclusive retailer in South Africa, serving customers across the diverse spectrum of African societies.

See how our strategy is aimed at driving sales and serving our customers on pages 45, 46 and 49.



In this way, Pick n Pay meets the changing needs of its customers and other stakeholders and ensures long-term value creation.

Our capital outputs include the wide range of products and services that we sell to our customers under our Pick n Pay and Boxer brands – this includes food, groceries, clothing, general merchandise and other value-added services. As a result of our retail operations, we produce by-products and waste, and we remain committed to reducing our environmental impact.

OUR CAPITAL OUTCOMES

Financial capital

A tough trading year resulted in muted turnover growth of 5.3%



Successful strategic initiatives drove improvements in our customer offer, resulting in strong quarter four turnover growth of 7.3%



Gross profit margin maintained at 18.7%, with operating efficiency supporting price investment



Manufactured capital

Reached new customers and communities by opening 125 net new stores



Improved our customer offering through the refurbishment of 61 company-owned stores and opening of two new distribution centres



Intellectual capital

Modernised our Smart Shopper loyalty programme



Strengthened procurement through buy better programme



Launched Pick n Pay Fast Pay



Partnered with TymeDigital to launch low-cost banking services



Launched our new mobile-enabled online shopping website



Introduced 730 new or refreshed own-brand products in store



Human capital

Pick n Pay implemented a voluntary severance programme (VSP), reducing its workforce by 10%, which has improved the productivity and efficiency of the Pick n Pay team



Delivered 31 595 training interventions, reaching almost 11 000 staff



Social and relationship capital

Partnered with eight new spaza store owners, bringing safe, modern and high-quality grocery offer to previously underserved customers



Supported our communities by assisting learners through Pick n Pay School Clubs and raising funds through Pick n Pay Pink Walks for breast cancer research



Natural capital

Energy use per square metre reduced by 37% compared to our 2008 baseline, a 3% improvement on last year



We diverted 54% of our waste from landfill, a total of just over 18 000 tonnes



Substantive action taken to reduce our water consumption, with a 13% decrease on last year



Strong performance

Satisfactory progress

Read on to find out more about our capital trade-offs and the value we create.

THE VALUE WE CREATE

OUR CAPITAL TRADE-OFFS

Our stakeholders have competing interests and needs. Similarly, there is interdependence between our capitals. Below are a few examples of some of the trade-offs that have been necessary in our business to create greater shared value for all:

Efficient and productive labour force
We are committed to becoming leaner, fitter and better for customers. This requires ongoing streamlining of employee and other operational structures.

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Product availability
We maintained consistent on-shelf availability during 2018 – ensuring customers can always find what they need in our stores. This requires investment in higher levels of inventory, which can lead to wasted produce if customer demand does not meet expectation. Automated forecast and replenishment systems are improving our performance in this area.

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Responsible procurement
We continue to invest in building a diverse and ethical supply base to support sustainable farming. Our investment includes the development of small emerging local businesses, including the growth of our private label range of products.

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Food safety
We are committed to providing customers with safe, high-quality food in a safe and secure shopping environment. This requires ongoing investment in best practice health, safety and security standards.

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Economic upliftment of employees
In 2018, the Group purchased shares to the value of R423.4 million under its employee share incentive schemes, delivering substantial wealth creation for employees at all levels.

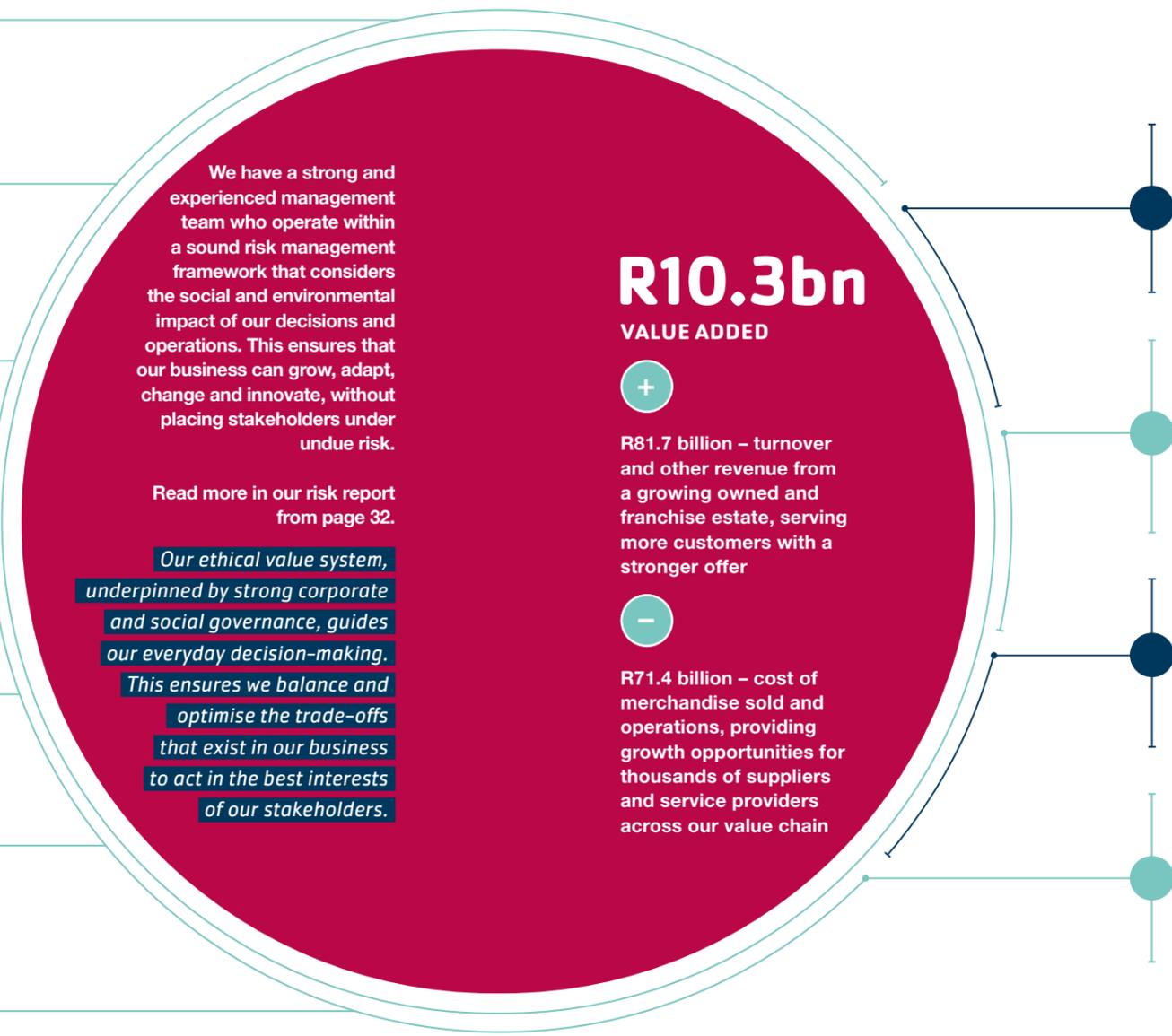
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Growing outside South Africa
We believe opportunities outside South Africa will provide us with a second engine for growth. However, expanding our footprint into the rest of Africa does not come without risk, including the operational challenges of trading in a new environment and the risk of foreign currency movements.

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Reducing our impact on the environment
To find more energy-efficient and environmentally friendly ways to do business, we invest in energy-efficient lighting and refrigeration, rain water harvesting and recycling initiatives across our stores and distribution centres.

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THE VALUE CREATED AND DISTRIBUTED AMONG OUR VARIOUS STAKEHOLDERS

We create substantial economic development and employment opportunity across our value chain through the creation and distribution of wealth among our various stakeholders.

We procure goods and services from suppliers and service providers. We provide direct employment to more than 80 000 people across our owned and franchise business. We give back to the communities in which we operate through investment in education and literacy programmes, housing, nutrition and poverty-relief schemes, and through the support of cultural and theatrical projects, sports development and environmental programmes.

- R6.7 billion**
for our employees – providing economic upliftment and job security
- R0.5 billion**
paid in Government taxes and over R30 million invested in CSI initiatives – for the social upliftment of our communities
- R1.6 billion**
to providers of capital – generating long-term sustainable returns
- R1.5 billion**
reinvested for future growth – for the benefit of all stakeholders