4 OUR STRATEGY

OUR STRATEGY

STRATEGIC FOCUS

In order to restore the business to a position of long-term sustainable growth, the Group formulated a strategic turnaround plan in the 2013 calendar year. In developing the three stages of its plan, the Group recognised that a sustainable recovery would need to be achieved in a planned, considered and balanced way over a number of years, avoiding short-term thinking that might weaken the business over the longer term. The Group's successful execution of its plan is evident in the delivery of consistent earnings growth and value creation over a number of years, notwithstanding increasingly difficult economic conditions within the regions in which it operates.

THE THREE STAGES OF THE GROUP'S LONG-TERM STRATEGIC PLAN SEEK TO ACHIEVE THREE BROAD OBJECTIVES:

Grow sales in line with, or ahead of the market, by providing great value, service and innovation for customers

The Group is intent on delivering a first-class fresh, convenience and grocery offer, which gives customers unbeatable prices, value and service. The business is developing a strong multi-platform and multi-channel retail offer in South Africa, including building Boxer into a thriving national limited-range discounter. In addition, the Group is carefully growing its footprint outside South Africa.

Achieve high levels of operating efficiency and lower costs to enable maximum reinvestment in the customer offer

The Group will complete the centralisation of its supply chain, with improved efficiencies and lower costs across its distribution channel. The Group further aims to improve the efficiency and cost effectiveness of its store operations and support offices, while minimising increases in rentals, rates, electricity, water and other charges.

Restore the underlying profit before tax (PBT) margin to a historically sustainable level

The Group regards a sustained improvement in its underlying profit margin as a lead indicator of progress in achieving a balanced turnaround, characterised by sustained sales growth and greater operating efficiency. The Group's PBT margin was 1.2% at the end of FY13, and has improved by 20 basis points per year, to 2.4% in FY19. The Group targets a PBT margin at or above 3% over the medium term.

STAGE 1: STABILISE THE BUSINESS

Stage 1 focused on stabilising the Group's operations and its financial position, while developing a solid foundation and plan for growth. Critical building blocks included faster progress towards a centralised supply chain, the development of a more efficient "Next Generation" supermarket, and restructuring the Boxer business model to enable it to become South Africa's leading limited-range discounter.

- ✓ Stronger balance sheet
- ✓ "Next Generation" supermarket developed
- ✓ Boxer as a leading limited-range discounter
- ✓ Centralisation of supply chain accelerated

STAGE 2: CHANGE THE TRAJECTORY

In Stage 2, the Group's focus has been on developing a winning customer offer through lower prices, more attractive promotions, better and more innovative products, compelling value-added services, and brighter and more modern stores. This has been achieved by reducing cost and increasing productivity across all operations, enabling the Group to invest more in its customer offer.

STAGE 2 IS ORGANISED AROUND SEVEN BUSINESS ACCELERATION PILLARS:

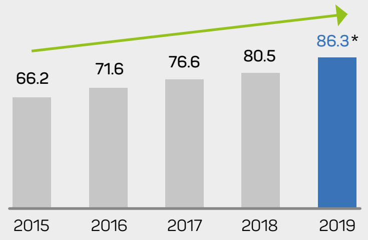
1. Better for customers
2. A flexible and winning estate
3. Efficient and effective operations
4. Every product, every day
5. A winning team
6. Boxer – a national brand
7. Rest of Africa – a second engine of growth

Read more about our performance per strategic pillar from page 46 of this report.

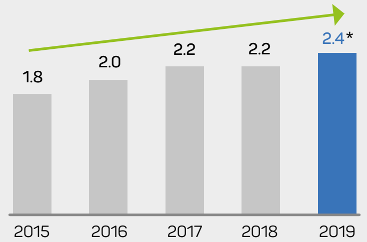
Underpinned by the Group's commitment to be a "force for good" in the communities it serves, these seven pillars represent the key strategic growth opportunities for the Group, with value creation tracked against measurable goals.

The pillars consider the material issues and concerns of the Group's stakeholders, as well as the risks facing the business (refer to pages 32 to 37). The pillars provide management with clear priorities, objectives and lines of accountability. The Group has consistently communicated its financial and operational performance against these pillars, both externally and internally, providing a consistent and transparent scorecard of year-on-year progress.

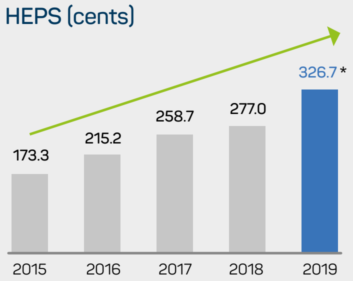
TURNOVER (Rbn)



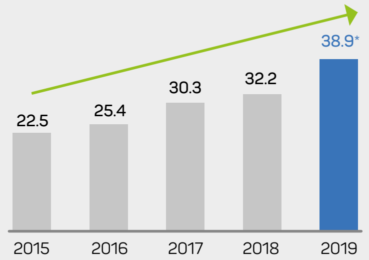
PROFIT BEFORE TAX MARGIN (%)



HEPS (cents)



RETURN ON CAPITAL EMPLOYED (%)



* *Comparable 52-week performance*

Stage 1: Stabilise the business

2013–2016: Looking back on what the Group has achieved

Stage 2: Change the trajectory

2016 to present: Positioning the Group for long-term growth

HOW THE GROUP PERFORMED AGAINST THE SEVEN BUSINESS ACCELERATION PILLARS

1 BETTER FOR CUSTOMERS

The Group's long-term success depends on its ability to deliver a strong and consistent customer offer that earns customer loyalty across the communities it serves. Greater business efficiency and financial discipline have enabled the Group to provide meaningful price support for customers through difficult economic times, alongside investments in quality, range and service.

WHAT WE SAID WE WOULD DO IN 2019 AND WHAT WE ACCOMPLISHED

More low prices and a strong promotional calendar

- Improved relative price position by 3% across thousands of products
- Fewer, deeper and more effective promotions

Enhanced fresh offer with longer-lasting quality and greater value through own brand

- Launched Fresh Promise, a guarantee of exceptional quality across Pick n Pay's fresh produce, butchery and bakery lines
- New packaging, improved quality, better ranges
- Stronger collaboration with suppliers on product specifications, ordering, waste management and promotions
- Launched 500 new own brand products and redesigned a further 700

Ongoing innovation in loyalty

- Launched partnership with BP – over one million Smart Shoppers earned loyalty points on fuel purchases
- "Switch and spend" enabled at till point
- Mobile app now allows for "cardless swipe" – one million downloads of Smart Shopper app this year
- R6.6 billion in personalised loyalty discounts offered to Smart Shoppers this year
- Smart Shopper voted South Africa's best loyalty programme for the 6th year in a row

Ongoing innovation in value-added services

- Launched industry-first partnership with TymeBank – 500 000 bank accounts expected by end July 2019
- Added 52 money counters in-store and facilitated over R30 billion in cash withdrawals and money transfers in our stores – with over 75 million transactions

KEY PERFORMANCE INDICATORS DEMONSTRATING PROGRESS AGAINST STRATEGY INCLUDE:

Turnover growth

- Market-leading sales volume growth of 5.1%

Internal selling price inflation

- Internal selling price deflation of 0.3%; against CPI Food inflation of 3.4%

Performance of fresh categories

- Strong growth in fresh categories
- Improved on-shelf availability and waste management

Own brand participation

- Pick n Pay own brand grew from 19% to 21% of relevant sales

Smart Shopper engagement

- Redemptions of personalised discounts up 30%

Growth in income from value-added services

- Up 41.5% year on year

2020 – Strategic priorities for next year

- Sustained price competitiveness
- Quality fresh offer
- Development of own brand
- Innovation in financial services

2 A FLEXIBLE AND WINNING ESTATE

The Group will open stores in locations that provide sustainable, long-term returns. Changing customer demographics create opportunities for the Group to extend its reach and grow turnover without impacting existing stores. This includes smaller stores focused on customer demand for convenience and a growing online platform. Greater operating flexibility, efficiency and cost effectiveness allow the Group to operate successfully in a broader range of locations.

WHAT WE SAID WE WOULD DO IN 2019 AND WHAT WE ACCOMPLISHED

Sustainable growth in new space

- 130 new stores across all formats, with 29 new supermarkets
- 20 closures to improve the overall quality of the estate
- Estate now totals 1 795 stores

Targeted refurbishment programme

- 103 refurbishments – including 45 Pick n Pay company-owned stores and 20 Pick n Pay franchise supermarkets
- Broad and impactful improvements in store design – with lower shelf heights and new layouts for produce, health and beauty, general merchandise, clothing and liquor
- Extensive repairs and maintenance programme augmenting the capital investment programme

Greater convenience

- All new Pick n Pay and Boxer supermarkets are smaller and easier to shop
- 6 new Market stores (spaza shops) in townships across Gauteng and the Western Cape
- 32 new Pick n Pay Express stores on BP forecourts
- Enhanced online shopping platform, with the introduction of a personalised "Your Favourites" shopping list, and shorter lead times between order and delivery
- Online warehouses now delivering small and single-pick orders to Express and Market formats to support the growth of these smaller stores

KEY PERFORMANCE INDICATORS DEMONSTRATING PROGRESS AGAINST STRATEGY INCLUDE:

Turnover growth from new stores

- Net new stores contributed 2.3% to turnover growth

Return on capital employed (ROCE)

- Group's ROCE increased to 39%

Individual performances of new and refurbished stores and cash pay-back period

- New stores performing in line with target
- Refurbishments delivering required rate of return, with like-for-like sales growth ahead of the rest of the estate

Online turnover growth

- Online turnover up 24.3%; order volumes up 17%
- 90% increase in visitors to online website; 50% from mobile devices
- On-time delivery rates of 98%

2020 – Strategic priorities for next year

- Growth with sustainable returns
- Ongoing modernisation
- More convenience

Stage 2: Change the trajectory

2016 to present: Positioning the Group for long-term growth

HOW THE GROUP PERFORMED AGAINST THE SEVEN BUSINESS ACCELERATION PILLARS (continued)

EFFICIENT AND EFFECTIVE OPERATIONS

Efficient and cost-effective store operations are key to delivering an excellent customer experience. Greater efficiency also unlocks value for further investment in the customer offer. The Group's "Next Generation" stores, and specifically its smaller convenience formats, demonstrate the Group's ability to operate more efficiently on a leaner cost base. The Group is further focused on streamlining its support services to eliminate inefficiencies.

WHAT WE SAID WE WOULD DO IN 2019 AND WHAT WE ACCOMPLISHED

Sustainable improvement in trading expenses margin

- Growth in trading expenses contained below turnover growth
- Lower trading expenses margin, driven by improved management of employee costs
- Sustainability initiatives delivered significant savings in electricity and water consumption and related costs

Stronger working capital management, including range rationalisation

- Further progress on removing old and slow-moving lines from the business
- Range optimisation delivers tighter ranges across our stores, and lower stockholdings with improved on-shelf availability
- Well-managed debtors and creditors book, in line with last year

Lower finance costs

- Stronger working capital management and discipline in capital and operating spend delivered a substantial reduction in net funding and finance costs over the year

KEY PERFORMANCE INDICATORS DEMONSTRATING PROGRESS AGAINST STRATEGY INCLUDE:

Growth in trading expenses

- Trading expenses up 7.0%, below the growth in turnover of 7.1%

Expense ratios as a percentage of turnover

- Trading expenses down to 18.8% of turnover (FY18: 18.9%)

Reduction in consumption of resources

- Like-for-like electricity costs down 1.8%
- Pick n Pay uses less total electricity than we did 10 years ago
- 40% reduction in water usage in the Western Cape

Inventory values

- Like-for-like inventory value down 10.5%

Net funding position

- Comparable net funding position reduced by R665.0 million

Net finance costs

- Down 38.5% year on year

2020 – Strategic priorities for next year

- Bearing down on costs
- Lower stockholdings
- Lower waste
- Lower finance costs

Stage 2: Change the trajectory

2016 to present: Positioning the Group for long-term growth

EVERY PRODUCT, EVERY DAY

The Group continues to deliver substantive progress in developing an efficient and fully centralised procurement and distribution channel. The Group's centralisation strategy has improved on-shelf availability and is driving cost savings and efficiency across the business.

WHAT WE SAID WE WOULD DO IN 2019 AND WHAT WE ACCOMPLISHED

Greater centralisation of supply, with further improvements in strike rates to stores

- Centralisation of Pick n Pay supply increased to 75% nationally, from 65% last year
- Opened a new Pick n Pay distribution centre (DC) in KwaZulu-Natal in March 2018 – increasing centralisation in the region to 76%, from 45% last year
- 400 new suppliers centralised, including eight small suppliers mentored through our enterprise development programme

Ongoing cost and efficiency savings from our Buy Better programme

- Pick n Pay worked closely with suppliers in its Buy Better programme, unlocking R500 million of value to invest in lower prices and added value for customers

Additional distribution capacity in the Gauteng region of South Africa

- The Group is in the process of securing and developing additional supply chain capacity in Gauteng in order to supplement its Longmeadow distribution centre in the region

KEY PERFORMANCE INDICATORS DEMONSTRATING PROGRESS AGAINST STRATEGY INCLUDE:

Gross profit (GP) margin

- Strong gross profit margin management – with GP margin improving to 19.0% (FY18: 18.9%)
- Improved efficiency and lower costs supported substantial investment in customer offer

Growth in DC deliveries

- Goods issued out of Pick n Pay distribution centres up 13.6% on last year

Cost per case through distribution channel

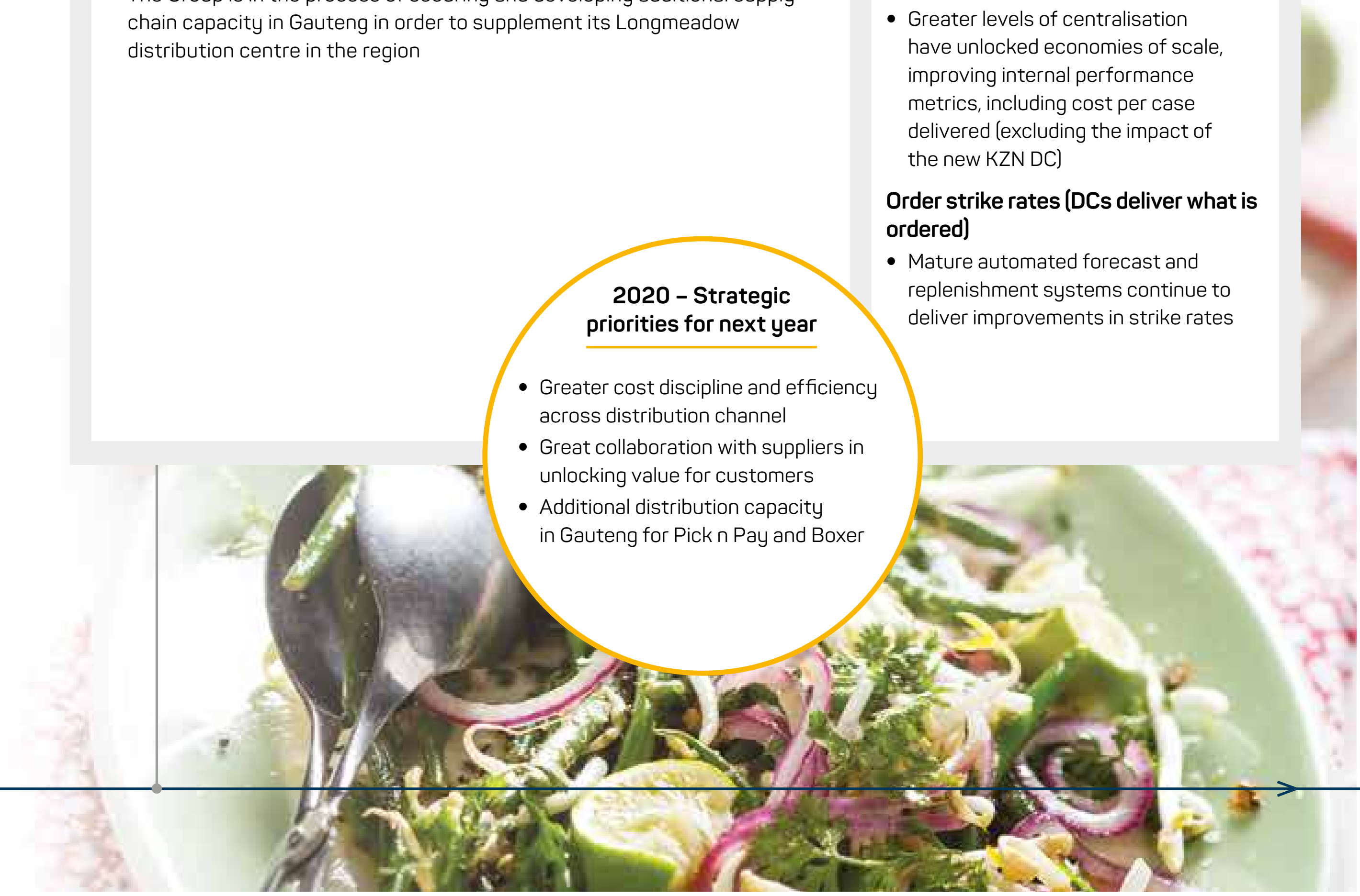
- Greater levels of centralisation have unlocked economies of scale, improving internal performance metrics, including cost per case delivered (excluding the impact of the new KZN DC)

Order strike rates (DCs deliver what is ordered)

- Mature automated forecast and replenishment systems continue to deliver improvements in strike rates

2020 – Strategic priorities for next year

- Greater cost discipline and efficiency across distribution channel
- Great collaboration with suppliers in unlocking value for customers
- Additional distribution capacity in Gauteng for Pick n Pay and Boxer



4 OUR STRATEGY

HOW THE GROUP PERFORMED AGAINST THE SEVEN BUSINESS ACCELERATION PILLARS (continued)

5 A WINNING TEAM

The Group's ambition is to build a skilled, talented and diverse retail business in South Africa and in all African countries where it operates. To achieve this, the Group needs to be the employer of choice in the retail industry. The Group attracts staff by providing competitive pay and benefits, access to skills training and development, career advancement and recognition for a job well done.

WHAT WE SAID WE WOULD DO IN 2019 AND WHAT WE ACCOMPLISHED

More jobs in more stores

- The Group created 4 675 net new jobs this year through its store-opening programme, including its franchise stores

Improved labour costs as a percentage of turnover

- Labour costs are now 8.2% of turnover (FY18: 8.3%)

A more cost-effective and efficient human resources (HR) function

- Restructured the HR team with new leadership and more streamlined and focused management structures
- Delivered administrative improvements in performance management and in skills and development training

KEY PERFORMANCE INDICATORS DEMONSTRATING PROGRESS AGAINST STRATEGY INCLUDE:

Labour costs as a percentage of turnover

- Like-for-like employee costs up 5.9%, reflecting annual increases ahead of inflation
- Labour costs down to 8.2% of turnover (FY18: 8.3%)

Stability in labour relations

- The Group secured a favourable three-year wage deal with its labour partners – which extends to February 2022

Promotions, training interventions and other awards

- R67 million invested in training and education
- 800 training interventions – 16 000 employees received training

2020 – Strategic priorities for next year

- Ongoing stability in labour relations
- Greater productivity – maintaining current level of labour costs
- Increased skills training and development

6 BOXER – A NATIONAL BRAND

The Group's ambition is to build Boxer into the leading limited-range discounter in southern Africa.

WHAT WE SAID WE WOULD DO IN 2019 AND WHAT WE ACCOMPLISHED

Increased capital investments across new stores and refurbishments

- 26 new stores, including 13 new supermarkets, 12 liquor stores and one Build
- 31 stores refurbished
- Three-quarters of the supermarket estate now in Boxer's "Next Generation" format

Enhanced fresh offer, including great deals on butchery and fresh produce

- Boxer built on its small but compelling fresh offer this year – delivering double-digit growth in butchery and bakery lines

Greater levels of centralised supply

- Boxer opened its new Gauteng distribution centre in January 2019 – with centralisation now at just over 40% in the division

KEY PERFORMANCE INDICATORS DEMONSTRATING PROGRESS AGAINST STRATEGY INCLUDE:

- Boxer delivered strong double-digit customer growth and consistent market-share gains over the year, driven by sharp pricing and an improved fresh offer
- The Group is pleased with the division's sustained earnings growth and the returns on investment from its new and refurbished stores

2020 – Strategic priorities for next year

- More new and refurbished stores
- Lower prices, greater value
- Greater levels of centralisation

Stage 2: Change the trajectory

2016 to present: Positioning the Group for long-term growth

HOW THE GROUP PERFORMED AGAINST THE SEVEN BUSINESS ACCELERATION PILLARS (continued)

REST OF AFRICA – A SECOND ENGINE OF GROWTH

The Group has an established presence in Botswana, Lesotho, Namibia, Eswatini and Zambia and a 49% investment in TM Supermarkets in Zimbabwe. The Group will continue to look for profitable opportunities to grow its footprint in countries outside South Africa that offer political stability, economic growth, ease of business and the prospect of strategic scale.

WHAT WE SAID WE WOULD DO IN 2019 AND WHAT WE ACCOMPLISHED

More capital investment – including new stores in Zambia and ongoing refurbishments in Zimbabwe

- 6 new stores outside South Africa – 3 in Zambia and 3 in Eswatini
- 7 refurbishments in Zimbabwe
- Closed two underperforming stores in Namibia

Improvement in our operating model – delivering further cost savings in difficult trading environments

- Cost discipline and tight working capital management in Zambia and Zimbabwe
- Range optimisation in Zambia contributed to a 10% decrease in like-for-like stockholdings
- Completed roll-out of new point-of-sale system in Zambia

Develop our business in West Africa

- Secured a suitable trading site in Lagos, Nigeria – store to open in FY20

KEY PERFORMANCE INDICATORS DEMONSTRATING PROGRESS AGAINST STRATEGY INCLUDE:

Sustainable turnover and earnings growth

- Segmental revenue up 2.2% to R4.7 billion – and up 5.3% on a constant currency basis
- Segmental profits down 16.2% to R241.3 million, reflecting the constrained trading environment in Zambia and political and economic uncertainty in Zimbabwe

Participation in Group profit

- Rest of Africa segment contributes 11.6% to Group profit before tax (FY18: 16.3%)

2020 – Strategic priorities for next year

- Improved operating models – efficiencies and cost savings in difficult trading environments
- Volume and customer growth in Zimbabwe through consistent on-shelf availability and competitive pricing
- Develop our business in Nigeria

The Group's turnaround plan is returning the Group to its roots as a discounter and consumer champion. Over the past six years the Group has improved its customer offer, modernised its stores, centralised its supply chain and firmly controlled its costs. The result has been sustained earnings growth and an improvement in underlying profit margins.

Our plan is long term and forward looking. Pick n Pay and Boxer serve customers across all socio-economic groups, and the Group is increasingly confident that it has the ability and agility to compete effectively and unlock growth opportunities in the market and across its business.

Stage 2: Change the trajectory

2016 to present: Positioning the Group for long-term growth

THE GROUP HAS, THROUGH THE SUSTAINED AND CONSISTENT EXECUTION OF ITS PLAN, SUCCESSFULLY BUILT SIX CLEAR ENGINES FOR LONG-TERM GROWTH:

PICK N PAY – SOUTH AFRICA'S MOST TRUSTED RETAILER	Pick n Pay will strengthen its business and customer offer, while remaining true to its core values of good corporate governance and corporate citizenship.
BOXER – AFRICA'S FAVOURITE DISCOUNTER	Boxer is delivering market-beating turnover growth as it provides exceptional value to customers across South Africa and Eswatini.
BEARING DOWN ON COSTS	The Group will ensure that its costs are actively managed and that cost discipline aims to ensure that costs increase at a lower rate than sales.
VALUE-ADDED CUSTOMER SERVICES	Services are an increasing contributor to growth. The Group will continue to leverage its substantial store and systems infrastructure to offer its customers innovative and low-cost value-added services.
EXPANSION IN AFRICA	The Group has a dedicated Rest of Africa team focused on growing its business in a measured way that delivers sustainable growth in developing markets outside South Africa, without putting its core South African division at risk.
FORCE FOR GOOD	We are exceptionally proud of our substantial contribution to the well-being of South African communities over 52 years. We are committed to building a better South Africa through a focus on more jobs, more entrepreneurs and more support for our schools. We firmly believe that doing good is good business – our business will grow hand in hand with our contribution to society.

STAGE 3: SUSTAINABLE LONG-TERM GROWTH

The Group is increasingly well positioned to reach Stage 3 of its plan and become a long-term sustainable retail business. Attributes at this stage will include a mature and effective supply chain, ongoing improvements in operating efficiency, a clear blueprint for growth and innovation and the agility to respond to changing customer needs.

The Group has not communicated a timeline for the completion of Stage 2. The following indicators are markers for the successful completion of Stage 2 and provide a strong foundation for Stage 3: Sustainable long-term growth:

- A track record of consistent sales and profit growth over a number of years
- A resource-efficient business that is a "force for good" in the communities in which it trades
- Strong customer loyalty and advocacy
- Collaborative and enduring relationships with a strong and diverse supplier base
- Continued innovation in our store estate and in our customer offer
- An operating model that benchmarks internationally
- An employer of choice that delivers opportunity for all
- A continuing long-term growth strategy

Stage 3: Sustainable long-term growth

2019: Looking ahead