In the way they responded, Cape Town achieved, in a short space of time, more than many other developed cities have managed to do.

EARNING TRUST
During the last year, our sector faced some big challenges, the first of which was the world’s biggest outbreak of listeriosis, which claimed over 180 lives. Secondly, the reality of a prolonged drought in the Western Cape and other areas, which gave rise to the prospect of Day Zero, when the taps might actually run dry.

In both cases, the public looked for reassurance and answers, not just from Government, but from the businesses they trust to help them. This is how it should be. I’m proud that people turn to Pick n Pay when they want help and reassurance in tough times, that we don’t hide in a crisis, and that we step forward and take responsibility.

BEHAVING SUSTAINABLY
As a retailer with thousands of suppliers and millions of customers, we are mindful of our broad reach and broad impact. We want to help and reassurance in tough times, that we don’t hide in a crisis, and that we behave and care responsibly.

We have also launched a range of recycled, reusable shopping bags made by the Township Group, a woman-owned cooperative in the Western Cape. They employ over 70 women and have supplied us with over 600,000 reusable bags in recent years. But more needs to be done.

A MESSAGE FROM OUR CHAIRMAN

Pick n Pay’s character is built on our values of consumer sovereignty, business efficiency, and doing good is good business. These values hold true in good times and bad. While sentiment in South Africa is considerably better – and brighter – than a year ago, the tough times are not yet behind us. But there is a new wave of optimism in our country and we need to build on that together.

At this time last year, we were living through some of the toughest economic times in our recent history. Economic growth was under strain, customers were feeling enormous pressure to provide for themselves and their families, and a sense of pessimism permeated South Africa. Our country’s prospects were worrying and it was a tough environment in which to do business. But tough times are a test of character and I am proud of the character we demonstrated as a country and as a Group over that difficult period.

CREATING OPPORTUNITY
South Africa’s greatest economic need is for investment and jobs. When times have been tough, others have looked overseas for growth and investment. Pick n Pay has done the opposite, staying true to our commitment to South Africa.

Over the past three years, we have invested R5.3 billion in opening and refurbishing stores and building our supply chain. By doing so, we have been able to create almost 14,000 net new jobs.

We have made good progress over a number of years in helping customers switch away from single-use plastic carrier bags.

Most South Africans are familiar with our reusable green bags, and last year we sold over a million of them.

We donate R1 from the sale of every green bag to a community programme.

On the issue of food waste, which is a considerable problem in South Africa, we are getting more accurate in our procurement and replenishment, and we are steadily reducing the amount of food which goes to waste in stores. While we have not eliminated waste, I’m proud of the fact that we are now FoodForward SA’s biggest retail partner. This year we donated over R70 million in edible food for distribution to their 600 beneficiary organisations, providing more than seven million meals annually.

The spotlight across the world has become more firmly focused on the harm that plastic can do to our environment, and particularly our oceans.

Around five trillion pieces of plastic are believed to be floating around the world’s oceans. Experts fear that the total weight of plastic in our oceans could outweigh fish by 2050. South Africa’s marine environment is spectacular, but highly vulnerable. So we need to be among the vanguard of those taking action to reverse the tide of plastic damage.

This a highly complex issue, with our reliance on plastic driven by issues such as food safety standards, convenience and affordability. There are no easy fixes, but Pick n Pay is committed to lead the charge in plastic use across our industry. In June, we announced focused initiatives to reduce plastic waste across our operations, including the introduction of 100% recyclable plastic bags, the replacement of plastic straws with paper straws, reducing the plastic packaging in a range of own-brand products and providing free plastic collection from our online customers.

Business and Government must seize the opportunity together to make a meaningful, measurable difference in the lives of ordinary South Africans.

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Business and Government must seize the opportunity together to make a meaningful, measurable difference in the lives of ordinary South Africans.
WE ARE PLEASED TO PROVIDE OUR 2018 INTEGRATED ANNUAL REPORT TO OUR STAKEHOLDERS
CHAPTER 1

INTRODUCING OUR 2018 INTEGRATED ANNUAL REPORT

4 About our report
4 Materiality
5 Navigating our reporting suite
CHAPTER 1

To best meet the needs of our various stakeholders, we produce a materiality is determined, reviewed and approved annually by the Board. The Board considers those matters that could substantially affect the Group’s ability to create value over time and materially impact the Group’s current and projected revenue and profitability. These material matters include:

- Consumer environment
- Competitive environment
- Effectiveness of our procurement and distribution channel
- Food and other health and safety standards
- Effective execution of our strategy and long-term sustainable value creation
- Effectiveness of our information systems and technology
- Building and retaining a talented and diverse retail team
- Volatility of the Group’s Rest of Africa division

For more insight into our materiality determination process, see the diagram on page 32 of this report.

NOURISHING OUR REPORTING SUITE

Our six capitals

Our ability to create long-term sustainable value for stakeholders depends on the use of various capitals within our business. The International Integrated Reporting (IR) Framework supports integrated financial reporting, and, in particular, the reporting of the Group’s business model across these six forms of capital. Refer to “Our business model” on pages 20 to 21 for more information.

FINANCIAL

- Natural

HUMAN

- Intellectual

SOCIAL AND RELATIONSHIP

- Manufactured

MARKET

- Human

- Relationship

- Intellectual

- Manufactured

- Financial

- Natural

Our key stakeholders

The Group is committed to open and constructive engagement with all our stakeholders. Our business model and strategy are designed to consider and address the issues and concerns most relevant to our key stakeholders. Refer to the “Engaging with our stakeholders” section on pages 38 to 41 for more information.

Our business acceleration pillars

The second stage of our strategic long-term plan is organised around seven business acceleration pillars. These pillars represent the material growth opportunities that can materially affect our ability to create value over the short, medium and long term. Refer to our “Strategic focus” section on pages 44 to 51 for more information.

Navigating our reporting suite

Our six capitals

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To best meet the needs of our various stakeholders, we produce a suite of publications that are tailored to meet our readers’ specific information requirements, and comply with the reporting frameworks detailed below.

Integrated annual report 2018

A review of the Group’s strategy, material issues, risks and opportunities and our operational and financial performance for the period. The report includes relevant extracts of the 2018 annual financial result, discussion on environmental and social sustainability, our governance structures and our remuneration report.

- The King IV Report on Corporate Governance™ for South Africa 2016 (King IV™)
- The Global Reporting Initiative’s Standards (for reporting non-financial information)
- The Companies Act, No 71 of 2008, as amended (Companies Act)
- The JSE Listings Requirements
- International Financial Reporting Standards (IFRS)
- The International Integrated Reporting (IR) Framework

Annual financial statements 2018

The audited Group and Company annual financial statements for Pick n Pay Stores Limited for the 2018 financial period. The report includes our audit, risk and compliance committee and directors’ reports.

- Companies Act
- The JSE Listings Requirements
- IFRS

Corporate governance report 2018

A review of the Group’s commitment to good corporate governance in the implementation of the Group’s strategy and governance framework. The report includes our notice of the annual general meeting and Board committee reports.

- King IV™
- Companies Act
- The JSE Listings Requirements

Summarised results and 2018 AGM notices

A high-level review of our operational and financial performance, including summarised audited Group annual financial statements, remuneration report, relevant shareholder information, and notice of the annual general meeting and proxy voting form.

- Companies Act
- The JSE Listings Requirements
- IFRS
- King IV™

Sustainable living report 2017

This report is published in full every two years, and details our sustainability strategy and performance against strategic non-financial targets.

- King IV™
- The Global Reporting Initiative’s Standards
Consumer champion
Raymond Ackerman purchased the first four Pick n Pay stores in Cape Town, South Africa in 1967.
Since then the Group’s vision has grown and expanded to encompass stores in South Africa, Namibia, Botswana, Zambia, Swaziland and Lesotho. In addition, Pick n Pay owns a 49% share of Zimbabwean supermarket chain, TM Supermarkets.

Pick n Pay is a retail business in the fast-moving consumer goods industry on the African continent that believes doing good is good business. Pick n Pay operates through multiple store formats under two brands – Pick n Pay and Boxer – and we have the largest online grocery business in Africa.

We procure quality products at the best available prices. By operating a lean and efficient business, supported by a strong and talented team, we are able to provide our customers with a tailored range of high-quality food, grocery and general merchandise products at competitive prices.

Through ongoing investment in the customer offer, we are able to drive sales and grow value for all our stakeholders.

For further information on our business model and the value we create, refer to pages 20 to 23.

OUR MISSION
We serve

With our hearts we create a great place to be
With our minds we create an excellent place to shop

WHAT SETS US APART

Pick n Pay

CHAPTER 2

This is Pick n Pay

Our commitment to consumer sovereignty

We keep customers at the heart of our business. This philosophy informs everything we do, from how we treat our customers, to the product range we offer, and how we design our stores. Putting the customer first means we work hard to understand their diverse and changing needs and how we can serve them better. Through our Pick n Pay and Boxer brands, the Group serves customers across the diverse spectrum of South African society, and is expanding its reach into the African continent. More than half of all South Africans shop regularly in our stores and we have some of the most loyal customers in the country.

Outstanding stores and flexible formats

The Group operates on both an owned and franchise basis and has 1 685 stores across all formats, including its investment in TM Supermarkets in Zimbabwe. Our store formats range from large hypermarkets, where customers can buy everything under one roof, through to small convenience stores, where customers can shop quickly for their immediate needs. In addition, our online platform, gives customers the opportunity to shop from their homes and have their order delivered to their door in one-hour time slots.

Our leading customer offer

Our customer offer focuses on food, non-edible groceries, health and beauty products, clothing, liquor, pharmaceuticals, building and hardware and general merchandise. The offer also includes value-added services such as third party bill payments, ticketing services and financial transactions at till points. In addition to manufacturer-branded products, we have a growing own-brand range, in both Pick n Pay and Boxer.

Our winning team

We employ 52,000 people in our company-owned stores and operations. Our franchise stores extend this to 85,000 people working under the Pick n Pay and Boxer banners in seven countries. Working at Pick n Pay is more than a job. It is an opportunity to learn, develop new skills and benefit through teamwork. We are committed to training, developing and empowering our people.

Key facts

20% compound annual growth in earnings over the past five years

R81.6 billion turnover

85,000 employees

1,685 stores

R7.6 billion capital investment over the past five years

95% fresh produce procured from South African suppliers

More than 400,000 jobs sustained through the reach of our supply chain

7 million loyalty customers

50% recycled store waste

About us

Key facts

OUR COMMITMENT TO CONSUMER SOVEREIGNTY

OUTSTANDING STORES AND FLEXIBLE FORMATS

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WHAT SETS US APART

Pick n Pay
Our belief that doing good is good business ensures that we are focused not only on creating value for our shareholders, but for all our stakeholders. For over five decades Pick n Pay has played a valuable role in the economic and social development of Southern Africa. We make a positive direct contribution to the communities we serve through the supply of high-quality, affordable food, clothing and merchandise, and provide significant employment and economic opportunity across our value chain. We add to this value through our comprehensive sustainability strategy, which is intricately linked to our business strategy. The infographic below illustrates how our sustainability strategy is aligned with our stakeholder needs and with the seven United Nations Sustainable Development Goals (SDGs) most relevant to our business.

### OUR SUSTAINABLE BUSINESS FOCUS AREAS

Pick n Pay is a much-loved brand, valued within society, built on a genuine desire to make life better for our customers and to make a positive business for more than 50 years, providing a solid foundation for growth, innovation, service excellence and generosity.

We are passionate about our customers and will fight for their rights.

We care for and respect each other.

We foster personal growth and opportunity.

We nurture leadership and vision, and reward innovation.

We live by honesty and integrity.

We support and participate in our communities.

We take individual responsibility.

We support and participate in our communities.

We are all accountable.

For more detail on our business model and the value we have created, please refer to pages 20 to 23.

Read more about the seven SDGs and our sustainable business focus areas in our Sustainable Living Report, online.

### OUR ENDURING VALUES

**Pick n Pay is a much-loved brand,** valued within society, built on a genuine desire to make life better for our customers and to make a positive contribution to the communities in which we live and work. **Our strong and unique family values have guided the business for more than 50 years, providing a solid foundation for growth, innovation, service excellence and generosity.**

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We care for and respect each other.

We foster personal growth and opportunity.

We nurture leadership and vision, and reward innovation.

We live by honesty and integrity.

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We take individual responsibility.

We are all accountable.
Our expansion programme is focused on growing the business by opening stores that reflect the changing habits and needs of our customers and which will bring new customers and communities into the Pick n Pay family.

NUMBER OF STORES

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<tr>
<th>COMPANY OWNED</th>
<th>26 February 2017</th>
<th>Opened</th>
<th>Closed</th>
<th>Converted openings</th>
<th>Converted closures</th>
<th>25 February 2018</th>
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<td>–</td>
<td>–</td>
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<tr>
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<tr>
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<td>22</td>
<td>(5)</td>
<td>1</td>
<td>(1)</td>
<td>246</td>
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<tr>
<td>Superstores</td>
<td>144</td>
<td>10</td>
<td>(1)</td>
<td>–</td>
<td>(1)</td>
<td>152</td>
</tr>
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<td>3</td>
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<td>Total company owned</td>
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<td>20</td>
<td>–</td>
<td>(1)</td>
<td>1</td>
<td>–</td>
<td>20</td>
</tr>
<tr>
<td>Total franchise</td>
<td>614</td>
<td>59</td>
<td>(11)</td>
<td>2</td>
<td>(4)</td>
<td>660</td>
</tr>
</tbody>
</table>

The Group is intent on being the retailer of choice for all the communities it serves.

GEOGRAPHIC FOOTPRINT

SOUTH AFRICA 1541 stores
ZIMBABWE 57 stores
NAMIBIA 28 stores
ZAMBIA 17 stores
BOTSWANA 12 stores
SWAZILAND 17 stores
LESOTHO 3 stores
NIGERIA Planned expansion
GHANA Opportunity for expansion

Our expansion programme is focused on growing the business by opening stores that reflect the changing habits and needs of our customers and which will bring new customers and communities into the Pick n Pay family.
Pick n Pay is a multi-format, multi-channel retailer with a strong and diverse portfolio of stores. Pick n Pay is an inclusive brand, not aimed at serving a single customer demographic, but focused on being the retailer for all - from the most affluent in society to those who are less fortunate and for whom price is of the utmost importance. The middle-income South African consumer, however, makes up the largest portion of our customer base. Pick n Pay operates on both an owned and franchise basis, providing a wide range of products and value-added services, and includes an online offering. Pick n Pay is focused on delivering an exceptional customer offer, including range, quality, price, availability and service. Pick n Pay has a strong growth plan, benefiting from the flexibility of its formats and its leaner operating model, and will focus on bringing its offer to communities where we are not yet well represented, including through small convenience stores.

**OUR STORE FORMATS**

**PICK N PAY SUPERMARKETS**
Pick n Pay supermarkets offer a wide range of groceries, as well as a targeted range of clothing, general merchandise and value-added services. Customers can buy everything they need, from a quick daily top-up to a larger weekly or monthly bulk shop. Fresh produce and butchery offerings are complemented by an in-store bakery, deli and hot food counter. Pick n Pay supermarkets serve a wide range of communities, from lower and middle-income families to the most affluent households. Product ranges are tailored to meet the needs of customers. Some stores focus on basic necessities and local produce while others boast specialty service counters, wine rooms, flower markets and sushi bars. Pick n Pay supermarkets trade under the Pick n Pay, Family, Daily and Mini-market banners.

**PICK N PAY HYPERMARKETS**
Pick n Pay’s largest format store, providing customers with an expanded range of groceries, clothing, liquor and general merchandise. A hypermarket is a “one-stop shop” offering fresh produce, a butchery, deli, bakery and hot food counter, plus specialist categories not always available in a supermarket, such as appliances, kitchenware, home improvement, garden and pool accessories, toys and an expanded health and beauty range. These retail sites are large, catering for destination shoppers, with wide aisles and ample parking. Prices are very competitive, leaning towards multi-pack and bulk-buy items and a wholesale offering.

**PICK N PAY LOCAL**
Pick n Pay Local stores offer neighbourhood convenience, serving a range of communities, focused on lower and middle-income families. A Local store has a much smaller range than a traditional supermarket, targeted specifically to the community it serves. The range is focused on fresh and convenience, and can include a bakery and butchery. Customers can pop in quickly for a daily top-up, but can still choose from a tailored grocery and general merchandise offer for a larger weekly shop.

**PICK N PAY EXPRESS**
Pick n Pay’s partnership with BP, one of the world’s leading international oil and gas companies, provides small 24-hour Pick n Pay Express convenience stores on BP service station forecourts in South Africa. Pick n Pay Express offers a targeted convenience range that satisfies an immediate top-up shop or a quick meal solution. The range is limited and is mainly focused on daily needs. These sites are located in high-traffic flow areas, including high-density residential areas and public transport intersections.

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**OUR FOOTPRINT AND FORMATS (continued)**

Turn page for more Pick n Pay formats.
Our Glenridge Spaza store can be found on a busy intersection in Soweto. We have brought shopping into the very heart of the community by doing so we have cut the cost of travel – allowing community members to spend more on food and necessities.

Since 2016, Pick n Pay has led a collaborative partnership with Government and other strategic partners to help revitalise small, independent township grocery stores and turn them into thriving neighbourhood convenience stores. The neighbourhood convenience format is one of the fastest-growing grocery retail formats worldwide, and a spaza shop is essentially such a format. By bringing together the benefits of our supply chain, systems capability, value-added services and loyalty programme in partnership with a spaza owner’s local knowledge of the needs of customers in the neighbourhood, we are able to bring something special to customers – state-of-the-art grocery retailing in an extremely convenient neighbourhood location. Importantly, we are helping neighbouring customers access the goods they need close to home, which reduces the need to travel for their shop.

Our first pilot store opened in February 2016 and we now have 14 Spaza partners across townships in Gauteng and the Western Cape. Each revitalised store has received a great response from its surrounding community, with strong earnings and profit growth. Successful township businesses help the broader community by creating jobs and encouraging the development of a wide range of skills, including technology and customer service, as well as specific retail skills in butchery, bakery and other areas. The project is in its infancy, but it gives small traders the opportunity to become successful and sustainable business owners and provides Pick n Pay an important opportunity to play a positive role in growing the informal retail market in South Africa.

Our online shopping platform at www.pnp.co.za is a small but growing part of the Pick n Pay business. Pick n Pay is the largest online grocery retailer in Africa. The division is winning customers by offering online convenience, good availability and delivery in one-hour time slots. The online offer in the Western Cape and Gauteng has been expanded through the establishment of dedicated online picking warehouses.

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Our “Spaza-to-Store” partnership with the Gauteng Government’s Department of Economic Development provides spaza shop owners with access to Pick n Pay’s procurement and distribution channel, business systems and technology and management advice and mentoring. Our partnership with spaza entrepreneurs across Gauteng and the Western Cape has revitalised and modernised their stores and delivered strong growth.
Boxer is fast becoming South Africa’s leading limited-range discount supermarket.

Our Boxer stores provide a “one-stop shop” for middle to lower-income shoppers in South Africa and Swaziland. Boxer offers a tight range of quality products and services at very affordable prices. Stores offer essential daily commodities such as maize meal, rice, samp, sugar, oil and beans, as well as perishables, health and beauty, general merchandise and bulk-buy offers. The stores also offer fruit and vegetables, butcheries, bakeries and deli sections providing a choice of prepared convenience meals.

There are no franchise stores under this brand. While Boxer has reach across all nine provinces in South Africa, its geographical heartland is KwaZulu-Natal and the Eastern Cape. Boxer will continue to grow and expand in areas where the Group knows it can serve the needs of communities through its wide product range, affordable prices and community-rooted staff.

**South Africa and Swaziland countries**

**246 stores**

**Four store formats**

**South Africa and Swaziland countries**

**152 owned stores**

**1 850 average m²**

**10 new stores**

**BOXER SUPERSTORES**

Boxer Superstores are full-service supermarkets offering a focused range of groceries. The fresh produce offering is complemented by an in-store butchery, bakery and hot foods counter. The target markets are middle to lower-income urban, peri-urban and rural communities of South Africa and Swaziland. All stores are located close to public transportation hubs and have a welcoming market-style atmosphere.

**BOXER PUNCH**

Boxer Punch is a smaller-sized supermarket located in compact sites that have considerable customer foot flow. The stores offer a limited range of products, including basic commodities, prepacked frozen and fresh meat, and a limited range of bread and confectionery.

**BOXER BUILD**

Boxer Build stocks a diversified range of building and hardware supplies, satisfying home owners’ and builders’ DIY and home improvement needs at the most competitive prices. Boxer Build stores offer savings cards and access to short-term credit facilities. Delivery of purchases can also be arranged at store level.

**BOXER LIQUORS**

Boxer Liquor stores are situated close to Boxer supermarkets, but with separate entrances. These liquor stores provide customers with the added convenience of purchasing liquor at the same time as doing their grocery shopping.

**South Africa country**

**20 owned stores**

**400 average m²**

**BOXER PUNCH**

**South Africa country**

**31 owned stores**

**550 average m²**

**3 new stores**

**BOXER BUILD**

**South Africa country**

**43 owned stores**

**185 average m²**

**9 new stores**

**BOXER LIQUORS**

**South Africa and Swaziland countries**

**57 supermarkets in Zimbabwe**

**40 trading as TM**

**17 trading as Pick n Pay**

The Group has a 49% investment in its associate TM Supermarkets in Zimbabwe. TM Supermarkets, trading under TM and Pick n Pay, is one of the most trusted retailers in Zimbabwe. With its pay-off line “Real Value Always”, customers are offered a wide range of groceries and perishables, with a limited range of general merchandise and a fresh offering that caters specifically for the communities they serve, at competitive prices.

TM Supermarkets draws its customers from all communities and income groups across Zimbabwe, while store formats range from convenient small supermarkets to larger supermarkets.

This is Pick n Pay
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.

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.

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.

Competitive customer offer

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

Serve customers and drive sales

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

Source and buy products effectively

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

Cost-effective and efficient operations

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

Invest in our communities

- Most inclusive retailer in South Africa, serving customers across the diverse spectrum of African societies.
- 31,595 training interventions, reaching almost 11,000 staff
- Partnered with eight new spaza store owners, bringing safe, modern and high-quality grocery offer to previously underserved customers
- Delivered 31,595 training interventions, reaching almost 11,000 staff
- 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
- Energy use per square metre reduced by 37% compared to our 2008 baseline, a 3% improvement on last year

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

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.

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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 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 13%, 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 94% 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.

Read on to find out more about our capital trade-offs and the value we create.
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 have been involved in various initiatives to support the social upliftment of our communities, and through the support of cultural and theatrical projects, sports development and environmental programmes.

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.

OUR BUSINESS MODEL (continued)

CHAPTER 2

Reducing our impact on the environment

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

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.

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.

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.

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.

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.

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.

Our ethical value system, underpinned by strong corporate and social governance, guides our everyday decision-making. This ensures we balance and optimise the trade-offs that exist in our business to act in the best interests of our stakeholders.

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:

- 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

We have a strong and experienced management team who operate within a sound risk management framework that considers the social and environmental impact of our decisions and operations. This ensures that our business can grow, adapt, change and innovate, without placing stakeholders under undue risk.

Read more in our risk report from page 32.

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CHAPTER 3

PICK N PAY IN CONTEXT

- Our economic environment
- Case study: Developing and retaining skills
- Key consumer trends and our response
- Material issues, risks and opportunities
- Engaging with our stakeholders
The retail market in South Africa is diverse and is marked by wide disparities in income and geography. The Pick n Pay Group, with a celebrated history of more than 50 years in South Africa, operates from broad-reach across all socio-economic groups and strong brand loyalty in the grocery retail market.

**Core South African Operations Contribute 95% to Turnover**

- **Operations in the Rest of Africa contribute 5% to turnover**

**South African Retail Environment**

- Real GDP growth of 0.9% in 2017
- Unemployment of 27%
- Lower level of inflation in 2018, with CPI food falling from 11.0% in 2017 to 5.9% in 2018
- Retail sales growth of 4.8% year on year in the first quarter of 2018

A number of retailers operate across the formal and informal markets of South Africa. The food and grocery market in South Africa is complex and difficult to measure precisely. This partly reflects the fact that the market has a large and evolving informal sector. The total market has an estimated value of R870 billion, with approximately 60% of the market considered formal, and 40% informal. Five large retailers, including the Pick n Pay Group, account for approximately 55% of the formal market in South Africa. With turnover of R17.6 billion from its South African segment, Pick n Pay has a share of approximately 9% of the total market, and 15% of the formal market. The informal market is made up of a broad range of small, independent shops, community buying groups and other outlets.

The 2018 financial year was once again characterised by a tough economic climate and constrained consumer spending, with real gross domestic product (GDP) growth in South Africa of just 0.9% over the 2017 calendar year. Political uncertainty over the first three quarters of the year, together with elevated levels of unemployment and a growing budget deficit led to credit agencies Fitch and Moody’s downgrading South Africa to sub-investment grade. Consumers continued to exercise prudence in this environment particularly around discretionary spend, becoming increasingly price conscious and value driven.

The Group responded to the tough consumer environment through decisive action on cost and efficiency in order to unlock savings that could be invested in delivering greater value to our customers. The Group delivered substantial investment in meaningful price cuts across 2,000 everyday grocery items, and restricted its internal selling price inflation to 2.2% for the year (2017: 6.1%), well below consumer price index (CPI) food inflation of 5.0% (2017: 11.0%).

Our work on pricing could not have come at a more significant time. It is estimated that 84% of South African households subsist on incomes of less than R20 000 ($1 700) per month. Price is absolutely key for these families, with the vast majority of our customers looking to stretch their grocery budgets by looking for the best deals on staple commodity products and the lowest pricing on fresh produce and bulk items, including through combination deals. Many of our customers rely on public transport, and these associated costs can be prohibitive, with customers needing convenient and accessible shopping locations close to their homes, work or public transport hubs.

In recent years, comparably strong retail growth has been recorded in the lower to middle-income segments of the market, notwithstanding the challenges faced by communities which make up this part of the market. These communities are resilient, dynamic and aspirational, and there has been good growth in retail sales where economic circumstances improve, even marginally (for example, through the availability of social grants). Pick n Pay and Boxer serve customers across all communities and income groups and are well positioned to capture the growth that a fitter and stronger South Africa will deliver.

Traditionally our Pick n Pay brand has been positioned in the more urbanised areas of South Africa, with particularly strong advocacy from South Africa’s middle to upper-income groups and socio-economic groups and strong brand loyalty in the grocery retail market.

The retail market in South Africa is diverse and is marked by wide disparities in income and geography. The food and grocery market in South Africa is complex and difficult to measure precisely. This partly reflects the fact that the market has a large and evolving informal sector. The total market has an estimated value of R870 billion, with approximately 60% of the market considered formal, and 40% informal. Five large retailers, including the Pick n Pay Group, account for approximately 55% of the formal market in South Africa. With turnover of R17.6 billion from its South African segment, Pick n Pay has a share of approximately 9% of the total market, and 15% of the formal market. The informal market is made up of a broad range of small, independent shops, community buying groups and other outlets.

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Our work on pricing could not have come at a more significant time. It is estimated that 84% of South African households subsist on incomes of less than R20 000 ($1 700) per month. Price is absolutely key for these families, with the vast majority of our customers looking to stretch their grocery budgets by looking for the best deals on staple commodity products and the lowest pricing on fresh produce and bulk items, including through combination deals. Many of our customers rely on public transport, and these associated costs can be prohibitive, with customers needing convenient and accessible shopping locations close to their homes, work or public transport hubs.

In recent years, comparably strong retail growth has been recorded in the lower to middle-income segments of the market, notwithstanding the challenges faced by communities which make up this part of the market. These communities are resilient, dynamic and aspirational, and there has been good growth in retail sales where economic circumstances improve, even marginally (for example, through the availability of social grants). Pick n Pay and Boxer serve customers across all communities and income groups and are well positioned to capture the growth that a fitter and stronger South Africa will deliver.
CHAPTER 3

REST OF AFRICA

The Group has an established presence in Botswana, Lesotho, Namibia, Swaziland, Zambia and Zimbabwe (49% investment in its associate, TM Supermarkets). The Group’s foreign operations contributed R4.6 billion of segmental revenue this year, up 7.7% on last year, notwithstanding difficult trading conditions in some of the regions in which we trade. It was another difficult year, specifically for our Zambian operation, with the region still battling the economic impact of a prolonged drought and a depressed copper price. However, stronger operational efficiency and tight cost control helped to temper the impact of this tough trading environment on sales growth. Notwithstanding the challenges in Zambia, the Group remains confident about its long-term prospects and will continue to build scale in the region and drive growth through a competitive customer offer. The Group’s franchise operations continued to perform well, particularly in Namibia and Swaziland, while the outstanding performer of the Rest of Africa segment was TM Supermarkets. TM Supermarkets has trading momentum, delivering strong double-digit growth in a tough environment in Zimbabwe, characterised by import restrictions, poor stock availability and political uncertainty. TM Supermarkets is benefiting from a positive contribution from its Pick n Pay branded stores and increasing customer demand for Pick n Pay own-brand products. The Group has plans to expand its operations into Nigeria over the next two years. The ongoing formalisation of food and grocery retail across Africa will provide the Group with a second engine of growth in coming years.

OUTLOOK

The Group remains confident of the opportunity that exists within the business for higher sales through an improved customer offer, alongside improved efficiency and profit growth, regardless of the challenges facing South Africa and beyond. However, there is a great deal more political and economic optimism in South Africa than there was just a year ago. The country has a new leader at the helm, and President Ramaphosa has committed to greater levels of economic transformation and growth, including through improved levels of Government service delivery and the elimination of corruption and mismanagement of public funds. President Ramaphosa has indicated that the South African Government will seek closer collaboration with local and foreign business in order to stimulate local and foreign direct investment and combat unemployment in the country. Real GDP is forecasted to improve to 1.5% in 2018, with the Government’s long-term sustainable real GDP growth target at 3.5%.

Local investment and job creation remains a strategic priority for the Group. Over the past three years we have invested R5.3 billion in opening and refurbishing stores and in building our supply chain and, as a result, we have created 13 700 net new jobs. The Group plans to invest a further R1.7 billion in the coming year, and in doing so we will create more sustainable job opportunities. We have, and will play, an important part in alleviating the levels of high unemployment in South Africa and in ensuring that the marginalised in our societies benefit from greater inclusion in the economic prosperity to come.

Our Chartered Accountant (SA) and graduate training programmes are aimed at attracting talented young people into the business and developing them to join our management team. Our corporate academy seeks to fast-track the development of a pool of managers for our stores. The training programmes provide exposure and experience in all areas of the business, including on-the-job training supported by formal training courses. Graduates are assessed throughout the programme for suitability and possible placement in various areas of the business.

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To build our talent pipeline, we offer learnership programmes that focus on scarce skills, particularly in the bakery and butchery sectors. Up to 100 learners are taken on each year to complete first-level qualifications. We seek to attract young talent at local Technical Vocational Education and Training (TVET) colleges in order to build a pool of local, skilled workers that can be recruited into their local community stores. Our leadership development programmes, accredited by formal tertiary institutions in South Africa, have been very successful in providing the business with future leaders.

LONG-TERM CONSUMER OUTLOOK

More Positive, Supported By:

- Greater South African political stability under President Ramaphosa
- Improved outlook for economic growth and transformation
- A young population
- A growing consumer base
- Good infrastructure
- Robust and enduring institutions, with strong corporate governance

SHORT-TERM CONSUMER OUTLOOK

- Low consumer confidence and restrained spend
- High unemployment
- Consumers looking for more value
- Higher levels of inflation, with inflationary pressure from rising fuel costs, a weaker rand and the recent VAT hike
- Real GDP growth forecast for 2018: 1.5%

OUR ECONOMIC ENVIRONMENT (continued)

LONG-TERM CONSUMER OUTLOOK

MORE POSITIVE, SUPPORTED BY:

- Greater South African political stability under President Ramaphosa
- Improved outlook for economic growth and transformation
- A young population
- A growing consumer base
- Good infrastructure
- Robust and enduring institutions, with strong corporate governance

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KEY CONSUMER TRENDS AND OUR RESPONSE

The Pick n Pay Group operates in a dynamic retail environment. By keeping our customers at the heart of our strategy, we are able to adapt quickly and respond to their changing needs.

PRICE AND VALUE

- Customers consistently demand lower prices and added value
- Customers are prepared to shop around for the lowest prices

Our response: improved efficiency supporting price investment

- Increased operational efficiency is supporting meaningful and ongoing price investment
- Substantial price cuts across 2,000 everyday grocery items over the year
- Pick n Pay modernised Smart Shopper in March 2017, delivering a more cost-effective and relevant loyalty programme, offering greater personal discounts than ever before

Supported by strategic business acceleration pillars

ONLINE SHOPPING

- Customers are shopping via online retail platforms and mobile apps
- Customers are able to price check and shop promotions

Our response: investment in Pick n Pay online

- Ongoing investment in our online platform, with dedicated online warehouses in the Western Cape and Gauteng regions of South Africa, to improve our online offer for customers
- In-house management of the online delivery fleet to provide customers with reliable and on-time delivery service in one-hour time slots

Supported by strategic business acceleration pillars

CONVENIENCE

- Time-pressed customers are seeking out more convenience
- Customers are shopping closer to home, work and transport hubs in smaller convenience supermarkets
- Customers are shopping more regularly for smaller baskets, and are looking for smaller stores that they can move around in quickly

Our response: meeting the changing needs of our customers

- Our more efficient operating model has enabled the Group to successfully operate a smaller supermarket on a leaner cost base
- Our local and express formats are bringing Pick n Pay closer to customers
- The growth of our Boxer brand and our partnership with spaza shops in Gauteng, have brought a quality offering to some of the more informal communities of South Africa

Supported by strategic business acceleration pillars

- Pick n Pay is growing its own-brand offer, which includes a stronger ready-meal range for customers
- A compelling value-added services platform, with strong growth across all categories, including third-party bill payments and money transfers

Our response: improved efficiency supporting price investment

- Increased operational efficiency is supporting meaningful and ongoing price investment
- Substantial price cuts across 2,000 everyday grocery items over the year
- Pick n Pay modernised Smart Shopper in March 2017, delivering a more cost-effective and relevant loyalty programme, offering greater personal discounts than ever before

Supported by strategic business acceleration pillars

- Boxer is securing value leadership in the lower-income communities of South Africa
- Providing greater access to affordable financial services, including money transfer and store accounts, at the lowest cost across the industry

Our response: investment in Pick n Pay online

- Ongoing investment in our online platform, with dedicated online warehouses in the Western Cape and Gauteng regions of South Africa, to improve our online offer for customers
- In-house management of the online delivery fleet to provide customers with reliable and on-time delivery service in one-hour time slots

Supported by strategic business acceleration pillars

- Extended delivery service hours in high-demand areas
- Launched new mobile-enabled Pick n Pay online website to provide customers with a quick and easy online shopping experience, with a 70% increase in customers accessing our online website from a mobile device

Our response: meeting the changing needs of our customers

- Pick n Pay is growing its own-brand offer, which includes a stronger ready-meal range for customers
- A compelling value-added services platform, with strong growth across all categories, including third-party bill payments and money transfers

Supported by strategic business acceleration pillars

- Customers demand more added-value options, including pre-prepared convenience meals
- In order to save time, customers are seeking out value-added services at till

Our response: investment in Pick n Pay online

- Ongoing investment in our online platform, with dedicated online warehouses in the Western Cape and Gauteng regions of South Africa, to improve our online offer for customers
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Supported by strategic business acceleration pillars

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Material Risks

- Worsening macro and socio-economic conditions that could further constrain consumer spending
- Persistent drivers of inflation, for example growing transport and utility costs, that could put pressure on sales volumes
- Negative customer perception around price and value

Opportunities and Risk Management

- Pick n Pay is the most inclusive retailer in South Africa, well positioned to meet the changing needs of all consumers
- Greater operational efficiency is driving meaningful price investment
- Our scale, history and strong supplier relationships enable effective price negotiation on behalf of customers – with further added value from Pick n Pay’s buy better programme in 2018
- Smart Shopper is providing more personalised value than ever before
- Our growing own-brand offer is providing more trusted value
- 95% of our offer is local – reducing the impact of a weaker rand on the value chain
- Boxer is providing the most competitive prices on staple commodities to customers who need it the most

Our Material Issues

The Group agreed that all material matters identified in 2017 remained relevant for the 2018 financial year. The opportunities identified per material matter demonstrate how the risks are being mitigated, and where possible, are viewed as growth opportunities for the Group through its strategic long-term plan.

In the 2018 financial period, the following matters were considered to be material for the Group:

- Consumer environment
- Competitive environment
- Effectiveness of procurement and distribution channel
- Food and other health and safety standards
- Effective execution of strategy and long-term sustainable value creation
- Effectiveness of our information systems and technology
- Building and retaining a talented and diverse retail team
- Volatility of the Group’s Rest of Africa division

These material matters are discussed in more detail on the following pages of this report.

Our Process for Determining Materiality, Material Issues, Risks and Opportunities

The South African economic environment has been challenging over recent years, with consumers grappling with debt, escalating household costs and higher levels of unemployment. Consumer confidence remains low, even with the renewed hope of positive economic transformation under President Ramaphosa, and customers continue to spend prudently.

The South African retail space is strongly contested, with both established and emerging retailers across the formal and informal market.

Consumer Environment

Material Risks

- The impact of a strategic competitive move against a major product category or store format
- Increased price competitiveness and promotional intensity resulting in uncompetitive pricing
- Missing out on the best locations for new stores
- Opening or refurbishing stores that do not deliver sustainable returns
- Not attracting or retaining the best franchisees

Opportunities and Risk Management

- Brand loyalty – Pick n Pay is one of the most loved and admired brands in South Africa, giving the Group a unique competitive advantage
- Smart Shopper is South Africa’s favourite loyalty programme, with over seven million active customers
- Flexible formats and an increasingly lean operating model allow us to respond quickly to changing consumer needs, including through smaller, convenience formats
- Boxer is demonstrating strong growth and increasing customer advocacy in the lower-income and more rural areas of South Africa
- Strong opening and refurbishment programme – focused on investment that will generate sustainable return
- Open and constructive engagement with all developers and landlords
- The most successful and mutually beneficial franchise model in the retail industry – with regular and open engagement with all our franchisees to ensure value creation for all

Competitive Environment

Material Risks

- The macroeconomic environment
- Changing industry and consumer trends
- The expectations and concerns of stakeholders

Opportunities and Risk Management

- Greater operational efficiency is driving meaningful price investment
- Our scale, history and strong supplier relationships enable effective price negotiation on behalf of customers – with further added value from Pick n Pay’s buy better programme in 2018
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- Boxer is providing the most competitive prices on staple commodities to customers who need it the most

For more information on the capitals, key stakeholders and business acceleration pillars impacted or informed by our material issues, risks and opportunities, please refer to page 5 of this report.
**EFFECTIVENESS OF PROCUREMENT AND DISTRIBUTION CHANNEL**

The Group is increasingly reliant on the effectiveness of its own supply chain channel, with 68% of Pick n Pay’s inventory distributed through its centralised distribution centres.

<table>
<thead>
<tr>
<th>Material risks</th>
<th>Opportunities and risk management</th>
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<tbody>
<tr>
<td></td>
<td>The Group has built a robust distribution network, which is distributing every product, every day to stores on a short-order lead time.</td>
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<tr>
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<td>Improved efficiencies from:</td>
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<td>a single warehouse management system across all distribution centres</td>
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<td></td>
<td>an enterprise-wide automatic forecast and replenishment system</td>
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<td>an online, real-time supplier portal</td>
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<td></td>
<td>A dedicated team of procurement and distribution experts</td>
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<td>Strong relationships with suppliers, logistics providers, and warehouse managers</td>
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<td></td>
<td>Business continuity and disaster recovery plans in place</td>
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**FOOD AND OTHER HEALTH AND SAFETY STANDARDS**

Food safety has always been recognised as one of our material risks, and we are committed to providing our customers with safe, high-quality food and a safe and secure shopping experience. This risk became a stark reality in March 2018 with an outbreak of a deadly strain of listeriosis traced to a large food producer in South Africa. The Group reacted quickly and decisively, swiftly removing all potentially affected products from its shelves for destruction in accordance with the Group’s formal product recall and disaster management protocol. We also openly engaged with customers and encouraged them to return any products that they were concerned about for a full refund.

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<td>The Group has a specialist team that is dedicated to building, maintaining and protecting its IT infrastructure, which follows best practice in development, maintenance, cybersecurity and recovery</td>
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<td>Ongoing innovation has:</td>
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<td></td>
<td>The team is focused on customer-centric, forward-thinking mobile technology to drive convenience and customer service</td>
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**EFFECTIVENESS OF OUR INFORMATION SYSTEMS AND TECHNOLOGY**

The Group is reliant on enterprise-wide information technology that supports and facilitates critical functions across its operations, including point-of-sale transactions, product forecast and replenishment, labour scheduling, Smart Shopper, Brand Match, Pick n Pay Online and real-time financial reporting.

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<td>The ability of IT systems to support growth and innovation</td>
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<td>Cyberattacks and the impact on the security of confidential information of the Group and our customers</td>
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<td>The accuracy and timeliness of information for decision-making purposes</td>
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MATERIAL ISSUES, RISKS AND OPPORTUNITIES (continued)

Material risks
• Inability to attract or retain talent that can deliver on the Group’s strategy and ensure relevant succession
• Lack of skills development and training
• Lack of diversity or opportunity for all
• Increasing cost of labour without a commensurate increase in return
• Labour strikes/stoppages that affect the operation of our business

Opportunities and risk management
• Remuneration policy provides strong commitment to diversity, career advancement, training and incentivisation
• Business-wide performance management system to drive a high-performance culture and to recognise and reward performance
• Remuneration benchmarked across the industry
• Open and constructive relationships with labour unions and formal processes to proactively manage critical issues

VOLATILITY OF THE GROUP’S REST OF AFRICA DIVISION

The Group is building its operations outside South Africa and sees this diversification as a second engine of growth. It operates in six countries outside South Africa, has plans to open in Nigeria over the next two years and will continue to explore other opportunities across the continent.

Material risks
• The Group faces different political, economic, social, regulatory and other operational risks in each country in which it operates, which can lead to increased volatility in the result of the Rest of Africa division
• A lack of understanding of local markets can negatively impact on the sustainable returns from these countries

Opportunities and risk management
• Growth outside South Africa is managed in a planned and deliberate manner – without placing the core South African business at any undue risk
• The ownership or investment model is tailored to best suit the operating environment and, wherever possible, includes collaboration with experienced, local partners who share our values and our commitment to strong corporate governance
• We look for growing markets that provide opportunity for real scale in a business environment that is well-regulated, without too much complexity, and that is welcoming to foreign investment
• We have a dedicated “Rest of Africa” team

BUILDING AND RETAINING A TALENTED AND DIVERSE RETAIL TEAM

One of the key drivers behind the Group’s long-term strategic turnaround plan is the ambition, commitment and performance of its team. The success of the Group is also predicated on the growth of South Africa and its ability to provide job creation for all. The Group is determined that its team will reflect the diverse communities that we serve, and we will provide good career opportunities in retail.

Material risks
• Remuneration policy provides strong commitment to diversity, career advancement, training and incentivisation

Opportunities and risk management
• Remuneration policy provides strong commitment to diversity, career advancement, training and incentivisation
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Capitals
Stakeholders
Strategic pillars

Pick n Pay was proud to be recognised by The Institute for Risk Management South Africa (IRMSA) for its outstanding contribution to risk management.

Our group risk and assurance services team – which reports directly to the audit, risk and compliance committee – scooped the award in the wholesale and retail category for its role in developing, implementing and driving an integrated combined assurance programme across the Group. The programme has improved the visibility, transparency and reporting of all material risks, developed appropriate action plans for effective risk mitigation and risk monitoring, and improved operational efficiency through the management of interdependencies and the realignment of resources.

Pick n Pay in context
Stakeholders are those parties that can affect, or be affected by, our activities, objectives and policies. The Group identifies its key stakeholders through ongoing engagement with individuals, groups and organisations.

The following infographic outlines our key stakeholder groups, why we engage and the value we derive through proactive, open and constructive engagement with them.

In the rest of this section, we detail our engagement with key stakeholders, focusing on those groups that have either a significant interest in the operations of the Group or have significant influence over the way we do business and create value.

**CUSTOMERS**
We are accountable to those we serve. Our customers are at the heart of our strategy, and we engage in order to adequately respond to their changing needs, to strengthen our offer and to drive our sales.

**COMMUNITY**
The success of the Group depends on the well-being and prosperity of the communities we serve. We engage to identify social and economic needs and to provide meaningful support and opportunity for sustainable economic growth, for the benefit of all.

**EMPLOYEES**
We are committed to building a winning team. We engage with our staff to communicate strategy and responsibilities, identify needs, recognize and reward good performance and hold each team member accountable for their contribution to the success of the Group.

**SUPPLIERS**
We are supported by a broad network of suppliers and service providers. We engage to source high-quality products at the best prices, and to ensure food safety, sustainable and ethical business practices, innovation and consistent on-shelf availability.

**FRANCHISEES**
Our 660 franchise stores are an integral part of the Group, and the success of the franchise model depends on the success of our franchise partners. We engage with our franchisees to find mutually beneficial and sustainable business practices and growth opportunities, to build our scale and extend our reach.

**SHAREHOLDERS**
We engage with the investment community in order to provide a comprehensive, consistent and well understood investment case for the Group, so that shareholders are able to make informed investment decisions, and our share can trade at a fair value.

**CUSTOMERS**
What our customers tell us is most important to them:
- Low prices, good value
- Convenience
- Product quality and food safety
- Good, consistent availability
- Great service
- Rewards for loyalty
- Community involvement

How our strategy responds to customers’ needs:
- Great prices and promotions
- Leading product range, including more own-brand products
- Convenient store locations
- Next Generation in-store experience
- South Africa’s favourite loyalty programme
- More value-added services, including competitive financial services offer

How we engage:
- Daily engagements in our store
- Dedicated customer director
- Customer care line
- One-on-one meetings
- Regular customer surveys, forums and panel discussions
- Social media platforms

Supported by strategic business acceleration pillars:
Refer to the “Better for customers” business acceleration pillar on page 45.

**COMMUNITY**
What our communities tell us is most important to them:
- Job creation
- Economic development and opportunity
- Access to safe food, at low prices
- Poverty relief and community outreach programmes
- Environmental consciousness

How our strategy responds to our communities’ needs:
- Doing good in our communities underpins all our strategic pillars
- Environmental and social responsibility
- Develop and source from diverse and ethical suppliers
- Job creation through long-term sustainable growth
- Promote healthy and sustainable living

How we engage:
- Forums such as township cooperatives, university partnerships and the Pick n Pay School Club
- Individual stores’ varied social responsibility programmes
- Environmental consciousness

Supported by strategic business acceleration pillars:
Refer to the strategic focus section on pages 45 to 50.

**PROXY**
What our proxies tell us is most important to them:
- Shareholder value

How our strategy responds to our proxies’ needs:
- Shareholder value

How we engage:
- Shareholder communications

Supported by strategic business acceleration pillars:
Refer to the “Better for shareholders” business acceleration pillar on page 45.
## EMPLOYEES

**What our employees tell us is most important to them:**
- Competitive remuneration and benefits
- Training and career development
- Fair and reasonable working hours, with certainty of hours and shifts
- Sustainable business performance
- Wellness programmes
- Work-life balance
- Working for a responsible and ethical corporate citizen

**How we engage:**
- Regular management updates
- Employee surveys
- Monthly internal publications
- In-house television, radio communications and employee conferences
- Skills development and training
- Ongoing engagement with labour unions

**How we engage:**
- Store visits by franchise management team and service area consultants
- Regular management updates
- Employee surveys
- Monthly internal publications
- In-house television, radio communications and employee conferences
- Skills development and training
- Ongoing engagement with labour unions

**How our strategy responds to employee needs:**
- One of our strategic pillars is focused on building South Africa’s most talented retail business
- Our remuneration policy drives fair and competitive remuneration and the recognition and development of talent
- We provide numerous training and development programmes to upskill our staff
- We are building a loan and effective organisational structure for the benefit of all
- We advance employee opportunity and diversity

**Supported by strategic business acceleration pillars:**
Refer to the “Winning team” business acceleration pillar on page 48.

## FRANCHISEES

**What our franchisees tell us is most important to them:**
- The opportunity to build a profitable and sustainable business
- Offer the most successful, mutually beneficial franchise
- Competitive remuneration and benefits
- One of our strategic pillars is focused on building South Africa’s most talented retail business
- Our remuneration policy drives fair and competitive remuneration and the recognition and development of talent
- We provide numerous training and development programmes to upskill our staff
- We are building a loan and effective organisational structure for the benefit of all
- We advance employee opportunity and diversity

**How our strategy responds to franchisees’ needs:**
- Offer the most successful, mutually beneficial franchise model in the retail industry
- Operate as a sustainable franchise of choice

**How we engage:**
- Store visits by franchise management team and service area consultants
- Regular meetings with regional operational teams and national franchise representatives
- CSI programmes in the communities in which our franchisees operate
- Franchise conferences

**Supported by strategic business acceleration pillars:**
Refer to the “Flexible and winning estate” business acceleration pillar on page 48.

## SUPPLIERS

**What our suppliers tell us is most important to them:**
- Fair pricing and transparent negotiation
- Effective and efficient administration
- Sustainable business partnerships
- Research and development support, transparent contracts and agreements, infrastructure and logistics support
- Opportunities for cost reduction
- Transformation and enterprise development
- Resource efficiency (energy, water, waste, logistics)

**How we engage:**
- Fact-based negotiation as part of our buy better programme
- Regular meetings in line with merchandise cycle timelines
- Dedicated supplier portal
- Regular food safety audits at production facilities
- Ongoing store visits with suppliers
- Joint business planning sessions
- Supplier conferences
- Dedicated enterprise development programme

**How our strategy responds to supplier needs:**
- Building fair, efficient and mutually beneficial business relationships
- Developing a cost-effective and efficient supply chain
- Product innovation to meet evolving customer needs
- Continual development of small businesses and diverse and ethical suppliers
- Implementation of Pick n Pay Fast Pay – key banking partners provide competitive funding to participating suppliers for the early settlement of invoices
- Contribute to job creation

**Supported by strategic business acceleration pillars:**
Refer to the “Every product, every day” business acceleration pillar on page 48.

## SHAREHOLDERS

**What our shareholders tell us is most important to them:**
- Improved and sustainable return on investment
- Generate consistent profits in a sustainable manner
- Understand our business model, strategic direction and profit drivers
- Access to timely, accurate and relevant information
- Sufficient free float of shares for trade
- Good corporate governance
- A socially responsible and ethical corporate citizen

**How our strategy responds to shareholders’ needs:**
- Generate consistent profits in a sustainable manner
- Operate according to the highest corporate governance principles
- Follow innovative business practices at acceptable levels of risk
- Capital efficiency
- Provide attractive returns on investment

**How we engage:**
- At least four formal engagements a year: two financial results presentations, one AGM and an investor day/strategic update
- Regular engagement with investors, analysts and fund managers
- Direct engagement on proposed resolutions prior to annual and general meetings
- Dedicated investor relations team and investor website at www.picknpayinvestor.co.za

**Supported by strategic business acceleration pillars:**
Refer to the “Efficient and effective operations” business acceleration pillar on page 47.
CHAPTER 4

OUR STRATEGY

Strategic focus
Our strategy

The strategic focus of the business is to:
- Grow sales in line with, or ahead of the market, by providing great value, service and innovation for customers.
- Achieve high levels of operating efficiency and lower costs to enable maximum reinvestment in the customer offer.

The focus here is on delivering a first-class fresh, convenience and grocery offer, which gives customers unbeatable prices, value and service. The business is also developing a strong multi-platform and multi-channel retail offer, including small convenience formats, standalone clothing and liquor stores, and greater innovation through financial services and a growing online business. In addition, the Group is building its box office business into a thriving national limited-range discountar, and is growing its footprint outside South Africa in a planned and prudent way.

STRATEGIC FOCUS

The Group developed its strategic turnaround plan in 2014. Its objective was to restore the business to a position of long-term sustainable growth. The Group’s successful execution of its plan to date is evident in the delivery of consistent earnings growth and value creation over the last four years.

Stage 1: Stabilise the business

Stage 1 of the Group’s strategic plan focused on stabilising the operations and financial position of the business, while developing a solid foundation for future growth.

Critical building blocks included the acceleration of a centralised supply chain, the development of a more efficient “Next Generation” supermarket, and the restructuring of our Boxer business into South Africa’s leading limited-range discountar.

By 2016, the Group was well positioned for the second stage of its plan – changing the growth trajectory of the Pick n Pay Group.

Stage 2: Change the trajectory

The second stage of its turnaround plan has seen the Group focus on reducing cost and increasing productivity across its operations, enabling it to invest more in its customer offer. The Group is also developing as a multi-channel retailer, with a focus on convenience, including smaller format stores, a strong and innovative online offer and a broad range of value-added services.

Stage 2 is organised around seven business acceleration pillars. These represent the seven material growth opportunities for the Group to create value. The pillars consider the material issues and concerns of our stakeholders, as well as the risks facing the business (refer to pages 32 to 36), and are underpinned by our commitment to always do good in the communities we serve.

The Group accelerated its efficiency efforts in 2018 in response to the increasingly challenging trading environment in South Africa, supporting a more competitive offer for customers through lower prices, better stores and a growing range of own-brand products.

Stage 3: Achieve sustainable long-term growth

The progress achieved over the past five years has put the Group in a stronger position to reach Stage 3 of its plan, and it is demonstrating a number of the attributes associated with a long-term sustainable retail business. These include a mature and effective supply chain, ongoing improvements in operating efficiency, a clear blueprint for growth, innovation and the agility to respond to changing customer needs.

The Group regards a sustained improvement in its underlying profit margin as a lead indicator of progress in achieving a balanced turnaround, characterised both by sustained sales growth and greater operating efficiency.

BETTER FOR CUSTOMERS

The Group’s long-term success depends on the loyalty and support of its customers. It is committed to delivering a strong and consistent customer offer that earns the lifetime loyalty of customers 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, while enhancing the quality of its range and its service.

2018 – What we said we would do and what we accomplished

- Lower everyday prices
- Expanded own-brand offer
- Refreshed Smart Shopper
- Improved fresh produce offer
- Improved customer service

2019 – Strategic priorities for next year

- More low prices and a strong promotional calendar
- Enhanced fresh offer with a focus on longer-lasting quality and combination deals
- Ongoing innovation in loyalty and value-added services

Performance measures include:
- Turnover growth
- Trading densities
- Price competitiveness and success of promotions
- Category performance
- On-shelf availability
- Customer feedback – “Fan Score”

OUR PERFORMANCE AGAINST OUR BUSINESS ACCELERATION PILLARS

The Group’s plan is organised around seven business acceleration pillars. These pillars provide the senior management team with clear priorities, objectives and lines of accountability. The Group has consistently communicated its financial and operational performance against these pillars, providing stakeholders with a consistent and transparent scorecard of year-on-year progress.

Each business pillar presents an opportunity to create value and the value creation is tracked against measurable goals.
CHAPTER 4

Our strategy

A FLEXIBLE AND WINNING ESTATE

The Group’s growth plan is to open stores in locations that can provide sustainable, long-term returns. Changing customer demographics and dynamics mean that there is good opportunity for the Group to extend its reach and grow its turnover without impacting existing stores, including through smaller stores that focus on the growing customer demand for convenience and a growing online platform. The Group is able to operate successfully in a broader range of locations due to the greater operating flexibility and efficiency delivered as part of its turnaround plan.

2018 – What we said we would do and what we accomplished

- 153 new stores contributed 3.1% to turnover growth
- 29 closures improved overall quality of the estate
- Estate reached 1,685 stores across all formats
- Return on capital employed of 32.6% (FY17: 32.3%)

More convenience

- Opened stores in 15 new communities across South Africa
- 8 new market store conversions (Spaza shops) in townships across Gauteng and the Western Cape
- 9 new Pick n Pay Local stores and 9 new Pick n Pay Express stores

More Next Generation stores

- 80 refurbishments – 61 company owned and 19 franchise
- 50% of supermarket estate is new or has been revamped in the past 3 years
- Ongoing development of Next Generation model – with improved store design, more compact range and a strong fresh and convenience offer

Enhanced online offer

- Launched new mobile-enabled website in September 2017
- 150% increase in online shopping registrations and 70% increase in online visits from a mobile device
- Extended delivery service hours in high-demand areas

Performance measures include:

Sustainable growth in new space
Targeted refurbishment programme
Greater convenience

Investment in our hypermarkets

- Two major refurbishments completed – Durban North and Northgate
- Established a dedicated management team
- Good progress on our journey to invigorate this format; 75% now the right size, 50% modernised and 100% more competitive in 2018

EFFICIENT AND EFFECTIVE OPERATIONS

An efficient, well-run and cost-effective store operation is key to delivering an excellent shopping trip for customers. Greater efficiency also unlocks value for further investment in the customer offer. The Group’s Next Generation stores, and specifically our smaller convenience formats, have demonstrated an ability to operate a more efficient store on a leaner cost base. The Group is also focused on providing more cost-effective and productive support offices, centralising support services to eliminate any inefficiencies and duplication of effort.

2018 – What we said we would do and what we accomplished

Leanser store operating model

- Improved operating standards rolled out across all store formats
- Like-for-like expense growth contained at 1.6%, below like-for-like turnover growth of 2.2%
- Like-for-like employee costs reduced to 7.9% of turnover (FY17: 8.3%), if the once-off cost of the VSP is excluded

Cost-effective support offices

- Ongoing centralisation of administrative functions continued to improve efficiencies and lower support office cost
- Like-for-like operations costs up just 2.4%
- Like-for-like merchandise and administration costs up just 1.1%, with savings in professional, legal and other support services

More synergies between Pick n Pay and Boxer

- Ongoing alignment with SAP financial reporting systems and administrative functions across the Group, including statutory reporting and compliance

Stronger working capital management

- Reduced stock holding of slow-moving lines
- Inventory up only 4.9% year-on-year, notwithstanding 78 net new company-owned stores. Like-for-like inventory down 5.0% on last year
- Implemented the Pick n Pay Fast Pay supply chain finance programme for the benefit of suppliers

Better front-line service

- Ongoing improvement in in-store technology and the roll-out of modern ills
- Customer service and front-line training reached 5,100 staff members

2019 – Strategic priorities for next year

2019 – Strategic priorities for next year

Sustainable improvement in trading expenses margin
- Stronger working capital management, including range rationalisation
- Lower finance costs

Performance measures include:

Growth in like-for-like trading expenses
Expense ratios expressed as a percentage of turnover
Net interest cost

2019 – Strategic priorities for next year

Sustainable growth
Targeted refurbishment programme
Greater convenience

Performance measures include:

- Contribution of new stores to turnover growth
- Return on capital investment
- Cash pay-back periods
- Online turnover 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 significantly improved on-shelf availability, and is driving cost savings and efficiency across the business. Pick n Pay and Boxer distribution centres deliver every product, every day to stores across the country, on a short order lead time.

2018 – What we said we would do and what we accomplished

- More suppliers centralised
  - Total volume of centralised supply in Pick n Pay increased to 68% (FY17: 60%)
  - 98 new suppliers, including 6 suppliers from our supplier development initiatives
  - Centralised grocery volume in Pick n Pay has reached 70% across the country, with fresh and perishable produce at 80% and general merchandise at 40%
- Lower cost
  - Implementation of buy better programme with suppliers
  - Gross profit margin unchanged at 18.7%, notwithstanding substantial price investment
  - Stronger management of waste and shrink
- Better availability in stores
  - Reduction of slow-moving lines
  - Improvement in strike rates leading to consistent levels of on-shelf availability
- New distribution centre capability
  - Boxer opened a new distribution centre in the Eastern Cape
  - Pick n Pay opened a new distribution centre in KwaZulu-Natal

2019 – Strategic priorities for next year

- Greater centralisation of supply, with further improvements in strike rates to stores
- Ongoing cost and efficiency savings from our buy better programme
- Additional distribution capacity in Gauteng region of South Africa

Performance measures include:
- Gross profit margin
- Cost per case through distribution channel
- Strike rates of products from distribution centres to stores
- Waste

A WINNING TEAM

The Group has an ambition to build the most skilled and talented retail business in South Africa, and in all the African countries in which it operates. In order to do so, we need to be the employer of choice for anyone looking to build a career in the retail industry. We attract staff by providing competitive pay and benefits, access to skills training and development, career advancement and recognition for a job well done.

2018 – What we said we would do and what we accomplished

- Leaner and fitter head office
  - Successful conclusion of voluntary severance programme across Pick n Pay
  - Removed roles and functions that were no longer required – streamlining the workforce by 10%
  - Like-for-like employee costs reduced to 7.9% of turnover (FY17: 8.3%), if the one-off cost of the VSP is excluded
- Focus training on customer service
  - Implemented Pick n Pay Fan Score to measure customer service against customer feedback
- Drive and reward exceptional performance
  - Pick n Pay Fan Score programme provides additional incentives for improved customer service
  - Rolled out formal performance management and reward programme across the Group – with long-term and short-term incentives directly linked to the attainment of performance measures as set out in the seven business acceleration pillars
  - First successful vesting of forfeitable plan shares, rewarding strong headline earnings per share (HEPS) growth over the vesting period

2019 – Strategic priorities for next year

- More jobs in more stores
- Improved labour costs as a percentage of turnover
- A more cost-effective and efficient human resources (HR) function

Performance measures include:
- Labour costs as a percentage of turnover
- Staff scheduling
- Labour costs per square metre
- Promotions, training interventions and other awards

BOXER – A NATIONAL BRAND

The Group’s ambition is to build the Boxer business into the leading limited-range discounter in Southern Africa. Boxer delivered strong growth over the past year, notwithstanding the difficult economic conditions facing the middle and lower-income communities it serves.

2018 – What we said we would do and what we accomplished

- Focus on providing best value in the market
  - Boxer provided unbeatable value on basic commodities and combination offers
- More stores serving more communities
  - 22 new Boxer stores across all formats, including 10 supermarkets
- Continued refurbishment of existing estate
  - 37 refurbishments
- Successful Next Generation store model rollout across new and refurbished stores

2019 – Strategic priorities for next year

- Increased capital investment across new stores and refurbishments
- Enhanced fresh offer, including great deals on butchery and fresh produce
- Greater levels of centralised supply

Performance measures include:
- Turnover growth
- Earnings growth
- Market share
- Return on investment

REST OF AFRICA – A SECOND ENGINE OF GROWTH

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

2018 – What we said we would do and what we accomplished

- Maintain progress in Zimbabwe
  - Opened new store in Gweta
  - Three refurbishments, including flagship Borrowdale Pick n Pay
  - Ongoing collaboration with Pick n Pay management team drives earnings up 45%
- Improve in Zambia
  - Refurbishment of our Next Generation Woodlands store
  - Stronger operational efficiency and cost control tempered the impact of the tough trading environment
  - Alignment of system infrastructure with South African operations, with introduction of new point-of-sale system
- Develop our business in West Africa
  - Working closely with AG Leventis, our partner in Nigeria, to secure suitable trading sites in Lagos
  - First store planned to open over next two years

2019 – Strategic priorities for next year

- More capital investment – new stores in Zambia and ongoing refurbishments in Zimbabwe
- Improvement in our operating model – delivering further cost savings in difficult trading environments
- Develop our business in West Africa

Performance measures include:
- Sustainable turnover and earnings growth
- Increase of participation in Group profit
The Group’s turnaround plan has essentially been about returning the Group to its roots as a discounter and consumer champion. Over the past five years, the Group has improved its customer offer, modernised its stores, centralised its supply chain, and firmly controlled its costs. The result has been strong profit growth, an improvement in underlying profit margins, and sustainable value creation for all stakeholders.

The Group has, through the ongoing execution of its plans, successfully built five clear engines for long-term growth:

1. **Pick n Pay – South Africa’s most trusted retailer**
   
   Pick n Pay was recognised as South Africa’s most trusted retailer in 2017, as it strengthens its business and customer offer while always remaining true to strong core values of corporate governance and corporate citizenship.

2. **Boxer – Africa’s favourite discounter**

   Boxer is delivering strong market-beating turnover growth as it provides even greater value to customers across South Africa and Swaziland through its tight range, high-quality meat and produce offer, and a modern and convenient store estate.

3. **Value-added customer services**

   Services are an increasing contributor to growth. The Group is using its substantial store and systems infrastructure to offer its customers innovation in value-added services, including bill payments and money transfers, and we are determined to grow into South Africa’s most affordable and inclusive banking partner.

4. **Expansion in Africa**

   There is great opportunity for the Group to expand its reach outside South Africa, and we have a dedicated Rest of Africa team focused on growing our business in a measured and considered way that delivers sustainable growth in developing markets.

5. **Force for good**

   We are exceptionally proud of our substantial contribution to the well-being of South African communities over more than 50 years. We are committed to building a better South Africa through a focus on more jobs, more entrepreneurs, and more support for our schools. Our business will grow hand in hand with our contribution to society.

**STAGE 3 OF OUR STRATEGY: LOOKING AHEAD**

The Group has not communicated a timeline for the completion of Stage 2. We will look for the following indicators as markers for the successful completion of Stage 2, providing 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 positive force for good in the countries in which it trades
- Strong customer loyalty and advocacy
- Continued innovation in store and in our customer offer
- An operating model that benchmarks internationally
- A continuing growth strategy
- An employer of choice that delivers opportunity for all
- Collaborative and enduring relations with a strong and diverse supplier base
This has been the most important year so far in my tenure as CEO of Pick n Pay. Against a very difficult economic backdrop, we took decisive action to reduce our costs, modernise our offer, and improve the value we offer to South African consumers at a critical time. Our accelerated efficiency efforts added cost and disruption in the first part of the year; however, the Pick n Pay Group is a fitter, stronger and more competitive business as a result of this action.

Ongoing capital investment, together with the successful implementation of a number of key strategic initiatives – including the modernisation of Smart Shopper, a streamlined labour force through a voluntary severance programme and our buy better programme – enabled a substantially improved customer proposition through lower prices, better stores and our growing range of own-brand products. This strategy paid off with an exceptional final-quarter trading performance, where we delivered sales growth well ahead of the market, and solid market share growth across a number of our formats.

Pick n Pay was recognised by the Reputation Institute as South Africa’s most trusted retailer last year, and as the third most trusted company in the country. I am proud of this accolade, as it is voted on by South African consumers, and it embodies everything we do every day across all our stores and operations to make the lives of our customers easier and better. The Group will always respond to the needs of society in good times and in bad, driven by a genuine purpose to make a meaningful contribution to the communities we serve.

Economic and social challenges persist, but our team is systematically and sustainably changing the performance trajectory of the Group. The greater efficiency and cost-effectiveness of our operating model will have a positive impact on future sales and earnings, and we are confident that the momentum achieved over the past few months will carry through into the 2019 financial year.

**PROGRESS ON OUR PLAN**

The difficult decisions taken in 2018 and the hard work and commitment from our teams is evident in the substantial progress delivered against our long-term plan.

**Greater centralisation across the supply chain**

We took more products through our Pick n Pay distribution centres this year, with the total volume of centralised supply increasing to 68% (FY17: 60%). Centralised grocery volume has reached 70% across the country, with the centralisation of fresh and perishable produce at 80%, and general merchandise at 40%.

Centralisation in the Western Cape region, serviced by the Group’s Philippi distribution centre, now stands at 78%, with centralised grocery volume at 90%. The Philippi distribution centre now delivers to all our stores along the Garden Route of South Africa, providing improved availability across the region, and driving further cost savings and efficiencies along the 300 km coastal stretch into the Eastern Cape.

Centralisation in the inland Gauteng region of South Africa, serviced by the Longmeadow distribution centre, has reached just over 70%, with grocery centralisation now at 75%.

Pick n Pay’s new grocery distribution centre in KwaZulu-Natal is now fully operational and began delivering to stores in March 2018. Stores across the region will benefit from less trucks at their back door, more frequent deliveries and improved stock availability.

Boxer opened a second distribution centre in East London in the second half of the year, which is delivering groceries to its stores across the Eastern Cape. Boxer has demonstrated the same conviction as Pick n Pay in building a cost-effective, fully centralised supply chain. The benefits of its warehouse management system and improved demand planning and replenishment are evident in its reduced stockholding, improved on-shelf availability and exceptional waste management.

**A modern loyalty programme**

We modernised Smart Shopper in March 2017, delivering a more innovative and contemporary loyalty programme, offering greater relevance to customers. This programme is now significantly cheaper for the Group to run, with cost savings reinvested in lower prices for customers. The increase in product-specific discounts has delivered stronger customer advocacy and enabled greater supplier participation and funding. We offered R3 billion in personal discounts to our seven million Smart Shoppers this year, and saw the redemption of personalised vouchers double.

**Buying for less**

Our buy better programme has focused on closer collaboration with suppliers to improve efficiencies and lower costs across the supply chain. The programme is supported by a dedicated IT platform and supplier portal within Pick n Pay, providing comprehensive real-time product and supplier data to facilitate transparent fact-based engagement and accurate decision-making.

The programme has strengthened relationships with over 3,000 suppliers, improved our inventory management and provided greater value for customers.

**Lower prices and stronger promotions**

In March 2017 the Group invested R500 million in price cuts across 1,500 everyday groceries items, and extended this investment to 2,000 lines over the year, including unbeatable deals on fresh fruit and vegetable combos, and keen pricing on key butchery lines. Selling price inflation was restricted to 2.2% for the year (FY17: 6.1%), well below CPI food inflation of 5.9%.

We work on pricing could not have come at a more important time. 84% of South African families survive on a household income of less than R20,000 per month. Pick n Pay and Boxer serve customers across all communities and income groups, and we are determined to meet the needs of all our customers, including the most vulnerable in our society.

**A flexible estate with a wider reach**

Our space growth is measured and considered, focused on sites which can deliver sustainable long-term returns. Changing customer demographics and needs provide good opportunities for the Group to grow our sales and extend our reach without impacting on existing stores or trading densities.

The Group, excluding TM Supermarkets, opened 124 net new stores this year (153 additions, 29 closures), adding 3.3% to its total space. This included 72 new Pick n Pay company-owned stores and 22 Boxer stores across all formats.
The Group opened 59 franchise stores across all formats during the year. The Pick n Pay franchise model is an effective way for emerging entrepreneurs to build businesses, leveraging the buying, distribution and systems capability of Pick n Pay. We support and mentor 14 convenience space shops across townships in Gauteng and the Western Cape. These stores reflect a transformative partnership between Pick n Pay and Government, bringing a broader range of safe and affordable food directly to neighbourhood communities. Pick n Pay will continue to play a positive role in growing the informal retail market in South Africa in order to transfer skills and ownership to economically marginalised entrepreneurs.

**Better stores**

We continued to invest in the quality of our estate, with 80 refurbishments over the course of the year, across 61 company-owned and 19 franchise stores. Major store refurbishments included Pick n Pay’s flagship Constantia supermarket in the Western Cape, its Durban North hypermarket in KwaZulu-Natal and the Norritgate Hypermarket in Gauteng. These stores all demonstrate the ongoing development of the Group’s Next Generation store format and operating model, with an improved store design, a more compact range and a strong fresh and convenience offer. Our Next Generation stores continue to deliver like-for-like turnover growth ahead of the rest of the estate, giving us ongoing confidence in the merits of our investment.

**A compelling own-brand and convenience range**

Our growing range of own-brand products and convenience meals is an increasingly important part of our differentiated customer offer. Pick n Pay introduced 730 new or refreshed own-brand products over the year, including 25 products from its “Pick Local” supplier development programme. There is growing customer support for our own-brand products, with a number of products growing at more than double the rate of independent, national brands in the same category. Pick n Pay was particularly proud of the recognition received for its range of convenience meals, which earned 20 first places in the Sunday Times Food Awards.

Boxer is also finding success with its own-brand products, with strong growth in own-brand staple commodity products like maize, maas and canned vegetables.

**Leading online offer**

Pick n Pay is the leading online grocery retailer on the African continent. The Group continues to invest in its digital platform, providing customers with unbeatable convenience and ongoing innovation. Pick n Pay’s online offer was boosted this year by a new mobile-optimised website, which makes online shopping easier than ever before. These and other improvements have generated a 150% increase in online customer registrations, with a 70% increase in customers accessing Pick n Pay online from a mobile device. Our dedicated online distribution centres in the Western Cape and Gauteng are giving customers a broader range, better availability and consistently high standards of delivery.

**Financial services**

Our partnership with TymeDigital (a subsidiary of the Commonwealth Bank of Australia) is providing our customers with digital banking expertise. During the year, our money transfer service attracted over 300,000 new customer registrations.

Pick n Pay launched its first store account in September 2017, in partnership with RCSL, a local subsidiary of BNP Paribas Bank. The Pick n Pay account offers the most affordable form of credit in the market, with a 55 days free credit payment option and no joining fee or hidden administration fees. After careful, individual assessment, store accounts were opened for 56,000 of our more affluent customers over the last six months of the financial year. Credit spend was below R200.00 per month, with customers electing to use the Pick n Pay credit facility prudently and as an alternative to other forms of more expensive credit, with the majority of our customers electing to pay off their credit each month thereby incurring no interest charges.

The account is accessed through the customer’s Smart Shopper card, with all the related benefits of our loyalty programmes, with the credit provider carrying all associated funding costs and credit risk.

We will use the broad reach of our infrastructure and the strength of our IT platforms to innovate with financial services and other value-added services for the benefit of our customers.

**LOOKING AHEAD**

South Africa is a significantly more positive country than it was a year ago. President Ramaphosa has committed to greater levels of economic transformation and growth, including through closer collaboration with the private sector to stimulate investment, greater employment, the elimination of corruption and improved levels of service delivery.

Optimism does not automatically translate into sustainable growth. Sustainable growth requires a successful plan, and hard work to deliver that plan. Over this past year, the Group has taken the most decisive action in its 50-year history to cut costs, become more resilient and give the savings back to our customers in the form of lower prices and better value. We have made our shops brighter and more vibrant, accelerated our own-brand offer and taken real steps to become a true multi-channel retail business.

We are changing the trajectory of the Pick n Pay Group, and will build on this momentum in 2019. The Group will continue to invest in a strengthened customer offer across Pick n Pay and Boxer, and we are confident that we can win customers across all levels of our economy. The Pick n Pay Group will be South Africa’s first genuine multi-channel business, with a substantive convenience and online presence, and recognition as South Africa’s most affordable and inclusive banking partner.

I would like to extend my sincere thanks and appreciation to the Pick n Pay and Boxer teams who have worked tirelessly over the past few years to build a stronger and more resilient business.

Richard Brasher
Chief Executive Officer
22 June 2018
**CHAPTER 5**

**OUR CFO’S FINANCIAL REVIEW**

<table>
<thead>
<tr>
<th><strong>HIGHLIGHTS</strong></th>
<th><strong>52 weeks to 25 February 2018</strong></th>
<th><strong>52 weeks to 26 February 2017</strong></th>
<th><strong>% change</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Turnover</strong></td>
<td>R81.6bn</td>
<td>R77.5bn</td>
<td>5.3</td>
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<tr>
<td><strong>Gross profit margin</strong></td>
<td>18.7%</td>
<td>18.7%</td>
<td>0.0%</td>
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<tr>
<td><strong>Trading profit</strong></td>
<td>R1 819.9m</td>
<td>R1 735.8m</td>
<td>4.9%</td>
</tr>
<tr>
<td><strong>Trading profit margin</strong></td>
<td>2.2%</td>
<td>2.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Profit before tax, before capital items</strong></td>
<td>R1 789.1m</td>
<td>R1 723.3m</td>
<td>3.8%</td>
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<tr>
<td><strong>Profit before tax</strong></td>
<td>R1 768.1m</td>
<td>R1 677.0m</td>
<td>5.4%</td>
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<tr>
<td><strong>Headline earnings per share</strong></td>
<td>276.58c</td>
<td>258.65c</td>
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<td><strong>Diluted headline earnings per share</strong></td>
<td>271.61c</td>
<td>252.13c</td>
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<tr>
<td><strong>Total annual dividend per share</strong></td>
<td>188.80c</td>
<td>176.30c</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

*The financial information presented above is on a restated basis. Please refer to note 28 of the Group audited Annual Financial Statements on our website at www.pnpanyinvestor.co.za for further information.*

**OVERVIEW OF OUR FINANCIAL RESULT**

The Group initiated a number of substantial programmes in the first half of the year focused on reducing its operating costs and increasing its productivity across its operations. The action taken included the modernisation of its loyalty programme, a buy-back initiative in collaboration with suppliers, and a voluntary severance programme (VSP) across Pick n Pay. The successful implementation of these programmes enabled the investment in a more competitive customer offer in the second half of the year, through lower prices and better promotions.

The success of this strategy was evident in the Group’s strong fourth-quarter trading performance. The Group delivered sales growth of 7.3% in the final quarter of the year, with like-for-like growth of 4.9%. This performance was underpinned by the South Africa division, which delivered 8.0% sales growth, with like-for-like growth of 5.3%. This was well ahead of the market and was achieved at a time when internal selling price inflation had fallen to just 0.2%.

The action to reduce operating costs had a once-off impact of R250.0 million in the form of payments to employees who left the Group through the VSP. The VSP costs will not recur in FY19.

The Group’s trading performance was driven by improving trading profit margins, which improved from 2.2% to 2.5% of turnover. This demonstrates the sustainable progress delivered in building a leaner and fitter operating model.

**COMPARABILITY OF FINANCIAL INFORMATION**

**Accounting restatements**

The Group reclassified certain elements of supplier income received and advertising costs incurred during the year, which impacted its inventory valuation methodology. Advertising costs and related recoveries are now recorded on a gross basis within trading expenses and gross profit respectively. Any supplier income received that is not directly related to the cost of merchandise sold is now recognised within other trading income. The correction has not had a significant impact on either the profitability or the financial position of the Group.

The unbundling of Pick n Pay Holdings Limited RF Group

The Group modernised its control structure in the first half of last year, with the unbundling of the Pick n Pay Holdings Limited RF Group (unbundling transaction). Although there were material non-recurring items in certain individual categories of other trading income and trading expenses, the transaction had no impact on trading profit or headline earnings in the prior year.

The result presented overleaf excludes the non-recurring items related to the unbundling transaction. The result commentary is presented on a normalised basis. Please refer to page 66 for the principal differences between the Group’s normalised and published results.

**FTSE4Good**

FTSE Russell confirms that Pick n Pay has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to assess sustainable investment funds and other products.

**Review of Financial Performance**

The review of the Group’s financial performance for the 52 weeks ended 25 February 2018 focuses on the key elements of the statement of comprehensive income and the statement of financial position, where management considers material to the Group’s performance over the year.

The review should be considered together with the Group’s audited annual financial statements, as well as the summarised financial result and the five-year analysis of financial performance set out on pages 64 to 69.
Turnover

Group turnover increased 5.3% to R81.6 billion, with like-for-like turnover growth of 2.2%. Selling price inflation was kept to 2.2% for the year. The Group’s South Africa division delivered turnover growth of 5.1% over the year, with like-for-like growth of 2.3%.

The Group’s muted turnover growth reflects the pressure of an exceedingly challenging trading environment, particularly over the first three quarters of the year. However, the positive steps taken by the Group to invest in its customer offer found traction in the final quarter of the year, with a stronger trading performance across all formats.

Net interest

Net interest paid increased from R92.5 million to R147.1 million. The increased interest bill is as a result of lower net cash balances over the year, which reflect the Group’s sustained investment in its store opening, refurbishment and centralisation programme over the last five years.

Losses on capital items

The Group incurred capital losses of R21.0 million this year (FY17: R52.4 million) in respect of the disposal or impairment of assets and goodwill, largely related to its refurbishment programme. A further impairment loss of R13.9 million was incurred in the prior year, arising on the unbooking of the PnP in Pay Holdings Limited RF Group. Capital items are added back in the calculation of headline earnings.

Profit before tax

Profit before tax before capital items is up 3.8% to R1.8 billion, with the underlying margin maintained at 2.2% of turnover. Excluding the impact of the once-off VISP compensation payments profit before tax before capital items is up 18.4%, to 2.5% of turnover, demonstrating a marked improvement in the Group’s sustainable profit margin.

Rest of Africa segment

Segmental revenue for the Rest of Africa division increased 7.7% year-on-year to R4.6 billion, with segmental revenue in Africa up 7.7% year-on-year to R3.7 billion. Growth in trading expenses was 6.7% on the prior year, with like-for-like expense growth of 1.6%. Excluding the R250.0 million once-off cost of VISP compensation packages paid in the first half of the year, trading expenses were up 4.9%. This demonstrates the Group’s ongoing success in improving the management of its operating costs.

Net interest

Net interest paid increased from R92.5 million to R147.1 million. The increased interest bill is as a result of lower net cash balances over the year, which reflect the Group’s sustained investment in its store opening, refurbishment and centralisation programme over the last five years.
Cash and cash equivalents

<table>
<thead>
<tr>
<th>Date</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash balances</td>
<td>1 129.1</td>
<td>961.9</td>
</tr>
<tr>
<td>Cost-effective overnight borrowings</td>
<td>(1 800)</td>
<td>(1 800.0)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(670.5)</td>
<td>(689.1)</td>
</tr>
<tr>
<td>Total borrowings</td>
<td>(528.8)</td>
<td>(133.2)</td>
</tr>
<tr>
<td>Net funding positions</td>
<td>(1 195.7)</td>
<td>(971.3)</td>
</tr>
</tbody>
</table>

The Group’s net funding position increased by R228.4 million over the year, driven by a strong store opening and refurbishment programme. The Group raised R400.0 million of three-month debt to take advantage of competitive interest rates. The Group’s liquidity position remains strong, with R6.5 billion unutilised borrowing facilities at year-end.

Capital investment
Capital expenditure related to the Group’s capital investment programme of R1.6 billion was in line with target. The Group opened 94 new company-owned stores during the year (72 Pick n Pay and 22 Boxer), opened its new Pick n Pay distribution centre in KwaZulu-Natal and the new Boxer distribution centres in the Eastern Cape, and refurbished 61 stores across the estate. The Group committed the majority of its capital investment on expansion and refurbishment in order to improve the customers’ shopping experience.

SHAREHOLDER DISTRIBUTION
The Board declared a final dividend of 155.40 cents per share. This brings the total annual dividend for the year to R398.80 cents per share, 7.1% up on last year, in line with HEPS growth and maintaining a dividend cover of 1.5 times headline earnings per share.

LOOKING AHEAD TO 2019
The Group has set a new trajectory for long-term sustainable earnings growth. We are confident that the benefits of the structural changes undertaken this year and the increased momentum achieved will be carried into the 2019 financial year and beyond. We will continue to focus on improving our broader customer offer, including through lower prices, in order to drive turnover growth in what remains a tough economic environment. Cost control and operating efficiency are key to gross profit margin stability and continued sustainable improvement in our profit before tax margin. We are confident in our ability to become even more cost-effective over the coming year.

The Group plans to invest a further R1.7 billion next year in new stores, refurbishments and in building our supply chain capacity. Total retail trading space will increase by an estimated 3% in 2019, in line with this year. The Group is confident of its ability to meet its investment requirements through internal cash generation and that it will reduce its reliance on cost-effective, short-term borrowings over the medium term, with a reduction in its interest bill.

APPRECIATION
Thank you to our shareholders and funders for their support and for the broader investment community, both locally and internationally, on their ongoing interest and constructive engagement with the Group. I extend my sincere appreciation to our finance and reporting teams across the Group for their professionalism, integrity and commitment to high standards of financial reporting and corporate governance. They continue to drive improvement in reporting, making our processes quicker, simpler and more transparent. I am grateful for your support.

Bakar Jakoet
Chief finance officer
22 June 2018

Earnings per share
Basic earnings per share (EPS) – increased 9.0% from 250.98 to 273.64 cents per share.

Headline earnings per share (HEPS) – increased 7.1% from 258.65 to 276.98 cents per share.

The difference between the growth in basic earnings per share and headline earnings per share relates to the effect of losses of a capital nature in the calculation of headline earnings. Capital losses of R15.8 million, net of tax, were taken into account in the calculation of headline earnings in the current period against R37.2 million in the prior period.

Diluted headline earnings per share (DHEPS) – increased 7.7% from 252.13 to 271.61 cents per share. DHEPS reflects the dilution affect of share options held by participants in the Group’s employee share schemes. The dilution decreased marginally year-on-year due to the delivery of shares to share scheme participants during the year, including the vesting of the first allocation of forfeiture plan shares.

REVIEW OF FINANCIAL POSITION
The increase in the Group’s assets reflects its capital investment programme, in particular its ongoing investment in new and refurbished stores, as well as additional capacity across its central supply chain. The net asset value per share increased 4.8% on last year to 962.2 cents. The Group delivered return on capital employed of 32.6% (FY17: 32.3%), against a weighted average cost of capital of 12.0%.

Working capital
The timing of the Group’s financial calendar has a substantial impact on reported working capital and cash balances, depending on the timing of creditor payments over financial year-end. The Group’s working capital reduced by R119.4 million over the year, against a R348.1 million reduction in the prior year, largely as a result of the timing of the Group’s financial calendar cut-off.

Inventory – increased 4.9% on last year to R6.0 billion, including the impact of 78 net new company-owned stores over the year and the short-term impact of higher levels of centralisation across the Group. Removing the impact of new stores and inflation, like-for-like inventory is down 5.0% on last year. This reflects consistent improvement in the Group’s forecast and replenishment processes, and solid progress on its plan to reduce its stockholding of slow-moving products through its range rationalisation programme.

Trade and other receivables – increased 5.5% on last year to R3.6 billion, with 46 net new franchise stores added over the year, and an increase in the sales to franchisees through the Group’s supply chain. The quality of the debtors’ book improved on last year, with the impairment allowance reducing to 2.5% of the value of the debtors’ book, from 3.5% last year.

Trade and other payables – of R10.8 billion is up 3.1% on last year, with the positive impact of the Group’s buy better programme reflected in lower supplier balances at year-end. The Group implemented its fully integrated ‘Pick’n Pay Fast Pay’ platform this year, a supply chain finance programme that provides suppliers with the opportunity of immediate or early settlement of invoices.

Key banking partners on this platform provide competitive funding for participating suppliers off the strength of the Group’s balance sheet.

Cash generation and utilisation

The Group is cash generative, with cash generated before movements in working capital up 5.5% on last year. Cash invested in working capital reflects the impact of new stores and distribution centres and strategic investment buys ahead of year-end.

The Group paid R866.5 million in dividends to shareholders, up 15% on last year, added a further R1.6 billion to its capital investment programme, and invested R425.4 million in its employee share incentive schemes. These important outlays resulted in increased gearing over the 2018 financial year, and an increased interest bill.

Cash outflows were largely funded from internal cash generation, with R1.1 billion of free cash flow generated over the year.
CHAPTER 5

SUMMARY OF FINANCIAL POSITION

The summarised financial result is presented on a restated and normalised basis.

### Summary

**Revenue**

<table>
<thead>
<tr>
<th>As per annual financial statements</th>
<th>25 February 2018</th>
<th>% of turnover</th>
<th>Normalised 26 February 2017</th>
<th>% of turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Money</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Turnover**

Turnover growth of 5.3%, with like-for-like growth of 2.2%, reflects the tough trading environment over the year and substantially lower levels of inflation.

**Gross profit**

Greater price competitiveness was achieved without any sacrifice in margin through a combination of better buying and strong cost discipline.

**Other trading income**

Other trading income includes income from value-added services, which grew 30.1% year on year.

**Employee costs**

Excluding the cost of the VSP of R250.0 million, employee costs grew just 0.4% year-on-year, falling to 7.0% of turnover (FY17: 8.3%).

**Occupancy costs**

Occupancy costs up 7.2% on a like-for-like basis, driven by above-inflation increases in rates and security costs, and the ongoing addition of strategic head leases to protect the tenancy of key franchise sites.

**Net finance costs**

The Group’s investment in capital programmes has resulted in increased gearing over the year and an increased interest bill.

**Trading profit**

Trading profit margin unchanged at 2.2%. Excluding the once-off cost of the VSP, trading profit margin improved to 2.5%, an indication of the Group’s sustainable profit performance.

### Finances

**Current assets**

<table>
<thead>
<tr>
<th></th>
<th>As at 25 February 2018</th>
<th>Restated As at 26 February 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Money</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>5 963.7</td>
<td>5 684.0</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>5 529.1</td>
<td>5 399.9</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1 129.1</td>
<td>961.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11 621.8</td>
<td>9 945.8</td>
</tr>
</tbody>
</table>

**Total non-current asset held for sale**

217.2

**Total assets**

18 980.8

17 791.8

### Equity and liabilities

**Equity**

Share capital

<table>
<thead>
<tr>
<th></th>
<th>As at 25 February 2018</th>
<th>Restated As at 26 February 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Money</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Share capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury shares</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>(863.4)</td>
</tr>
<tr>
<td>Foreign currency translation reserve</td>
<td>(70.7)</td>
<td>(24.0)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>60.0</td>
<td>(839.1)</td>
</tr>
</tbody>
</table>

**Total equity**

4 023.6

3 855.7

**Current liabilities**

<table>
<thead>
<tr>
<th></th>
<th>As at 25 February 2018</th>
<th>Restated As at 26 February 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Money</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>79.5</td>
<td>84.0</td>
</tr>
<tr>
<td>Operating lease liabilities</td>
<td>1 571.6</td>
<td>1 398.6</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>13.7</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 664.8</td>
<td>1 457.2</td>
</tr>
</tbody>
</table>

**Current borrowings**

The Group raised R400.0 million of three-month debt to take advantage of competitive interest rates, which has eased overnight liquidity.

### Non-current assets

**Property, plant and equipment**

The increase in the Group’s assets reflects its capital investment programme, in particular its ongoing investment in new and refurbished stores and its growing centralised supply chain capacity.

**Inventory**

Removing the impact of new stores and inflation, the like-for-like inventory value is down 5.0% year on year.

**Non-current asset held for sale**

Land sold after year-end during March 2018.

### Summary

The annual financial statements as at 26 February 2017 have been restated to ensure comparability and consistency with the 2018 annual financial statements. As a result, the 2017 restated figures have been included in this report.

The Group delivered return on capital employed of 32.6% (FY17: 32.9%) against a weighted average cost of capital of 12.0%.

<table>
<thead>
<tr>
<th></th>
<th>As at 25 February 2018</th>
<th>Restated As at 26 February 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Money</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>18 980.8</td>
<td>17 791.8</td>
</tr>
<tr>
<td>Number of ordinary shares in issue – thousands</td>
<td>488 450.3</td>
<td>488 450.3</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares in issue – thousands</td>
<td>473 717.3</td>
<td>482 237.5</td>
</tr>
<tr>
<td>Diluted weighted average number of ordinary shares in issue – thousands</td>
<td>483 091.1</td>
<td>494 709.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Non-current liabilities**

Borrowings

<table>
<thead>
<tr>
<th></th>
<th>As at 25 February 2018</th>
<th>Restated As at 26 February 2017</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 664.8</td>
<td>1 457.2</td>
</tr>
</tbody>
</table>

**Total equity and liabilities**

18 980.8

17 791.8


**MODERNISATION OF PICK N PAY’S CONTROL STRUCTURE**

The Group eliminated its pyramid control structure in the prior year through the unbundling of the Pick n Pay Holdings Limited (RF) Group. The simplified Group structure is more cost-effective in administration and improves the Group’s appeal to investors.

The unbundling transaction had no impact on trading profit or headline earnings last year; however, it resulted in a number of material non-recurring movements on certain individual categories of other trading income and trading expenses, as detailed below:

**Summary of non-recurring items included in trading profit in 2017:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Normalised turnover 26 February 2017</th>
<th>% of turnover</th>
<th>Non-recurring items 26 February 2017</th>
<th>As per annual financial statements 26 February 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>79 134.6</td>
<td></td>
<td>(412.3)</td>
<td>79 546.9</td>
</tr>
<tr>
<td>Turnover</td>
<td>77 486.1</td>
<td></td>
<td></td>
<td>77 486.1</td>
</tr>
<tr>
<td>Cost of merchandise sold</td>
<td>(63 029.5)</td>
<td></td>
<td></td>
<td>(63 029.5)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>14 456.6</td>
<td>18.7</td>
<td></td>
<td>14 456.6</td>
</tr>
<tr>
<td>Other trading income</td>
<td>1 522.4</td>
<td>2.0</td>
<td>(412.3)</td>
<td>1 934.7</td>
</tr>
<tr>
<td>Dividend in specie</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchise tea income</td>
<td>349.8</td>
<td>0.5</td>
<td></td>
<td>349.8</td>
</tr>
<tr>
<td>Operating lease income</td>
<td>345.3</td>
<td>0.4</td>
<td></td>
<td>345.3</td>
</tr>
<tr>
<td>Commissions, dividends received and other income</td>
<td>827.3</td>
<td>1.1</td>
<td></td>
<td>827.3</td>
</tr>
<tr>
<td>Trading expenses</td>
<td>(14 243.4)</td>
<td>18.4</td>
<td>412.3</td>
<td>(14 655.7)</td>
</tr>
<tr>
<td>Employee costs</td>
<td>3 414.0</td>
<td>8.3</td>
<td>205.8</td>
<td>6 679.8</td>
</tr>
<tr>
<td>Occupancy</td>
<td>(2 678.9)</td>
<td>3.5</td>
<td></td>
<td>(2 678.9)</td>
</tr>
<tr>
<td>Operations</td>
<td>(2 961.7)</td>
<td>3.8</td>
<td></td>
<td>(2 961.7)</td>
</tr>
<tr>
<td>Merchandising and administration</td>
<td>(2 180.8)</td>
<td>2.8</td>
<td>206.5</td>
<td>(2 387.3)</td>
</tr>
<tr>
<td>Trading profit</td>
<td>1 735.6</td>
<td>2.2</td>
<td></td>
<td>1 735.6</td>
</tr>
</tbody>
</table>

**Other trading income** – included a dividend in specie of R412.3 million, representing the value of the Pick n Pay Stores Limited shares (now held as treasury shares) received by the Group on the unbundling of Pick n Pay Holdings Limited (RF) (PWK).

**Employee costs** – the Group operates an employee share incentive scheme where eligible employees were granted share options in PWK. These share options were cancelled and replaced with Pick n Pay Stores Limited share options, in terms of the shareholder approval received at the general meeting held on 25 July 2016.

Employee costs included R205.8 million of share-based payment expenses related to the increase in the market value of PWK share options prior to the unbundling, as well as the cancellation and replacement cost of these options.

**Merchandising and administration costs** – included a net fair value loss of R206.5 million in respect of the Group’s investment in PWK. This fair value movement was as a result of the increased market value of PWK shares prior to the unbundling, and the subsequent write-off of the investment on the receipt of the dividend in specie distribution.

**CASE STUDY: REDUCING OUR PLASTIC FOOTPRINT**

Everyone has an important part to play in reducing plastic waste. Pick n Pay wants to make it possible for our customers to help in this effort, and we are giving them more choices in our stores to do just that.

Pick n Pay will initially target five areas in the short term, with an even wider set of targets and commitments that will follow.

- **100% recyclable plastic bags introduced**

Pick n Pay will start introducing 100% recyclable plastic bags, manufactured from recycled plastic and with no added calcium, in their stores from August 2018.

- **Plastic straws to be phased out**

Plastic straws will no longer be provided at checkouts in any of its stores. These will be replaced with paper straws which will only be available at the cold drink kiosks.

- **Alternatives to everyday plastic disposable items**

Pick n Pay own-brand cotton buds will be introduced where the plastic inners will be replaced with paper. A bamboo toothbrush will be included in the toiletries range to provide customers with wider choice.

- **Reduced plastic packaging impacts**

Pick n Pay has introduced recycled material in a range of its own-brand products. Containers of dishwashing liquids and all purpose cleaners now include a minimum of 25% recycled material, while carbonated soft drink bottles include a minimum of 20% recycled material. The plastic punnets used in the packaging of our fresh fruit and vegetables contain a minimum of 25% recycled material and the use thereof will be rolled out to more categories.

- **Free plastic collection from our stores and our online customer homes**

Pick n Pay has had in-store recycling bins for plastic waste available at all our stores for several years. The online team will now increase customers’ ability to recycle by offering free plastic collection from online customers’ homes.
FIVE YEAR REVIEW

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover growth</td>
<td>5.3</td>
<td>7.0</td>
<td>8.2</td>
<td>6.1</td>
<td>6.5</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>18.7%</td>
<td>18.7%</td>
<td>18.6%</td>
<td>18.6%</td>
<td>18.4%</td>
</tr>
<tr>
<td>Other trading income margin</td>
<td>2.2%</td>
<td>2.0%</td>
<td>1.9%</td>
<td>1.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Trading expenses margin</td>
<td>18.6%</td>
<td>18.4%</td>
<td>18.5%</td>
<td>18.5%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Trading profit growth</td>
<td>4.9%</td>
<td>19.1%</td>
<td>20.1%</td>
<td>18.1%</td>
<td>20.6%</td>
</tr>
<tr>
<td>Trading profit margin</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>1.8%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Profit before tax growth</td>
<td>5.4%</td>
<td>18.5%</td>
<td>20.0%</td>
<td>38.6%</td>
<td>5.2%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>3.8%</td>
<td>19.1%</td>
<td>23.8%</td>
<td>21.7%</td>
<td>22.0%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>1.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>EBIT</td>
<td>8.2%</td>
<td>(7.6)%</td>
<td>54.6%</td>
<td>30.3%</td>
<td>5.9%</td>
</tr>
<tr>
<td>EBITDA (before capital items) growth</td>
<td>8.1%</td>
<td>14.4%</td>
<td>16.5%</td>
<td>4.5%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>1.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>HEPS (cents)</td>
<td>277.0</td>
<td>258.7</td>
<td>215.2</td>
<td>173.3</td>
<td>141.2</td>
</tr>
<tr>
<td>HEPS growth</td>
<td>7.1%</td>
<td>20.2%</td>
<td>24.2%</td>
<td>22.8%</td>
<td>26.8%</td>
</tr>
<tr>
<td>ROCE (%</td>
<td>32.6%</td>
<td>32.3%</td>
<td>29.6%</td>
<td>24.5%</td>
<td>20.6%</td>
</tr>
<tr>
<td>Net asset value per share</td>
<td>966.2</td>
<td>922.0</td>
<td>869.4</td>
<td>741.8</td>
<td>651.7</td>
</tr>
<tr>
<td>WACC</td>
<td>12.0%</td>
<td>13.1%</td>
<td>12.2%</td>
<td>10.6%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Turnover                                               | Rm 81 560.1 | 77 486.1 | 72 445.1 | 66 940.8 | 63 117.0 |
| Other trading income                                   | Rm 1 760.6  | 1 522.4  | 1 379.5  | 1 159.9  | 965.5    |
| Trading expenses                                       | Rm 15 191.0 | 14 243.4 | 13 376.6 | 12 396.6 | 11 550.5 |
| Trading profit                                         | Rm 1 819.9  | 1 735.6  | 1 457.7  | 1 214.1  | 1 028.1  |
| EBIT                                                   | Rm 1 789.1  | 1 723.3  | 1 447.5  | 1 168.8  | 960.5    |
| Profit before tax                                      | Rm 1 768.1  | 1 677.0  | 1 414.9  | 1 179.2  | 850.9    |
| Profit for the period                                   | Rm 1 296.3  | 1 216.0  | 1 023.2  | 843.0    | 596.5    |
| EBIT                                                   | Rm 1 915.2  | 1 769.5  | 1 619.2  | 1 238.8  | 950.5    |
| EBITDA (before capital items)                          | Rm 3 023.8  | 2 787.3  | 2 444.5  | 2 097.9  | 1 098.5  |
| Headline earnings                                       | Rm 3 121.7  | 2 473.3  | 1 030.7  | 829.1    | 675.4    |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Assets                                                  | Rm 18 980.5 | 17 791.8 | 16 312.5 | 14 610.3 | 13 941.7 |
| Ordinary shareholders’ equity                           | Rm 4 023.6  | 3 855.7  | 3 701.7  | 3 107.9  | 2 688.4  |
| Liabilities                                             | Rm 14 956.9 | 13 936.1 | 12 610.8 | 11 502.4 | 11 253.3 |

STOCK EXCHANGE (JSE LIMITED) PERFORMANCE

| Number of shares in issue                                | millions   | 488.5    | 488.5    | 488.5    | 487.3    | 480.4    |
| Weighted average number of shares in issue              | millions   | 473.7    | 482.2    | 478.9    | 478.3    | 478.4    |
| Market capitalisation                                   | Rm 36.3    | 34.0     | 27.4     | 25.7     | 21.7     |
| Market capitalisation not of treasury shares           | Rm 35.3    | 32.9     | 26.9     | 25.3     | 21.6     |
| Price earnings ratio                                    | times      | 26.9     | 26.1     | 30.5     | 32.0     |
| Annual dividend per share                               | cents      | 188.8    | 176.3    | 149.4    | 118.1    | 92.3     |
| Dividend cover                                          | times      | 1.5      | 1.5      | 1.5      | 1.5      |
| Dividend yield                                          | %          | 2.5      | 2.5      | 2.7      | 2.2      | 2.0      |
| Volume of shares traded                                 | millions   | 360.1    | 345.7    | 281.6    | 213.3    | 165.2    |
| Percentage of shares traded                             | %          | 73.7     | 70.8     | 57.6     | 43.8     | 34.4     |
| Market price per share (PKI)                            |            | 7 428    | 6 696    | 5 614    | 5 282    | 4 514    |
| – close at period-end                                   |            | 7 606    | 8 424    | 7 000    | 6 082    | 5 440    |
| – high for the period                                   |            | 5 460    | 5 525    | 4 850    | 4 401    | 3 519    |

DEFINITIONS

- **Profit before tax and exceptional items (PBTAE)**
  - Profit for the period, before tax and exceptional items. Exceptional items are determined by the remuneration committee. These are non-recurring items of an exceptional size and nature.
- **EBIT**
  - Profit for the period, before net interest, tax and capital items.
- **EBITDA**
  - Profit for the period, before net interest, tax, depreciation, amortisation and capital items.
- **Headline earnings**
  - Net profit for the period adjusted for the after-tax effect of capital items.
- **Headline earnings per share (HEPS)**
  - Headline earnings divided by the weighted average number of shares in issue for the period.
- **Return on capital employed (ROCE)**
  - Headline earnings divided by average shareholders’ equity plus non-current borrowings.
- **Net asset value per share**
  - Total value of net assets at period-end, adjusted for directors’ valuations of property, divided by the number of shares in issue at period-end, held outside the Group.
- **Weighted average cost of capital (WACC)**
  - WACC is the calculation of our after-tax cost of capital in which each category of capital is proportionally weighted. All sources of capital, including non-current borrowings, bank overdraft and short-term borrowings, are included in the calculation.
- **Market capitalisation**
  - The price per share at period-end multiplied by the number of shares in issue at period-end.
- **Price earnings ratio**
  - The price per share at period-end divided by headline earnings per share.
- **Annual dividend per share**
  - The interim dividend declared during the current financial period and the final dividend declared after period-end, in respect of the current financial year.
- **Dividend cover**
  - Headline earnings per share divided by the dividends per share that relate to those earnings.
- **Dividend yield**
  - Annual dividend per share expressed as a percentage of closing share price.

Prior period amounts normalised for non-recurring items and/or restated to ensure comparability.

www.pnp.co.za

Integrated Annual Report 2018
FIVE-YEAR REVIEW (continued)

HUMAN MEASURES*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>519</td>
<td>544</td>
<td>529</td>
<td>487</td>
</tr>
<tr>
<td>Permanent employee turnover %</td>
<td>24.9</td>
<td>19.9</td>
<td>16.1</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Employment equity**

| Top management | 40.9 | 35.0 | 36.0 | 35.7 | 39.0 |
| Senior management | 71.3 | 63.0 | 66.0 | 64.4 | 61.0 |
| Professionally qualified middle management | 92.8 | 87.0 | 88.0 | 87.1 | 85.0 |
| Skilled technical and junior management | 97.8 | 97.0 | 96.0 | 95.2 | 95.0 |
| Semi-skilled and discretionary decision-making | 99.8 | 99.8 | 99.7 | 99.7 | 99.8 |
| Unskilled and defined decision-making | 99.7 | 99.6 | 99.5 | 99.4 | 99.6 |

SOCIAL AND ENVIRONMENTAL MEASURES*

| CO₂ emissions | 657 387.2 | 671 052.6 | 656 765.1 | 613 934.7 | 588 509.2 |
| Energy usage | 37.0 | 34.1 | 31.4 | 32.0 | 30.0 |
| Waste diverted from landfill % | 2.5 | 3.5 | 0.6 | 2.4 | 4.0 |
| Water consumed | 54.3 | 48.4 | 46.0 | 45.0 | 43.0 |
| Total CSR spend | 30.5 | 38.7 | 41.5 | 44.6 | 36.0 |
| Schools in Pick n Pay School Club | 3 300 | 3 025 | 3 025 | 3 025 | 2 750 |

OPERATIONAL STATISTICS

| Number of stores | 1 628 | 1 504 | 1 353 | 1 189 | 1 076 |
| Pick n Pay – company owned | 722 | 664 | 596 | 510 | 444 |
| Pick n Pay – franchise | 660 | 614 | 549 | 490 | 433 |
| Boxer – company owned | 246 | 229 | 208 | 189 | 179 |
| Associate TM Supermarkets | 57 | 56 | 57 | 53 | 52 |
| Total with associate | 1 685 | 1 560 | 1 410 | 1 342 | 1 125 |

Total square metres (m² – millions)

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company owned</td>
<td>2.5</td>
<td>2.4</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Franchise</td>
<td>1.8</td>
<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Total</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
</tr>
</tbody>
</table>

* Information relates to Pick n Pay-owned stores only.
** These measures represent the participation of employment equity candidates, as governed by the Employment Equity Act, No 55 of 1998, in the presented categories.

VALUE-ADDED STATEMENT

<table>
<thead>
<tr>
<th>52 weeks</th>
<th>25 February 2018 Rm</th>
<th>52 weeks</th>
<th>26 February 2017 Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>81 560.1</td>
<td>77 486.1</td>
<td></td>
</tr>
<tr>
<td>Amounts paid for merchandise and expenses</td>
<td>(71 445.2)</td>
<td>(67 769.9)</td>
<td></td>
</tr>
<tr>
<td>Finance income</td>
<td>184.1</td>
<td>126.1</td>
<td></td>
</tr>
<tr>
<td>Total value created</td>
<td>10 259.0</td>
<td>100.0</td>
<td>9 842.3</td>
</tr>
</tbody>
</table>

Distributed as follows:

| Employees | 6 688.7 | 64.0 | 6 619.8 | 67.3 |
| To providers of capital | 1 621.1 | 15.7 | 1 317.5 | 13.3 |
| Distributors to shareholders | 866.5 | 8.4 | 753.5 | 7.7 |
| Share purchases | 423.4 | 4.1 | 345.4 | 3.4 |
| Finance costs | 331.2 | 3.2 | 218.6 | 2.2 |
| Government | | | | |

Value-added statement illustrates how we have distributed this value to our stakeholders.

Prior period amounts normalised for non-recurring items and/or restated to ensure comparability.

We have created financial value of R10.3 billion (2017: R9.8 billion) during the financial period. The value-added statement illustrates how we have distributed this value to our stakeholders.

FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>81 560.1</td>
<td>77 486.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance income</td>
<td>184.1</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total value created</td>
<td>10 259.0</td>
<td>100.0</td>
<td>9 842.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Finance income figures restated to reflect the IFRS 15 adoption impact.
OUR GOVERNANCE

- Our approach to corporate governance
- Our board of directors
- Remuneration report
- Case study: Pick n Pay School Club
The Board is confident that the Group’s governance framework, including all its related Board structures and administrative and compliance processes, contributes to ongoing value creation by driving:

- Accountability to stakeholders
- Sound leadership and effective decision-making
- Strong risk management and risk mitigation
- Comprehensive and transparent integrated reporting
- A remuneration policy that builds a winning team through the development and retention of top talent and incentives in line with the Group’s strategic objectives

The Board supports the materiality approach, which emphasises integrated reporting based on issues, risks and opportunities that can have a material impact on the sustainable performance of the business over the short, medium and long term. Details of the material issues and related risks identified and managed by the Group are set out on pages 52 to 37.

BOARDS FUNCTION

The Board of directors, as elected by shareholders, take corporate responsibility for the performance and sustainable value creation of the Group. Sustainable value creation is measured across the triple context of the Group’s economic, social and environmental performance, with reference to the effective management of its capital. The directors ensure that the Group is managed in an accountable, transparent and responsible manner for the benefit of all its stakeholders. The Board appreciates that strategy, risk, performance and sustainability are inseparable elements of value creation. It thereby ensures that the reports issued by the Group enable stakeholders to make informed assessments of its performance, and its short, medium and long-term prospects.

Directors are encouraged to engage in rigorous debate with the aim of promoting director, governance and effective leadership of the Group. All Board members are conscious of their obligation to act with integrity as representatives of all stakeholders of the Group.

The 2018 corporate governance report is available on our website at www.picknpayinvestor.co.za.

EVALUATION OF BOARD PERFORMANCE

The Board performs a formal annual evaluation of its performance and its overall contribution to the Group. The review includes an evaluation of the performance and contribution of each individual director. Completed questionnaires are submitted to the Chairman, who conducts interviews with each member of the Board. The effectiveness of the Chairman is assessed by the lead independent director. Discussions centre on how the performance and effectiveness of the Board can be improved. Individual feedback is given to each director, and the Chairman gives general feedback to the Board.

The Board is satisfied that it has fulfilled its responsibilities in accordance with its Corporate Governance Charter, King IV™, the JSE Listings Requirements, The Companies Act, and applicable statutory and regulatory requirements for the financial period ended February 2018.

CONTROLLING SHAREHOLDER AND ITS BOARD REPRESENTATION

The Group has a controlling shareholder, Ackerman Investment Holdings Proprietary Limited. The Chairman (Gareth Ackerman), one non-executive director (David Robins) and two executive directors (Suzanne Ackerman-Bierman and Jonathan Ackerman) all members of the Ackerman family, are not independent by virtue of their indirect shareholdings in the Company. To guard against a perception that a conflict of interest could arise between the controlling shareholder and other shareholders, the Board annually elects an independent non-executive director to act as lead independent director (LID). The role of the LID is to provide leadership and advice to the Board when the Chairman has a conflict of interest, without detracting from the authority of the Chairman. The position also provides an important point of contact for the broader investment and stakeholder community should they have concerns with the management of the Group or potential conflicts of interest.

BOARD COMPOSITION

The Board consists of 13 directors, with eight non-executive directors and five executive directors. Six of the eight non-executive directors are independent. Refer to pages 78 and 79 for more detail.

The non-executive directors are diverse in their academic qualifications, business experience, gender and race, resulting in a balanced Board. Directors exercise leadership, enterprise, integrity and judgment in directing the Group’s value-creation processes to ensure that they are sustainable for all stakeholders. All directors receive regular briefings on changes in risks, laws and the business environment.

DIRECTOR APPOINTMENT AND ROTATION

The Board’s rotation policy ensures that one-third of non-executive directors come up for re-election at each annual general meeting. Shareholders are enabled to hold directors to account and to appoint directors to the Board whom they believe will add value to the business.

The Board proactively seeks and appoints qualified individuals who reflect a diverse range of skills, professions and backgrounds that represent the gender, race and ethnic diversity of the communities we serve.

The Board is satisfied that its composition reflects an appropriate mix of knowledge, skills, experience, diversity and independence. The Group’s gender and racial diversity targets for its Board have been met.

OPERATIONAL GOVERNANCE

The Board appoints the Chief Executive Officer (CEO) to run the Group on its behalf. The CEO is responsible for leading the implementation and execution of approved strategy, policy and operational planning, and serves as the principal link between management and the Board.

The CEO is mandated to ensure that the day-to-day business affairs of the Group are appropriately managed by executive management and that the necessary systems and controls are in place for effective risk management.

The Board recognises that risk management is an integral part of Group strategy, and delegates to management the responsibility of designing, implementing and monitoring the risk management plan.

EXECUTIVE REPRESENTATION ON THE BOARD

The executive function of the Group is performed by Richard Bradsher (CEO), Bakar Jakob (Chief Financial Officer or CFO) and Richard van Rensburg (Chief Information Officer or CIO), who are all executive directors of the Company.

The Group’s commitment to the highest standards of corporate governance has contributed to its sustainable value creation over more than 50 years. Our ethical value system has built strong relationships with stakeholders who recognise and support the Group as a responsible corporate citizen, with the confidence that we will always do what is right.
ANNUAL ASSESSMENT OF INDEPENDENCE
King IV™ does not consider the length of a non-executive director’s term in office as a determinant of independence. However, the Group’s policy requires all independent non-executive directors who have served on the Board for more than nine years to retire by rotation at the end of every year, instead of the standard three-year term of office.

At the end of each term, whether one year or three years, the director and the Chairman jointly evaluate each director’s independence. By mutual consent the director may be considered for re-election. Consideration is given to factors such as:

- The director’s involvement with other companies
- External directorships held
- Relationships with material suppliers and competitor companies
- Material contracts with the Group, if any
- Whether the director had been employed by the Group in an executive capacity during the preceding three years
- Whether the director’s fees represented a material part (10% or more) of their wealth or income

All directors regularly declare their directorships and commercial interests to the Board. Transparency of commercial interests ensures that directors can be seen to be free from any business or other relationship that may interfere materially with any director’s capacity to act in an independent manner.

The Board has established a balance between the experience of long-serving directors and the fresh insights from new directors. All our directors, whatever their length of service, are strong-minded individuals of integrity, who are successful and experienced professionals in their respective fields. They strive to act with independence of mind in the best interests of the Group. They have no interest, position, association or relationship that is likely to unduly influence or cause bias in decision-making in relation to the Group.

The Board is satisfied that the independent non-executive directors met the criteria for independence as established by King IV™, the Companies Act and the JSE Listings Requirements.

BOARD COMMITTEES
The Board is supported by six committees, namely the audit, risk and compliance, social and ethics, corporate finance, corporate governance, nominations and remuneration committees. The Board’s delegation of authority to committees contributes to role clarity and the effective exercise of authority and responsibilities within the broader Group.

The role and responsibilities of each Board committee are set out in the corporate governance charter, which is reviewed annually to ensure that the committee mandates remain current and effective. The charter, which was reviewed to ensure that the requirements of King IV™ were met, is available on our website at www.picknpayinvestor.co.za.

Each committee considers its effectiveness by way of a review of its activities against the approved terms of reference in line with their delegated powers and authority. Together with the Board, all committees were satisfied that they carried out their responsibilities during the period.

GOVERNANCE STRUCTURE
The diagram below is a summary of the governance structure of the Group. For more information, refer to the 2018 corporate governance report on our website at www.picknpayinvestor.co.za.

The table reflects the Board and committee attendance at the meetings for the 2018 financial period:

<table>
<thead>
<tr>
<th>NAME</th>
<th>Position</th>
<th>Board</th>
<th>AGM</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>G Ackerman</td>
<td>Chairman</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>3/3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>J Ackerman</td>
<td>Executive</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>S Ackerman-Berman</td>
<td>Executive</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>R Brasher</td>
<td>CEO</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>D Friedland</td>
<td>Independent non-executive</td>
<td>5/5</td>
<td>1/1</td>
<td>2/2</td>
<td>–</td>
<td>*</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>H Herman</td>
<td>Lead Independent non-executive</td>
<td>5/5</td>
<td>1/1</td>
<td>2/2</td>
<td>3/3</td>
<td>–</td>
<td>*</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>A Jakoet</td>
<td>CFO</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>A Mathole</td>
<td>Independent non-executive</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>–</td>
<td>*</td>
<td>–</td>
<td>2/3</td>
<td></td>
</tr>
<tr>
<td>A Motshojo</td>
<td>Independent non-executive</td>
<td>5/5</td>
<td>1/1</td>
<td>2/2</td>
<td>3/3</td>
<td>–</td>
<td>*</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>L Phalatse</td>
<td>Independent non-executive</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>–</td>
<td>✔</td>
<td>–</td>
<td>*</td>
<td>3/3</td>
</tr>
<tr>
<td>D Rabins</td>
<td>Non-executive</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>R van Rembreg</td>
<td>CIO</td>
<td>5/5</td>
<td>1/1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>J van Rooyen</td>
<td>Independent non-executive</td>
<td>5/5</td>
<td>1/1</td>
<td>2/2</td>
<td>2/3</td>
<td>–</td>
<td>✔</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

The nominations committee, corporate finance committee and corporate governance committee meet as and when required throughout the financial year.

Not a member of the committee
Present at ad hoc meetings
The corporate finance committee was not convened during the financial period

For more detail on the objectives and activities of the Board and its committees, please refer to the corporate governance report on our website at www.picknpayinvestor.co.za.
Pick n Pay Stores Limited has a strong, experienced and diverse Board with a good balance of skills. Each director makes a valuable contribution relevant to their individual field of expertise, whether retail, finance, law, strategy or information technology.

### OUR BOARD OF DIRECTORS

**GARETH ACKERMAN (60)**  
BSc (Sci), MMS and AMP (Oxon)  
Chairman  
- Appointed 1990  
- Years of service: 34  
- Chairman of the corporate governance committee and the nominations committee

**RICHARD BRASHER (56)**  
BSc (Hons)  
Chief Executive Officer  
- Appointed 2013  
- Years of service: 5

**BASRJ JAGOT (62)**  
CA(SA)  
Chief Finance Officer  
- Appointed 2011  
- Years of service: 32

**LORATO PHALATSE (56)**  
BA (Hons), MA  
Company Secretary  
- Appointed 2010  
- Years of service: 23  
- Chairman of the social and ethics committee

**DERRA MULLER (56)**  
BLLB  
Company Secretary  
- Appointed 2010  
- Years of service: 12

**RAYMOND ACKERMAN (57)**  
CA(SA)  
Chief Information Officer  
- Appointed 2009  
- Years of service: 9

**SUZANNE ACKERMAN-BEERMANN (55)**  
BA, Fellow: Aspen Business Institute, First Women Executive director  
- Appointed 2010  
- Years of service: 23  
- Chairman of the social and ethics committee

**JONATHAN ACKERMAN (51)**  
BA Marketing  
- Appointed 2010  
- Years of service: 25

**DAVID BOBINS (54)**  
BBA (StC)  
- Appointed 2002

**HUGH HERMAN (77)**  
BA-LLB, LLB (HC)  
- Appointed 1976  
- Lead independent director (LID)  
- Chairman of the remuneration committee

**ALEX MATHELO (64)**  
BArch LLB  
- Appointed 2016

**AUDREY MOTHUPI (47)**  
BA (Hons)  
- Appointed 2013  
- Other listed company directorship: Life Healthcare Group

**DAVID FRIEDLAND (64)**  
CA(SA)  
- Appointed 2013  
- Other listed company directorships: Investec Limited, Investec plc, The Foschini Group Limited

**HUGH HERMAN (77)**  
BA LLB, LLD (HC)  
- Appointed 1976  
- Lead independent director (LID)  
- Chairman of the remuneration committee

**JEFF VAN ROOYEN (68)**  
CA(SA)  
- Appointed 2007  
- Chairman of the audit, risk and compliance committee  
- Other listed company directorships: MTN Group Limited, Exxaro Resources Limited

**ALEX MATHELO (64)**  
BArch LLB  
- Appointed 2016

**WENDY ACKERMAN**  
- Appointed 2013  
- Other listed company directorship: Life Healthcare Group

### GENDER DIVERSITY

- Female: 69  
- Male: 31

### RACIAL DIVERSITY

- Black: 62  
- White: 38

### DIRECTOR TENURE

- < 5 years: 1  
- 5 – 10 years: 3  
- 10 – 15 years: 8  
- > 15 years: 1

### DIRECTOR CLASSIFICATION

- Executive: 46  
- Non-executive: 38  
- Independent non-executive: 16

### NON-EXECUTIVE DIRECTOR

- David Bobins (54)  
  - BBA (StC)  
  - Appointed 2002

- Hugh Herman (77)  
  - BA-LLB, LLB (HC)  
  - Appointed 1976  
  - Lead independent director (LID)  
  - Chairman of the remuneration committee

- Alex Mathelo (64)  
  - BArch LLB  
  - Appointed 2016

### INDEPENDENT NON-EXECUTIVE DIRECTORS

- Audrey Mothupi (47)  
  - BA (Hons)  
  - Appointed 2013  
  - Other listed company directorship: Life Healthcare Group

- Wendy Ackerman  
  - Appointed 2013  
  - Other listed company directorship: Life Healthcare Group

- David Friedland (64)  
  - CA(SA)  
  - Appointed 2013  
  - Other listed company directorships: Investec Limited, Investec plc, The Foschini Group Limited

### EXECUTIVE DIRECTORS

- Richard Brasher (56)  
  - BSc (Hons)  
  - Chief Executive Officer  
  - Appointed 2013  
  - Years of service: 5

- Basrj Jagot (62)  
  - CA(SA)  
  - Chief Finance Officer  
  - Appointed 2011  
  - Years of service: 32

- Suzanne Ackerman-Beermann (55)  
  - BA, Fellow: Aspen Business Institute, First Women Executive director  
  - Appointed 2010  
  - Years of service: 23  
  - Chairman of the social and ethics committee

- Jonathan Ackerman (51)  
  - BA Marketing  
  - Appointed 2010  
  - Years of service: 25

### COMPANY SECRETARY

- Derra Muller (56)  
  - BLLB  
  - Company Secretary  
  - Appointed 2010  
  - Years of service: 12

### MEMBERS OF THE:

- Audit, risk and compliance committee
- Remuneration committee
- Corporate governance committee
- Corporate finance committee
- Nominations committee
- Social and ethics committee

Pick n Pay Stores Limited has a strong, experienced and diverse Board with a good balance of skills. Each director makes a valuable contribution relevant to their individual field of expertise, whether retail, finance, law, strategy or information technology.
THE YEAR IN REVIEW

The 2018 financial year was once again characterised by a tough economic climate and constrained consumer spending, with real GDP growth in South Africa of just 0.8% over the 2017 calendar year. The Group responded to the tough consumer environment through decisive action. Over the past year, the Group took a number of strategic steps, as set out in this CEO’s review on page 54, to reduce its operating costs and improve its underlying efficiency in ways which have generated additional headroom to invest in its customer offer at a critical time for the South African consumer. These steps, which included a voluntary severance programme (VSP), have accelerated the delivery of the Group’s strategic long-term plan. However, they inevitably resulted in some disruption, which had a short-term adverse impact on the performance of the Group. The VSP in particular also resulted in one-off costs which impacted on this year’s profitability and on the ability of the Board and senior executives to deliver against their strategic objectives and related targets.

Against this background, the remuneration committee has had to exercise careful judgment over the past year to ensure that the application of the Group’s remuneration policy reflects the progress on its strategic long-term objectives, while noting the short-term targets that were not met.

It has recognised that incentives tied to specific targets cannot be paid where these targets have not been met. But the committee has also, where appropriate, exercised some discretion and limited flexibility where the non-achievement of short-term targets resulted from decisions that have significantly strengthened the business to deliver on its longer-term strategy.

2018 FINANCIAL RESULT AND ANNUAL BONUS

The VSP added compensation cost and disruption in the short term; however, together with the modernisation of the Group’s loyalty programme and a collaborative buy better programme with suppliers, the team was able to invest substantially in price and promotion in the final quarter of the year in order to drive sales growth. Strong momentum was achieved in the last three months of the year, but it was not enough to meet the key financial performance targets set by the remuneration committee.

The Group delivered growth in profit before tax and exceptional items (PBTAE), the Group’s primary short-term performance target, of 3.8% in 2018, short of the committee’s threshold target of 10%. In addition, certain other key performance indicators also fell short of expectation, including annual turnover growth, inventory holdings and net interest paid. Accordingly, the Group did not meet the required performance measures set by the remuneration committee for the payment of a short-term annual bonus and the remuneration committee has not awarded a short-term bonus to its senior executive team this year.

However, the remuneration committee acknowledged the important strategic steps taken over the year to drive sustainable performance. In recognition of the solid progress delivered against the long-term plan and the substantially improved customer offer, the remuneration committee agreed to the payment of an ex gratia appreciation award to executive directors and key members of senior management that have delivered this progress.

REVIEW OF CEO’S LONG-TERM BINARY SCHEME

The committee decided, at a special meeting convened in September 2017, to extend the term of Richard Brasher’s binary share award. The share award was due to vest in November 2017, subject to the attainment of a share price eligibility hurdle of R88.03. Richard Brasher had, with the support of the Board, successfully implemented the strategic action detailed above in order to reset the long-term earnings trajectory of the Group. The prevailing political and economic climate had resulted in negative sentiment in the local equities market, and the committee acknowledged that the substantial one-off costs related to the VSP could negatively impact the share price in the short term. The committee agreed that Richard should not be disadvantaged for strategic action taken for the long-term benefit of the Group.

The remuneration committee remains committed to equitably remunerate all of its executive directors, which adequately reflects performance delivered. As such it was agreed to extend the term of his binary scheme by a further 12 months, to November 2018.

AMENDMENTS TO THE GROUP’S FORFEITABLE SHARE PLAN

The Group has delivered consistent progress against its primary long-term performance target of sustainable growth in headline earnings per share (HEPS), with compound annual growth in HEPS over the last five years of 20%. The Group’s debut issue of forfeitable shares vested successfully in August 2017. It is right that the team share in the value that they have helped to create for shareholders, and we were gratified to deliver 6.3 million shares to 130 participants.

The vesting of FISP 1 highlighted the difficulty of issuing shares to executives on the eve of a statutory closed period. To allow any governance concerns, our executive directors and Company Secretary were precluded from taking up their FISP 1 shares on vesting, and were requested to wait until after the publication of the Group’s interim results in October 2017. The remuneration committee subsequently decided to bring forward the vesting dates of all previous FISP awards, from August of the vesting year to June of that same year, to strengthen governance during future vesting periods. The attainment of performance conditions will always be known at the time of the publication of the financial result in April, and it is only the discretionary service condition that has been reduced by less than two months. This amendment ensures that any future delivery and take-up of forfeitable shares will not take place in the days before the Group enters a closed period, facilitating a more streamlined and effective administration of the vesting process.

In line with normal governance principles, if any of our executives are in a voluntary closed period at the time of vesting, they will not be able to take up their shares until such time as any trade embargo has been lifted.

STRONGER TEAM

In January 2018 the Group strengthened its executive team through the appointment of Pedro da Silva to manage our Pick n Pay division. Pedro is a seasoned retailer with an exceptional track record in emerging market retail across the globe. This includes turning around the Bedronda business in Poland to become the national market leader, and guiding the Jerdinho Martins Group as Chief Operations Officer, responsible for the group’s operations in Portugal, Poland and Columbia. Pedro will ably support Richard Brasher in growing our Pick n Pay South African retail business, while enabling Richard to focus more fully on overall Group strategy. The remuneration committee formulated a competitive remuneration package that recognises Pedro’s skill and experience, and his participation in the Group’s long-term share incentive schemes ensures that he will be rewarded for a tenure that delivers on Group strategy, with sustainable earnings growth and share price appreciation over the longer term.

OTHER KEY CONSIDERATIONS

In addition to the key decisions detailed above, further key considerations for the remuneration committee during the year included:

• setting the remuneration packages of key senior executives in line with market-related benefits
• the fourth allocation of shares under the Group’s forfeitable share plan
• agreeing the overall salary increase for all salaried staff
• ongoing talent management and succession planning

The Group’s remuneration committee is mandated by the Board to ensure that the Group’s remuneration policy fairly and responsibly promotes the achievement of the Group’s strategic objectives, including positive value outcomes over the short, medium and long term. The Group’s remuneration policy balances the needs of its employees with those of its shareholders and supports the Group’s strategy by incentivising the behaviour that will deliver on its strategic plan, against clear and measurable performance targets across its seven business acceleration pillars.

Hugh Herman Chairman Remuneration committee

SECTION 1: CHAIRMAN’S REPORT

The remuneration committee remains committed to equitable remuneration of its executive directors, which adequately reflects performance delivered. As such it was agreed to extend the term of his binary scheme by a further 12 months, to November 2018.
CHAPTER 6

REMUNERATION REPORT (continued)

SHAREHOLDER ENGAGEMENT

Our remuneration policy seeks to build the most skilled and talented retail business in South Africa, to drive sustainable value creation for all stakeholders. Our remuneration policy, including all reward principles, is consistent with last year and is outlined in section 2 of this report. The application of our remuneration policy in 2018 is detailed in section 3 of this report.

The remuneration committee is confident that the Group’s remuneration policy achieved its stated objectives in support of the Group’s long-term strategy during the year. Senior management and staff have been remunerated fairly, commensurate with market best-practice, current achievements have been recognised and future performance incentivised in line with the objectives of the Group’s long-term strategy and the interests of shareholders.

In line with the requirements of King IV™, the Group will present section 2 and section 3 of this report separately to its shareholders for non-binding votes at its AGM on 30 July 2018. The proposed directors’ fees for the 2019 and 2020 financial period will also be submitted to shareholders for approval at the AGM. Please refer to page 93 for further information.

The Group values open and constructive engagement with its shareholders, and encourages its shareholders to engage with management on material remuneration issues in order to enable informed decisions when voting on the Group’s remuneration policy and the application thereof.

In addition to this commitment, and in accordance with King IV™, in the event that either the remuneration policy or implementation report receives 25% or more dissenting votes, management will engage directly with shareholders to:

- determine the reasons for the dissenting votes; and
- address all legitimate objections and take any reasonable steps to resolve shareholder concerns.

The remuneration policy and directors’ fees for the 2016 financial period were approved by shareholders at the AGM held on 31 July 2017 as follows:

<table>
<thead>
<tr>
<th>Advisory vote</th>
<th>For</th>
<th>Against</th>
<th>Abstain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration report for the 2017 annual financial period</td>
<td>91.32%</td>
<td>8.68%</td>
<td>0.04%</td>
</tr>
<tr>
<td>Special resolution number 1 Directors’ fees for the 2018 and 2019 annual financial periods</td>
<td>86.58%</td>
<td>13.42%</td>
<td>0.39%</td>
</tr>
</tbody>
</table>

Looking Ahead

The Group is determined to become the employer of choice within the retail industry, creating more opportunity for competitive benefits, skills training and development, recognition and career advancement. The Group has created over 13 700 net new and sustainable jobs over the past three years, notwithstanding the impact of the VSP, through its store opening programme and the ongoing development of its centralised supply chain. We aim to create another 15 000 new jobs over the next three years.

We have much more hope for a prosperous South Africa than we had a year ago, and with renewed energy and momentum in our own business, we look forward to 2019 with confidence.

The remuneration committee will continue to focus on talent management, retention and succession planning. It will formulate appropriate and effective long-term incentives linked to the key performance indicators that will ensure delivery of the Group’s strategic objectives, while balancing the needs of shareholders with those of employees.

Hugh Herman
Chairman: Remuneration committee
22 June 2018

SECTION 2: OVERVIEW OF REMUNERATION POLICY

ALIGNMENT WITH STRATEGIC OBJECTIVES

The Group’s remuneration philosophy is to build and reward a high-performance team that successfully delivers the Group’s strategic objectives in order to create sustainable value for all stakeholders over the short, medium and long term.

The Group’s remuneration policy supports this philosophy through balanced reward, which recognises both the delivery of short-term performance goals, while incentivising sustainable earnings growth over the long term, aligning the interests of our team with those of our shareholders.

The Group’s remuneration policy reflects the following principles:

- Remuneration at all levels is benchmarked against the remuneration policies and practices of comparable companies (both locally and internationally) to ensure that it is fair and reasonable, and key or scarce skills are remunerated in the upper quartile.
- An independent expert assists with remuneration benchmarking to ensure that remuneration decisions made are objective and fair.
- Remuneration is balanced between fixed remuneration and variable short-term and long-term incentives, applying a higher proportion of variable remuneration to senior management to drive performance, and placing a greater emphasis on fixed pay for middle and junior management.
- Non-executive directors do not receive remuneration or incentive awards related to share price or corporate performance.

FRAMEWORK AND PERFORMANCE MEASURES

The Group rewards employees for their individual contribution to the Group’s strategic, operating and financial performance.

The Group’s remuneration policy is aligned with the strategic objectives of the Group, as set out in Stage 2 of its strategy. Short-term and long-term incentives are linked to the achievement of key performance targets, and will contribute to building a winning team and long-term, sustainable value creation in the business for all stakeholders.

The Group’s primary performance target for the achievement of short-term incentives by its management teams is growth in profit before tax and exceptional items (PBTAE). The primary target has a 100% weighting in annual bonus determinations. No short-term incentives are paid if the Group’s primary PBTAE threshold target is not met. If the primary target is met, a bonus is payable at the discretion of the remuneration committee, subject to a review of the level of delivery of certain secondary performance targets, as detailed on the following page.

The Pick n Pay human resources division (HR) was recognised as the Best HR team of the Year at the 2017 national Future of HR awards.

We congratulate the team on this prestigious award, which recognises the transformation of the HR function in business in South Africa. Our HR team is working tirelessly to become a stronger and more effective support structure for all divisions across the Group, and we give them our unwavering support on this journey, as we all become better and simpler for customers and staff.

The Pick n Pay human resources division (HR) was recognised as the Best HR team of the Year at the 2017 national Future of HR awards.

We congratulate the team on this prestigious award, which recognises the transformation of the HR function in business in South Africa. Our HR team is working tirelessly to become a stronger and more effective support structure for all divisions across the Group, and we give them our unwavering support on this journey, as we all become better and simpler for customers and staff.
The composition of the remuneration committee and meeting attendance is as follows:

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hugh Herman (Chairman)</td>
<td>3/3</td>
</tr>
<tr>
<td>Gareth Ackerman</td>
<td>3/3</td>
</tr>
<tr>
<td>Audrey Mothupi</td>
<td>3/3</td>
</tr>
<tr>
<td>Jeff van Rooyen</td>
<td>2/3</td>
</tr>
</tbody>
</table>

Although external advice is obtained from time to time as required, no external advisors attended the remuneration committee meetings during the period under review.

The remuneration committee is satisfied that it has fulfilled its responsibilities in terms of the Board charter and its objectives for the 2018 financial period.
REMUNERATION

CHAPTER 6

Our governance

SECTION 5

Medical aid

Medical aid provisions are in place for all full-time1, part-time2 and

variable-time employees3. The Group provides a number of medical

aid schemes and membership is compulsory for all Pick n Pay

employees on G-grade and above, unless they are covered by a

third-party medical aid. Membership of the medical aids provided is

optional for NMBU employees. The Group contributes 50% of the

medical aid contributions on behalf of employees.

SHORT-TERM VARIABLE INCENTIVES

The short-term incentive bonus is discretionary and is linked to the achievement of targets led by the primary short-term performance

target of profit before tax and exceptional items (PBTAE), as set by

the remuneration committee. Please refer to the five-year review on

page 6/6 for further detail on the calculation of PBTAE.

The primary short-term performance target is supported by secondary

short-term targets aligned to the Group's strategic plan, as set out on

page 8/4.

The bonus pool is self-funding and is created after the achievement of

predefined targets, inclusive of the value of the incentive. The bonus

pool increases in value as threshold, target or stretch targets are

attained. Bonuses are paid as a multiple of basic monthly salary. Each

individual’s share of the bonus pool is dependent on the overall Group

target being reached and on their own individual performance, as

measured through the Group’s annual performance appraisal process.

Bonuses are capped at the following multiples:

<table>
<thead>
<tr>
<th>GRADES</th>
<th>Category</th>
<th>Bonus cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>CEO</td>
<td>24 x basic monthly salary</td>
</tr>
<tr>
<td>A</td>
<td>Group executive</td>
<td>12 x basic monthly salary</td>
</tr>
<tr>
<td>B</td>
<td>Senior management</td>
<td>6 x basic monthly salary</td>
</tr>
<tr>
<td>C &amp; D</td>
<td>Middle management</td>
<td>4 x basic monthly salary</td>
</tr>
<tr>
<td>E &amp; F</td>
<td>Junior management</td>
<td>1.1 x basic cheque</td>
</tr>
</tbody>
</table>

All bonuses paid are subject to approval by the remuneration

committee, and no bonuses are paid if the Group’s primary PBTAE

threshold target is not met. If the primary target is met, a bonus is

payable, subject to a review by the remuneration committee of the

level of delivery of secondary performance targets. The bonus paid to

middle management is reduced by the value of the fixed 13th cheque.

Other, more frequent incentive bonuses are paid to qualifying staff

at store level. These incentives are linked directly to short-term store

performance targets, including turnover, stockholdings, shortages

and waste.

LONG-TERM VARIABLE INCENTIVES

It is Group policy to maintain a broad-based share option scheme for

employees. This is an integral part of our remuneration philosophy and

ensures that the long-term interests of staff are aligned with those of shareholders, with primary performance targets of

long-term sustainable HEPS growth and share price appreciation.

It gives all levels of management the opportunity to acquire shares in

the Group, affording them the opportunity for economic upliftment,

and it encourages employee retention. It is a key differentiator between

the Group and other retail employers in South Africa.

1 Full-time employees have a fixed contract with the Group and work either 40 or 45 hours per week.
2 Part-time employees have a fixed contract with the Group and work a maximum of 25 hours per week.
3 Variable-time employees have a variable contract with the Group, which guarantees either 85 hours per month, or a maximum of 40 hours per week.
4 NMBU refers to our non-management bargaining unit.
The Group operates two share incentive schemes for the benefit of its employees:

1. Share option scheme
2. Forfeitable share plan (FSP)

**Funding of share plans and dilutions**

Shareholders have authorised the Board to utilize up to 63,892,444 shares of Pick n Pay Stores Limited, representing 13% of issued share capital, for the purpose of managing the Group’s share schemes. Both the Group’s share schemes fall within this limit, which means the aggregate number of shares that can be issued under both schemes cannot exceed the authorised limits.

The two share schemes are further constrained by an aggregate limit of 5% of the issued share capital of Pick n Pay Stores Limited, in respect of the amount of new shares that can be issued to cover obligations under the employee share plans.

The future net realisable value of all outstanding share options for all participating Group employees:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Average grant price 2018</th>
<th>Number of options 2018</th>
<th>Net realisable value 26 February 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>35.41</td>
<td>14,334.5</td>
<td>557.2</td>
</tr>
<tr>
<td>2020</td>
<td>41.94</td>
<td>4,138.7</td>
<td>133.9</td>
</tr>
<tr>
<td>2021</td>
<td>56.38</td>
<td>2,334.8</td>
<td>41.8</td>
</tr>
<tr>
<td>2022</td>
<td>57.96</td>
<td>2,326.4</td>
<td>38.0</td>
</tr>
<tr>
<td>2023 and after</td>
<td>64.70</td>
<td>6,463.3</td>
<td>61.9</td>
</tr>
<tr>
<td></td>
<td>29,597.7</td>
<td></td>
<td>832.8</td>
</tr>
</tbody>
</table>

* The net realisable value of outstanding share options was calculated using the prevailing market share price at year-end of R74.28 less the average grant price. Binary share options include performance hurdles that, if met, trigger discounted grant prices.

During the 2018 financial year, 6.2 million Pick n Pay Stores Limited IPK options were issued to employees in respect of their progress and performance. A total of 29.6 million PK share options were held by employees at year-end, amounting to 6.1% of shares in issue. Please refer to note 5 of the 2018 audited Group annual financial statements for further information.

**Status share options – service conditions attached**

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

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

This is a broad-based scheme, rewarding and empowering employees at all levels of management and, as such, no further performance conditions are attached. Vesting is only dependent on the employee remaining in the employ of the Group over the specified vesting period. If the employee leaves the employ of the Group before the end of a vesting period, unvested status share options lapse.

**Performance share options – service conditions attached**

Middle-management employees may be eligible for performance “top-up” share options in recognition of their individual performance and contribution to the Group. These options vest in the same manner as status share options.

**Binary share options – service and performance conditions attached**

Binary share options are granted to employees in senior management positions. These three to six-year options may only be taken up when prescribed performance conditions linked to the growth of the PK share price are met. Should further performance hurdles be achieved, discounted grant prices may apply. If the initial eligibility hurdle is not met, the options are forfeited.

**Binary share options issued to executive director**

In November 2012, 1,000,000 binary share options were issued to Richard Brasher on his appointment as CEO. The binary share options were issued at a grant price of R42.24 and were due to vest in November 2017, subject to the attainment of prescribed share price conditions.

In September 2017 the remuneration committee reviewed the original terms and conditions of those binary options. The committee was concerned that the cost and disruption of the voluntary sevance programme (VSP) may have had a negative short-term impact on the share price in an increasingly volatile local equities market. As the action taken had been supported by the Board and was deemed essential in repositioning the Group for long-term sustainable growth, the remuneration committee decided to extend the vesting period of the binary shares for an additional year.

If the 20-day VWAP up to 14 November 2018 is R68.03 or greater, the options can be exercised at the full grant price of R42.24. Should the 20-day VWAP be less than R68.03, then the options will lapse. Thereafter, if performance hurdles are met, discounted grant prices will apply on exercise.

The salient features are summarised below:

**MURILS**

<table>
<thead>
<tr>
<th>Share price</th>
<th>November 2018</th>
<th>Annual compound growth rate</th>
<th>Exercise price May 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility hurdle</td>
<td>R68.03</td>
<td>10%</td>
<td>R42.24</td>
</tr>
<tr>
<td>Performance hurdle 1</td>
<td>894.96</td>
<td>15%</td>
<td>R21.12</td>
</tr>
<tr>
<td>Performance hurdle 2</td>
<td>R128.91</td>
<td>25%</td>
<td>R1.00</td>
</tr>
</tbody>
</table>

In addition to the terms above, if the 20-day VWAP up to 14 November 2018 is between R105.11 and R128.90 (representing an annual compound growth rate of 20% in the 20-day VWAP share price from grant date), a cash bonus of R70.6 million will be paid.
**FSP awards**

The Group reclassified certain elements of supplier income received and advertising costs incurred during the year, which impacted its inventory valuation and necessitated an immaterial adjustment to prior year earnings. The HEPS performance conditions attached to all previous FSP awards, and presented below, have been adjusted accordingly.

**FSP 1**

The debut FSP share issue took place in August 2014 and was funded through a fresh issue of 6.9 million PIK shares. There were forfeitures in terms of the rules of the scheme and, at the time of vesting, 6.4 million shares were held on behalf of 131 participants.

**FSP 1 performance conditions:**

<table>
<thead>
<tr>
<th>2014 baseline HEPS Cents</th>
<th>Three-year CAGR %</th>
<th>2017 HEPS Cents</th>
<th>Portion of shares which vest %</th>
<th>Number of shares which vest 000’s</th>
<th>Net realisable value Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>141.18</td>
<td>&lt; 10</td>
<td>187.91</td>
<td>All forfeited</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>141.18</td>
<td>10</td>
<td>187.91</td>
<td>30</td>
<td>1 909.5</td>
<td>1 909.5</td>
</tr>
<tr>
<td>141.18</td>
<td>12</td>
<td>198.35</td>
<td>65</td>
<td>4 137.2</td>
<td>4 137.2</td>
</tr>
<tr>
<td>141.18</td>
<td>15</td>
<td>214.72</td>
<td>100</td>
<td>6 365.0</td>
<td>6 365.0</td>
</tr>
</tbody>
</table>

The Group delivered HEPS of 258.65 cents per share in 2017. The stretch HEPS growth target was therefore met.

FSP 1 vested in August 2017 after the completion of the three-year service requirement, with the delivery of 6.4 million shares to 131 participants.

**FSP 2**

The second FSP share issue took place in August 2015 and was funded through a fresh issue of 1.1 million PIK shares and available treasury shares. A total of 1.1 million shares are currently held by a CSDP on behalf of 98 participants.

**FSP 2 performance conditions:**

<table>
<thead>
<tr>
<th>2015 baseline HEPS Cents</th>
<th>Three-year CAGR %</th>
<th>2018 HEPS Cents</th>
<th>Portion of shares which vest %</th>
<th>Number of shares which vest 000’s</th>
<th>Net realisable value Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>173.34</td>
<td>&lt; 10</td>
<td>230.72</td>
<td>All forfeited</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>173.34</td>
<td>10</td>
<td>230.72</td>
<td>30</td>
<td>324.3</td>
<td>24.1</td>
</tr>
<tr>
<td>173.34</td>
<td>11</td>
<td>237.07</td>
<td>65</td>
<td>703.6</td>
<td>52.2</td>
</tr>
<tr>
<td>173.34</td>
<td>12</td>
<td>243.53</td>
<td>100</td>
<td>1 081.0</td>
<td>80.3</td>
</tr>
</tbody>
</table>

* The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at year-end of R74.28.

The Group delivered HEPS of 276.98 cents in 2018, exceeding the stretch HEPS target of 243.53 cents per share. FSP 2 will fully vest on 20 June 2019.

**FSP 3**

The third FSP share issue took place in August 2016 and was funded partly through treasury shares held by the Group and partly through open-market purchases. A total of 1.7 million shares are held by a CSDP on behalf of 107 participants.

**FSP 3 performance conditions:**

<table>
<thead>
<tr>
<th>2016 baseline HEPS Cents</th>
<th>Three-year CAGR %</th>
<th>2019 HEPS Cents</th>
<th>Portion of shares which vest %</th>
<th>Number of shares which vest 000’s</th>
<th>Net realisable value Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>215.22</td>
<td>&lt; 10</td>
<td>286.46</td>
<td>All forfeited</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>215.22</td>
<td>10</td>
<td>286.46</td>
<td>30</td>
<td>499.5</td>
<td>37.1</td>
</tr>
<tr>
<td>215.22</td>
<td>12</td>
<td>302.37</td>
<td>65</td>
<td>1 082.3</td>
<td>80.4</td>
</tr>
<tr>
<td>215.22</td>
<td>14</td>
<td>318.86</td>
<td>100</td>
<td>1 665.0</td>
<td>123.7</td>
</tr>
</tbody>
</table>

* The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at year-end of R74.28.

**FSP 4**

The fourth FSP share issue took place in June 2017 and was funded partly through open-market purchases. A total of 4.1 million shares are held by a CSDP on behalf of 127 participants.

**FSP 4 performance conditions:**

<table>
<thead>
<tr>
<th>2017 baseline HEPS Cents</th>
<th>Three-year CAGR %</th>
<th>2020 HEPS Cents</th>
<th>Portion of shares which vest %</th>
<th>Number of shares which vest 000’s</th>
<th>Net realisable value Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>258.65</td>
<td>&lt; 10</td>
<td>344.29</td>
<td>All forfeited</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>258.65</td>
<td>10</td>
<td>344.29</td>
<td>30</td>
<td>1 232.3</td>
<td>91.5</td>
</tr>
<tr>
<td>258.65</td>
<td>11</td>
<td>353.76</td>
<td>65</td>
<td>2 609.9</td>
<td>198.3</td>
</tr>
<tr>
<td>258.65</td>
<td>12</td>
<td>363.41</td>
<td>100</td>
<td>4 107.5</td>
<td>305.1</td>
</tr>
</tbody>
</table>

* The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at year-end of R74.28.

**SERVICE CONTRACTS**

Executive directors and senior management are employed in terms of the Group’s standard contract of employment and are only employed under fixed-term contracts under specific circumstances. Senior management personal is required to give a reasonable notice period of their intention to terminate their services, which varies from one to 12 calendar months.

Employment contracts do not provide for any exceptional benefits or compensation on the termination of employment. Certain managers who are considered key in carrying out the Group’s strategy are subject to contractual restraint of trade provisions and discretionary termination or restraint of trade payments may be made in this regard.

The retirement age of the Group is 60 years, which applies to all employees. The Group’s Chief finance officer, Bakar Jakoet, has reached retirement age and is now employed by the Group under a fixed-term contract. The terms of the contract dictate a notice period of at least 12 months.

**REMUNERATION STRUCTURE: NON-EXECUTIVE DIRECTORS**

In respect of non-executive directors, the remuneration committee proposes fees to be paid for the membership of the Board and Board committees. Such fees are market-related, commensurate with the time required for directors to undertake their duties, and must be approved by the Board and shareholders. Approved fees are set for the annual financial period. Please refer to page 93 for more detail on the proposed fees for 2019. Fees are not subject to attendance at meetings as attendance at Board meetings is generally good.

Non-executive director remuneration is not linked to the performance of the Group or the Group’s share performance. Non-executive directors do not receive performance-related bonuses and are not granted any share awards. When non-executive directors provide additional consultancy services to the Board and its committees the related fees are determined and approved by the remuneration committee on an ad hoc basis, taking into account the nature and scope of the services rendered.
CHAPTER 6

SECTION 3: IMPLEMENTATION OF REMUNERATION POLICY

WORK PERFORMED AND DECISIONS TAKEN BY REMUNERATION COMMITTEE

The main items considered and approved by the remuneration committee during the 2018 financial period were as follows:

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

The remuneration committee reviewed the total remuneration of executive directors, including all benefits, to ensure alignment with the Group’s strategic objectives and best practice in the market. The balance between guaranteed remuneration and short and long-term incentives was considered to ensure its appropriateness to drive the delivery of both short and long-term strategic objectives. The remuneration is considered fair and competitive against market benchmarks and the role and performance of each individual executive director.

Reviewing and setting the annual compensation for the CEO

In setting Richard Brasher’s annual base salary at R9.5 million, the remuneration committee considered his extensive experience in the retail industry and the Group’s strong and consistent profit growth delivered under Richard’s stewardship. The remuneration committee is satisfied that Richard’s benchmarked base salary is fair in relation to the market, his expertise and his contribution to date.

Determining annual increases in fixed remuneration for executive directors, and an overall salary increase for salaried staff across the Group

The increase in total normalised fixed base salary and benefits paid to executive directors is 5.0%, excluding once-off variations in the base, against an average for the Group of 5.0%, excluding employees governed by a labour union agreement (NMU). The average annual increase for NMU employees was between 7% and 10%. Annual increases were determined in April 2017 after formal performance reviews, and reflect individual performance against key performance indicators, the scope of each role, as well as comparable increases in the general and retail market, and a projected consumer price index of 5.0%.

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

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

Secondary performance targets are set, which include turnover growth, improved operating cost and other efficiency ratios and key working capital metrics. However, the overarching PBTAE threshold target must first be met, before a short-term bonus is considered. Thereafter, the bonus is allocated based on this level of delivery against the secondary performance targets and individual performance, as evaluated through a formal performance appraisal process.

The Group delivered PBTAE of R1 789.1 million, a 3.8% increase on the prior period. This fell below the remuneration committee’s threshold target of 10.0%, and, as a result, no short-term bonus was awarded to its senior management team. However, discretionary awards were made to executive directors and certain members of senior management in recognition of their execution of the difficult decisions taken during the year to drive sustainable performance. Bonuses have been awarded to key members of staff at lower levels of management in recognition of progress delivered during a more challenging year.

The remuneration committee has set new and appropriate targets for the 2019 financial period, including overarching primary short-term PBTAE growth targets of:

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Target</th>
<th>Stretch</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>20%</td>
<td>25%</td>
</tr>
</tbody>
</table>

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

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

As detailed in the remuneration committee Chairman’s review, the term of the binary share option awarded to CEO, Richard Brasher, was extended by a further 12 months to ensure that Richard was not unfairly disadvantaged by this potential short-term impact on the share price of strategic action taken in service of the long-term plan during the year. Please refer to page 81 for further information.

Reviewing the Group’s forfeitable share plan (FSP) – setting appropriate performance conditions and allocating forfeitable shares to executive directors and qualifying senior management

Following the successful vesting of FSP 1, the remuneration committee agreed on a replacement award to ensure that all senior management personnel have competitive and market-related long-term incentives in the business to drive delivery of the long-term strategy and value creation. It provides the Group with added security over the retention and tenure of key executives. The remuneration committee set the financial performance conditions to be attached to FSP 4 and agreed on the 127 participants and the level at which each would participate, with particular focus on allocations to executive directors. For further information, refer to page 81 and 91 of this report.

Reviewing and recommending non-executive directors’ fees for the 2019 financial period, for final approval by shareholders at the AGM

Fees (excluding value-added tax) for the current and proposed periods are as follows:

<table>
<thead>
<tr>
<th>Non-executive director/committee membership</th>
<th>Proposed 2019</th>
<th>Actual 2018</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the Board</td>
<td>4 438 000</td>
<td>4 187 000</td>
<td>6.0</td>
</tr>
<tr>
<td>Lead independent non-executive director of the Board</td>
<td>138 000</td>
<td>130 000</td>
<td>6.2</td>
</tr>
<tr>
<td>Non-executive director of the Board</td>
<td>413 000</td>
<td>390 000</td>
<td>5.9</td>
</tr>
<tr>
<td>Chairman of the audit, risk and compliance committee</td>
<td>340 000</td>
<td>331 000</td>
<td>5.9</td>
</tr>
<tr>
<td>Member of the audit, risk and compliance committee</td>
<td>138 000</td>
<td>130 000</td>
<td>6.2</td>
</tr>
<tr>
<td>Chairman of the remuneration committee</td>
<td>181 000</td>
<td>171 000</td>
<td>5.8</td>
</tr>
<tr>
<td>Member of the remuneration committee</td>
<td>90 000</td>
<td>85 000</td>
<td>5.9</td>
</tr>
<tr>
<td>Member of the nominations committee</td>
<td>85 000</td>
<td>80 000</td>
<td>6.3</td>
</tr>
<tr>
<td>Member of the social and ethics committee1</td>
<td>90 000</td>
<td>85 000</td>
<td>5.9</td>
</tr>
<tr>
<td>Chairman of the corporate finance committee2</td>
<td>193 000</td>
<td>182 000</td>
<td>6.0</td>
</tr>
<tr>
<td>Member of the corporate finance committee2</td>
<td>110 000</td>
<td>121 000</td>
<td>5.7</td>
</tr>
<tr>
<td>Trustee of the employee share purchase trust</td>
<td>40 000</td>
<td>38 000</td>
<td>5.3</td>
</tr>
</tbody>
</table>

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

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

The corporate finance committee is an ad hoc committee. The fees payable are determined in relation to the number of meetings held during the financial period, but will not be more than the annual proposed fee. No formal meetings were held during the 2018 financial period, and therefore no fees were paid.

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

In setting the Chairman’s proposed annual fee of R4.4 million, the remuneration committee (Gareth Ackerman recused himself from the discussion) considered the active role he plays in the corporate governance of the Group and in formulating overarching strategy for the individual companies within the Group. Gareth does not play a day-to-day role in the executive management and administration of the business, but does make himself available to the executive team in an advisory capacity.

Reviewing and approving of the Group’s remuneration policy and report

This report and the recommendations of the remuneration committee have been approved by the Board and will be submitted to shareholders for consideration at the annual general meeting to be held on 30 July 2018.
### PAYMENTS, ACCRUALS AND AWARDS TO DIRECTORS

#### Total remuneration of executive directors

<table>
<thead>
<tr>
<th>Fees for Board meetings R’000</th>
<th>Base salary R’000</th>
<th>Retirement and medical contributions R’000</th>
<th>Fringe and other benefits R’000</th>
<th>Total fixed remuneration R’000</th>
<th>Discretionary award* R’000</th>
<th>Total remuneration R’000</th>
<th>Long-term share expense R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Richard Brasher</td>
<td>1.5</td>
<td>9 474.0</td>
<td>857.1</td>
<td>288.5</td>
<td>10 621.1</td>
<td>800.0</td>
<td>11 421.1</td>
</tr>
<tr>
<td>Richard van Rensburg</td>
<td>1.5</td>
<td>4 423.5</td>
<td>383.1</td>
<td>547.6</td>
<td>5 357.5</td>
<td>375.5</td>
<td>5 732.0</td>
</tr>
<tr>
<td>Bakar Jakoet</td>
<td>1.5</td>
<td>4 605.0</td>
<td>34.6</td>
<td>389.0</td>
<td>5 030.1</td>
<td>400.0</td>
<td>5 430.1</td>
</tr>
<tr>
<td>Suzanne Ackerman-Berman</td>
<td>1.5</td>
<td>2 586.1</td>
<td>245.9</td>
<td>278.8</td>
<td>3 112.3</td>
<td>224.0</td>
<td>3 336.3</td>
</tr>
<tr>
<td>Jonathan Ackerman</td>
<td>1.5</td>
<td>1 844.8</td>
<td>320.2</td>
<td>282.1</td>
<td>2 448.6</td>
<td>112.0</td>
<td>2 560.6</td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td>7.5</td>
<td>22 933.4</td>
<td>1 840.9</td>
<td>1 786.0</td>
<td>26 567.8</td>
<td>1 911.5</td>
<td>28 479.3</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Richard Brasher</td>
<td>1.5</td>
<td>8 945.7</td>
<td>781.7</td>
<td>302.7</td>
<td>10 031.8</td>
<td>–</td>
<td>10 031.8</td>
</tr>
<tr>
<td>Richard van Rensburg</td>
<td>1.5</td>
<td>4 027.2</td>
<td>350.1</td>
<td>282.2</td>
<td>4 707.0</td>
<td>–</td>
<td>4 707.0</td>
</tr>
<tr>
<td>Bakar Jakoet</td>
<td>1.5</td>
<td>3 892.7</td>
<td>587.1</td>
<td>324.2</td>
<td>4 805.5</td>
<td>–</td>
<td>4 805.5</td>
</tr>
<tr>
<td>Suzanne Ackerman-Berman</td>
<td>1.5</td>
<td>2 580.8</td>
<td>244.9</td>
<td>276.6</td>
<td>3 111.0</td>
<td>–</td>
<td>3 111.0</td>
</tr>
<tr>
<td>Jonathan Ackerman</td>
<td>1.5</td>
<td>2 282.2</td>
<td>401.7</td>
<td>282.7</td>
<td>2 968.6</td>
<td>–</td>
<td>2 968.6</td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td>7.5</td>
<td>9 517.0</td>
<td>1 766.0</td>
<td>1 302.0</td>
<td>12 585.0</td>
<td>–</td>
<td>12 585.0</td>
</tr>
</tbody>
</table>

* The Group did not meet the required performance measures set by the remuneration committee for the payment of a short-term annual bonus. However, the remuneration committee acknowledged that certain important strategic steps were taken during the period to drive sustainable performance, but which had a negative impact on short-term profitability. The remuneration committee recognised the strategic action taken and progress delivered through the payment of an ex gratia award to executive directors and senior management.

# The expense of the long-term share awards is determined in accordance with IFRS 2 Share-based Payments. The fair value is measured at grant date and the cost of the awards granted is spread over the period during which the employees become unconditionally entitled to the options (the vesting period). The amounts in the column represent the current year’s charge, as recorded in the statement of comprehensive income and statement of changes in equity. The long-term share awards will vest in the future only if all the criteria set out in the rules of the 1997 employee share option scheme and forfeitable share plan are met.

### Total remuneration of non-executive directors

<table>
<thead>
<tr>
<th>Directors’ fees R’000</th>
<th>Lead director committee R’000</th>
<th>Audit committee R’000</th>
<th>Remuneration committee R’000</th>
<th>Nominations committee R’000</th>
<th>Corporate finance committee R’000</th>
<th>Social and ethics committee R’000</th>
<th>Employee share trust R’000</th>
<th>Total R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gareth Ackerman</td>
<td>4 187.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4 187.0</td>
</tr>
<tr>
<td>David Friedland</td>
<td>390.0</td>
<td>–</td>
<td>130.0</td>
<td>80.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>600.0</td>
</tr>
<tr>
<td>Hugh Herman</td>
<td>390.0</td>
<td>130.0</td>
<td>130.0</td>
<td>171.0</td>
<td>–</td>
<td>–</td>
<td>38.0</td>
<td>859.0</td>
</tr>
<tr>
<td>Alex Mathola</td>
<td>390.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>42.5</td>
</tr>
<tr>
<td>Audrey Motshupi</td>
<td>390.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>38.0</td>
<td>643.0</td>
</tr>
<tr>
<td>Lorato Phalatse</td>
<td>390.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>80.0</td>
<td>555.0</td>
</tr>
<tr>
<td>David Roberts</td>
<td>390.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>390.0</td>
</tr>
<tr>
<td>Jeff van Rooyen</td>
<td>390.0</td>
<td>–</td>
<td>321.0</td>
<td>85.0</td>
<td>–</td>
<td>–</td>
<td>38.0</td>
<td>834.0</td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td>6 917.0</td>
<td>130.0</td>
<td>711.0</td>
<td>160.0</td>
<td>–</td>
<td>127.5</td>
<td>114.0</td>
<td>8 500.5</td>
</tr>
</tbody>
</table>

| 2017                   |                               |                      |                               |                            |                                   |                               |                           |             |
| Gareth Ackerman         | 3 913.0                       | –                    | –                             | –                          | –                                 | –                             | –                         | 3 913.0     |
| David Friedland        | 364.0                         | –                    | 122.0                         | 80.0                       | –                                 | –                             | 35.5                      | 918.5       |
| Hugh Herman            | 364.0                         | 122.0                | 122.0                         | 160.0                      | –                                 | 115.0                         | –                         | 325.0       |
| Alex Mathola           | 125.0                         | –                    | –                             | –                          | –                                 | –                             | 125.0                     |             |
| Audrey Motshupi        | 364.0                         | –                    | –                             | 80.0                       | –                                 | –                             | 35.5                      | 716.5       |
| Lorato Phalatse        | 364.0                         | –                    | –                             | 80.0                       | –                                 | 115.0                         | –                         | 900.0       |
| David Roberts          | 364.0                         | –                    | –                             | –                          | –                                 | –                             | –                         | 364.0       |
| Jeff van Rooyen        | 364.0                         | –                    | 300.0                         | 80.0                       | –                                 | 170.0                         | –                         | 945.5       |
| **Total remuneration** | 6 222.0                       | 122.0                | 646.0                         | 320.0                      | 150.0                             | 630.0                         | 80.0                      | 8 296.5     |
### SHARE AWARDS GRANTED TO EXECUTIVE DIRECTORS

<table>
<thead>
<tr>
<th>Calendar year granted</th>
<th>Award granted price R</th>
<th>Balance held at 26 February 2017</th>
<th>Granted/ exercised</th>
<th>Exercise price R</th>
<th>Balance held at 25 February 2018</th>
<th>Available for take-up</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Richard Brasher</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>42.24</td>
<td>1 000 000</td>
<td>–</td>
<td>–</td>
<td>1 000 000</td>
<td>Now</td>
</tr>
<tr>
<td>2012</td>
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<td>Aug 2019</td>
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<tr>
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<td>–</td>
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<td>Aug 2020</td>
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<td>1 148 776</td>
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<tr>
<td>Suzanne Ackerman-Berman</td>
<td></td>
<td></td>
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<tr>
<td>Share options</td>
<td>2008</td>
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<tr>
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<td>–</td>
<td>–</td>
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<tr>
<td>2016</td>
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<td>N/R</td>
<td>150 000</td>
<td>60.30</td>
<td>N/R</td>
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<tr>
<td>2015</td>
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<td>–</td>
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<td>Aug 2018</td>
</tr>
<tr>
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<td>N/R</td>
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<td>–</td>
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<tr>
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<td>–</td>
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</tr>
<tr>
<td>295 196</td>
<td>(70 000)</td>
<td>225 196</td>
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<tr>
<td>Jonathan Ackerman</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Share options</td>
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<td>75 000</td>
<td>–</td>
<td>75 000</td>
<td>Now</td>
</tr>
<tr>
<td>2008</td>
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<td>–</td>
<td>–</td>
<td>25 000</td>
<td>Aug 2018</td>
</tr>
<tr>
<td>Forfeitable shares</td>
<td>2014</td>
<td>N/R</td>
<td>150 000</td>
<td>60.30</td>
<td>N/R</td>
<td>–</td>
</tr>
<tr>
<td>2015</td>
<td>N/R</td>
<td>20 000</td>
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<td>–</td>
<td>20 000</td>
<td>Aug 2018</td>
</tr>
<tr>
<td>2016</td>
<td>N/R</td>
<td>25 000</td>
<td>–</td>
<td>–</td>
<td>25 000</td>
<td>Aug 2019</td>
</tr>
<tr>
<td>2017</td>
<td>N/R</td>
<td>– 40 000</td>
<td>–</td>
<td>–</td>
<td>40 000</td>
<td>Aug 2020</td>
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<tr>
<td>295 000</td>
<td>(110 000)</td>
<td>185 000</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

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

### DIRECTORS’ INTEREST IN PICK N PAY STORES LIMITED ORDINARY SHARES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Benefit/ non-beneficial interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gareth Ackerman</strong></td>
<td>Share options</td>
<td>309</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Ackerman Pick n Pay Foundation</strong></td>
<td>Share options</td>
<td>101 900</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Ackerman Investment Holdings Proprietary Limited</strong></td>
<td>Share options</td>
<td>124 677 238</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Mozar Trust</strong></td>
<td>Share options</td>
<td>2 700 967 19 041</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

* The indirect non-beneficial interest in the Ackerman Pick n Pay Foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman.

** The indirect non-beneficial interest in the Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.

*** The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees.

### NOTE

- **Forfeitable shares**
  - If the share price performance criteria are not met, the options are forfeited.

- **Non-beneficial interest**
  - **Direct options** represent a holding in the director's personal capacity and indirect interests represent a holding by a trust, of which the director is a trustee, or a spouse or minor children of directors.

- **Beneficial interest**
  - **The indirect non-beneficial interest in the Ackerman Pick n Pay Foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman in their capacity as trustees.**

- **The indirect non-beneficial interest in the Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.**

- **The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees and/or potential beneficiaries.**

- **Forfeitable shares**
  - This disposal of shares relates to a minor child of the director becoming a major, and, consequently, these shares are no longer indirectly held by the director.

- **Share options**
  - There have been no changes in the directors' interest in shares since 25 February 2018 up to the date of approval of the 2018 audited Group annual financial statements.
### DIRECTORS’ INTEREST IN PICK N PAY STORES LIMITED B SHARES

<table>
<thead>
<tr>
<th>Name</th>
<th>Direct Interest</th>
<th>Indirect Interest</th>
<th>Beneficial</th>
<th>Non-beneficial</th>
</tr>
</thead>
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<tr>
<td><strong>2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gareth Ackerman</strong></td>
<td>direct 522</td>
<td>indirect 3,227,861</td>
<td>Beneficial</td>
<td></td>
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<tr>
<td></td>
<td>indirect 39</td>
<td>140</td>
<td>Non-beneficial</td>
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</tr>
<tr>
<td>Ackerman Investment Holdings Proprietary Limited**</td>
<td>indirect 246,936,847</td>
<td>indirect 5,349,559</td>
<td>Non-beneficial</td>
<td>Beneficial</td>
</tr>
<tr>
<td><strong>Mistral Trust</strong>*</td>
<td>indirect 233,767</td>
<td>indirect 926,084</td>
<td>Beneficial</td>
<td>Non-beneficial</td>
</tr>
<tr>
<td><strong>Suzanne Ackerman-Berman</strong></td>
<td>direct 926,084</td>
<td>indirect 243,307</td>
<td>Non-beneficial</td>
<td>Beneficial</td>
</tr>
<tr>
<td><strong>Jonathan Ackerman</strong></td>
<td>indirect 11,350,009</td>
<td>indirect 21,862</td>
<td>Non-beneficial</td>
<td>Beneficial</td>
</tr>
<tr>
<td><strong>David Robins</strong></td>
<td>direct 1,931</td>
<td>indirect 184,742</td>
<td>Non-beneficial</td>
<td>Beneficial</td>
</tr>
</tbody>
</table>

* Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a trust of which the director is a trustee, or a spouse and minor children of directors.
** The indirect non-beneficial interest in Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.
*** The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees and/or potential beneficiaries.
# This disposal of shares relates to a minor child of the director becoming a major, and, consequently, these shares are no longer indirectly held by the director.

There have been no changes in the director’s interest in ordinary shares and B shares since 25 February 2018 up to the date of approval of the 2018 audited Group annual financial statements.

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**CASE STUDY: PICK N PAY SCHOOL CLUB**

It reaches 3,335 schools (635 high schools and 2,700 primary schools), comprising more than 5 million educators, learners, parents and guardians. The free educational material supplied by the School Club — workbooks for the teachers and educational posters for their classrooms — is specific to learners’ grades, aligned to the curriculum, and written by experts. This material supports learners in mathematics, science, literacy, health and wellness and sustainability.

The Pick n Pay School Club also encourages future leaders in primary schools through the Pick n Pay Heroes Awards, which recognises young learners for Academic Excellence, Sporting Achievement, Community Upliftment, Leadership and Overcoming Hardship.
CHAPTER 7

SHAREHOLDERS’ INFORMATION

102 More detail on this report
104 Analysis of ordinary shareholders
105 Analysis of B shareholders
106 Shareholders’ information
10C Corporate information
SCOPE AND BOUNDARY OF THE REPORT

We have adopted the International Integrated Reporting (IR) Framework (the framework) of the International Integrated Reporting Council (IIRC) which provides an international standard for integrated reporting that enables companies globally to demonstrate, in a comparable manner, how they create value. We have also applied the principles outlined in the King IV Code™ on Corporate Governance (King IV Code™). The Group is in full support of the voluntary principles and leading practices of King IV™, which become effective for the Group during the 2019 financial period.

This report covers the integrated financial and non-financial performance of Pick n Pay Stores Limited and its subsidiaries and associates (the Group) for the 52 weeks ended 25 February 2018, with relevant comparisons to previous periods, and is consistent with information and performance indicators included in internal management reporting. The report has been compiled and presented in line with the requirements and principles of all the applicable reporting frameworks. Refer to page 5 for further information.

PRESENTED IN THIS REPORT IS A RANGE OF FINANCIAL AND NON-FINANCIAL DISCLOSURES AND PERFORMANCE MEASURES TO ASSIST OUR STAKEHOLDERS IN MAKING AN INFORMED AND OBJECTIVE ASSESSMENT OF THE GROUP’S OVERALL PERFORMANCE IN 2018. NON-FINANCIAL DISCLOSURES PROVIDED IN THIS REPORT ARE SPECIFIC TO OUR PICK n PAY-BRANDED, COMPANY-OWNED BUSINESS IN SOUTH AFRICA. IT IS OUR INTENTION TO EXPAND THESE DISCLOSURES IN FUTURE IN ORDER TO PROVIDE A COMPREHENSIVE VIEW OF THE SOCIAL, HUMAN AND ENVIRONMENTAL IMPACTS OF THE GROUP AS A WHOLE.

FORWARD-LOOKING INFORMATION

The report contains certain forward-looking statements which relate to the possible future performance and financial position of the Group. All forward-looking statements are solely based on the views and considerations of the directors. These statements involve risk and uncertainty as they relate to events and depend on circumstances that may or may not occur in the future. The Group does not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information, future events or otherwise. These forward-looking statements have not been reviewed or reported on by the Group’s external auditors.

ASSURANCE

The Board, assisted by the audit, risk and compliance committee, is ultimately responsible for overseeing the integrity of the integrated annual report. This has been achieved by establishing skilled and experienced teams and accountability structures to undertake the reporting process and by performing a thorough review of the report.

The content of the integrated annual report has been reviewed by the directors and management, but has not been externally assured. The annual financial statements have been audited by Ernst & Young Inc. (E&Y) who expressed an unmodified audit opinion therein. Accredited service providers and agencies have verified selected non-financial performance metrics contained in the report, including our carbon footprint and the BBBEE rating, while management has verified the processes for measuring all other non-financial information.

REPORT STRUCTURE AND FEEDBACK

We are committed to achieving the highest standards of global best practice in reporting, and continue on our journey to implement these standards within the Group. In our ongoing effort to improve our reporting, we have made some changes to the structure and presentation of information, particularly in respect of the presentation of our business model and the additional insight provided into how we create value and our remuneration reporting. We will continue to engage with all stakeholders to ensure that we improve year on year.

It has become best reporting practice for an integrated annual report to include summarised financial information, with a complete set of audited financial statements, prepared in terms of FRS, published separately. This report therefore does not contain the full audited Group annual financial statements, which have been made available on our website at www.picknpayinvestor.co.za.

Any comments or requests for additional information can be emailed to our Company Secretary at demuller@pnp.co.za.

ONLINE REPORTING

To align with the increasing trend towards online reporting and electronic access to information, we do not distribute printed copies of our integrated annual report, but rather make it available online on the Group’s website at www.picknpayinvestor.co.za.

Printed copies of the integrated annual report are available on request from our Company Secretary, Debra Muller, at demuller@pnp.co.za or by fax at +27 21 797 0314.
## Analysis of Ordinary Shareholders

### Shareholder Spread

<table>
<thead>
<tr>
<th>Number of shareholders</th>
<th>%</th>
<th>Number of shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 1 000 shares</td>
<td>7 018</td>
<td>61.5</td>
<td>2 132 421</td>
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<tr>
<td>1 001 – 10 000 shares</td>
<td>3 398</td>
<td>27.8</td>
<td>11 003 485</td>
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<td>10 001 – 100 000 shares</td>
<td>942</td>
<td>7.7</td>
<td>29 847 816</td>
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<tr>
<td>100 001 – 1 000 000 shares</td>
<td>295</td>
<td>2.5</td>
<td>87 028 808</td>
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<tr>
<td>1 000 001 shares and over</td>
<td>59</td>
<td>0.5</td>
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<td><strong>Total</strong></td>
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<td>488 450 321</td>
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### Public/Non-Public Shareholders

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<th>Non-public shareholders</th>
<th>Number of shares</th>
<th>%</th>
<th>Number of shares</th>
<th>%</th>
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<tr>
<td>Ackerman Investment Holdings Proprietary Limited</td>
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<tr>
<td>Mistral Trust</td>
<td>2 720 008</td>
<td>0.6</td>
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<tr>
<td>Ackerman Pick n Pay Foundation</td>
<td>101 900</td>
<td>-</td>
<td></td>
<td></td>
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<tr>
<td>Directors</td>
<td>4 958 745</td>
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</tr>
<tr>
<td>Shares held on behalf of FSP participants</td>
<td>6 851 500</td>
<td>1.4</td>
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<td></td>
</tr>
<tr>
<td>Pick n Pay Retailers Proprietary Limited</td>
<td>6 187 176</td>
<td>1.3</td>
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<td></td>
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<tr>
<td>Thai Pick n Pay Employee Share Purchase Trust</td>
<td>1 206 190</td>
<td>99.9</td>
<td></td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td>12 206</td>
<td>100</td>
<td>488 450 321</td>
<td>100</td>
</tr>
</tbody>
</table>

### Beneficial Shareholders Holding 1% or More

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>%</th>
</tr>
</thead>
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<tr>
<td>Ackerman Investment Holdings Proprietary Limited</td>
<td>124 677 238</td>
</tr>
<tr>
<td>Public Investment Corporation Limited</td>
<td>51 277 595</td>
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<tr>
<td>Coronation Balanced Plus Fund</td>
<td>16 161 912</td>
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<tr>
<td>Alexander Forbes Investments</td>
<td>10 882 955</td>
</tr>
<tr>
<td>Genesis Emerging Markets Investment Company</td>
<td>8 955 662</td>
</tr>
<tr>
<td>Allan Gray Balanced Fund</td>
<td>7 046 264</td>
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<tr>
<td>Vanguard Emerging Markets Stock Index Fund</td>
<td>6 984 197</td>
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<tr>
<td>Shares held on behalf of FSP participants</td>
<td>6 851 500</td>
</tr>
<tr>
<td>Pick n Pay Employee Share Purchase Trust</td>
<td>6 187 176</td>
</tr>
<tr>
<td>Prudential Core Valu Fund</td>
<td>5 737 158</td>
</tr>
<tr>
<td>Old Mutual Symmetry Satellite Equity Fund No 3</td>
<td>5 600 026</td>
</tr>
</tbody>
</table>

## Analysis of B Shareholders

### Shareholder Spread

<table>
<thead>
<tr>
<th>Number of shareholders</th>
<th>%</th>
<th>Number of shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 1 000 shares</td>
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<td>3.9</td>
<td>1 100</td>
</tr>
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<td>1 001 – 10 000 shares</td>
<td>7</td>
<td>26.9</td>
<td>52 868</td>
</tr>
<tr>
<td>10 001 – 100 000 shares</td>
<td>8</td>
<td>30.8</td>
<td>223 670</td>
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<tr>
<td>100 001 – 1 000 000 shares</td>
<td>5</td>
<td>19.2</td>
<td>1 582 276</td>
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<tr>
<td>1 000 001 shares and over</td>
<td>5</td>
<td>19.2</td>
<td>257 822 955</td>
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<tr>
<td><strong>Total</strong></td>
<td>26</td>
<td>100.0</td>
<td>259 682 869</td>
</tr>
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</table>

### Public/Non-Public Shareholders

<table>
<thead>
<tr>
<th>Non-public shareholders</th>
<th>Number of shares</th>
<th>%</th>
<th>Number of shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ackerman Investment Holdings Proprietary Limited</td>
<td>1 246 936 847</td>
<td>95.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mistral Trust</td>
<td>5 349 559</td>
<td>2.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ackerman Pick n Pay Foundation</td>
<td>6 853 500</td>
<td>1.4</td>
<td></td>
<td></td>
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<tr>
<td>Directors</td>
<td>6 187 176</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares held on behalf of FSP participants</td>
<td>5 737 158</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pick n Pay Retailers Proprietary Limited</td>
<td>5 349 559</td>
<td>2.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thai Pick n Pay Employee Share Purchase Trust</td>
<td>5 187 176</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>12 206</td>
<td>100</td>
<td>488 450 321</td>
<td>100</td>
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</table>

### Beneficial Shareholders Holding 1% or More

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>%</th>
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<tbody>
<tr>
<td>Ackerman Investment Holdings Proprietary Limited</td>
<td>246 936 847</td>
</tr>
<tr>
<td>Mistral Trust</td>
<td>5 349 559</td>
</tr>
<tr>
<td>Gareth Ackerman</td>
<td>3 228 383</td>
</tr>
</tbody>
</table>

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits. All B shares are stapled to certain ordinary shares and are held within South Africa.

### Geographic Spread of Shareholders (%)

- South Africa ordinary shares with B shares stapled: 49.2%
- South Africa ordinary shares excluding B shares: 26.8%
- United States of America: 4.7%
- Great Britain: 10.3%
- Other countries: 9.0%
SHAREHOLDERS’ INFORMATION

ANNUAL GENERAL MEETING – 30 JULY 2018
The 50th annual general meeting of shareholders of Pick n Pay Stores Limited (AGM) will be held at the Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town, 7708 on Monday, 30 July 2018.

Registration for the AGM will commence at 08:00.

The minutes of the previous year’s AGM held on 31 July 2017 are available on our investor relations website at www.picknpayinvestor.co.za.

DIVIDENDS

<table>
<thead>
<tr>
<th>Dividend</th>
<th>Number</th>
<th>Amount (cents)</th>
<th>Last day of trade</th>
<th>Date of payment</th>
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<tbody>
<tr>
<td>Interim</td>
<td>95</td>
<td>24.20</td>
<td>4 December 2015</td>
<td>14 December 2015</td>
</tr>
<tr>
<td>Final</td>
<td>96</td>
<td>125.20</td>
<td>3 June 2016</td>
<td>13 June 2016</td>
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<tr>
<td>Interim</td>
<td>97</td>
<td>29.90</td>
<td>6 December 2016</td>
<td>12 December 2016</td>
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<tr>
<td>Final</td>
<td>98</td>
<td>146.40</td>
<td>6 June 2017</td>
<td>12 June 2017</td>
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<tr>
<td>Interim</td>
<td>99</td>
<td>33.40</td>
<td>5 December 2017</td>
<td>11 December 2017</td>
</tr>
<tr>
<td>Final</td>
<td>100</td>
<td>155.40</td>
<td>5 June 2018</td>
<td>11 June 2018</td>
</tr>
<tr>
<td>Interim</td>
<td>101</td>
<td>4 December 2018*</td>
<td>10 December 2018*</td>
<td></td>
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<tr>
<td>Final</td>
<td>102</td>
<td>4 June 2019*</td>
<td></td>
<td>16 June 2019*</td>
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</table>

* Estimated

2019 RESULTS ANNOUNCEMENTS

<table>
<thead>
<tr>
<th>Interim</th>
<th>Final</th>
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</thead>
<tbody>
<tr>
<td>October 2018</td>
<td>April 2019</td>
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</tbody>
</table>

PUBLICATION OF ANNUAL FINANCIAL STATEMENTS

<table>
<thead>
<tr>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2018</td>
<td>May 2019</td>
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PUBLICATION OF INTEGRATED ANNUAL REPORT AND CORPORATE GOVERNANCE REPORT

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
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PUBLICATION OF SUSTAINABILITY REPORT (EVERY TWO YEARS)

<table>
<thead>
<tr>
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<tbody>
<tr>
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