



SUSTAINABLE LIVING REPORT 2013





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PRODUCED ON BEHALF OF PICK N PAY BY JOHN BROWN SOUTH AFRICA



REPORTING BY INCITE SUSTAINABILITY



Our approach to sustainability

STRATEGIC OVERVIEW

About this report

We published our third *Integrated Annual Report* this year, aligned with the requirements laid out in the *King Report on Corporate Governance for South Africa (King III)*. As part of the reporting process, we are presenting the *Pick n Pay Sustainable Living Report 2013*, which seeks to provide a comprehensive view of how our business is responding to social and environmental issues. We hope this gives you, our stakeholder, a solid basis for assessing our contributions in this regard, and we invite you to share your reflections on our commitments and performance to date.

Scope of the report

In compiling this report, we have:

- identified the environmental, social and governance (ESG) issues that are most material to our business (see page 6)
- prioritised report topics in line with our sustainability framework, our ESG risks (see page 7), and stakeholder concerns
- incorporated our stakeholders' concerns in the content (see page 9)

The scope of this report includes all Pick n Pay corporate-owned stores in South Africa, as well as our Hypermarkets, distribution centres and

regional offices. Unless otherwise specified, the term 'Pick n Pay' denotes 'the Group', which includes both Pick n Pay Holdings Limited RF and Pick n Pay Stores Limited, along with their subsidiaries and associates.

All data and information cover the past financial period, ending 3 March 2013.

External audit and assurance

An independent audit of the Group's annual financial statements was performed by KPMG Inc. The broad-based black economic scorecard information was compiled internally and verified independently by EmpowerLogic (Pty) Ltd. The carbon footprint data, also compiled internally, was verified independently by Global Carbon Exchange.

We are currently working on developing and implementing a comprehensive combined assurance approach with the aim of ensuring the integrity of all the data contained within our *Integrated Annual Report*. This will include key performance indicators identified in the sustainability strategy.

The rest of the data covered in the *Pick n Pay Sustainable Living Report 2013* has not been subject to independent audit or review. Information reported is derived from the Group's own internal records, and from information available in the public domain.



Meeting global standards

- We strive to meet international standards to ensure our reporting is consistent and comparable.
- We report in line with the Global Reporting Initiative's (GRI's) G3.1 requirements. We have assessed our sustainability reporting to a level B under G3.1 guidelines. See our website (www.picknpay.co.za/sustainability) for our GRI table.
- We also submit our *Communication on Progress* to the United Nations Global Compact (UNGC) every year (see www.unglobalcompact.org). In this, we are tasked with upholding the UNGC's Ten Principles of Responsible Business.
- More detailed disclosure on climate change risks and carbon emissions is available in our submission to the CDP Carbon Action Programme (see www.cdproject.net).

Providing safe food is at the heart of Pick n Pay's values. Our determination is to provide customers with wholesome, nutritious food of high quality

Acknowledging our progress

We are proud of the hard work that our Pick n Pay employees have invested in our Company's sustainability programme. Our successes have been recognised in a number of forums.

In the past year, Pick n Pay's sustainability achievements in response to climate change were recognised when we were awarded the Climate Change Leadership Award for the retail sector. We were also the only retailer to be included in the top 10 companies on the 2012 Carbon Disclosure Leadership Index.

Visit our website (www.picknpay.co.za) for a full list of awards and further details.

We strive to meet international standards to ensure our reporting is consistent and comparable

Contact us

We continually look for better ways to communicate our sustainability achievements, challenges and progress. If you have anything to add, question or comment on, please let us know.

- All comments can be emailed to Debra Muller, our Company Secretary, at demuller@pnp.co.za
- Alternatively, contact our Sustainability Department: 101 Rosmead Avenue, Kenilworth, Cape Town | +27 (0)21 658 1000 | sustainableliving@pnp.co.za
- You can also leave a comment in our online response box at www.picknpay.co.za/picknpay/content/en/contact-us

	INTEGRATED ANNUAL REPORT	SUSTAINABLE LIVING REPORT	SUSTAINABLE LIVING WEBSITE
stakeholders addressed	stakeholders interested in the ability of the Company to create value over time (primarily investors and financial stakeholders)	broad spectrum of stakeholders, including employees, suppliers, media and government agencies	customers
format	printed, and available at www.picknpay-ir.co.za	see www.picknpay.co.za/sustainability	see www.picknpay.co.za/sustainability
frequency	annual	published every second year	updated regularly, as new information is available

INTERVIEW CEO's comment



Pick n Pay is a great business with a strong legacy of leadership on social and governance issues. From the Company's early engagement on consumer rights and ongoing focus on small supplier development, to the industry-shifting work on sustainable seafood, there is much to inspire and drive further action.

I have joined Pick n Pay at a time of transition, for the Company and for the country. The trying economic climate has had an impact in one way or another on every South African. Our country's high levels of unemployment and persistent inequality constrain business growth and have an impact on supply chains across all sectors. Added to this, rising operating costs driven, for example, by increasing energy prices continue to squeeze retail margins. Our customers feel the same pressures in the form of increasing energy, fuel and food prices.

The challenges are significant, but the opportunities are also great. Many of them relate to the ESG trends identified in our supply chain risk analysis. To capitalise on our opportunities, we are driving customer and supplier engagement, as well as product innovation, resource and management system efficiency, and partnership effectiveness. As much as these are part of our sustainability efforts, they are critical to the core challenge of building a resilient business.

At this time of transition, we are driving a back-to-basics approach. This includes a strong customer focus and a proactive, disciplined culture. My vision for the Company is one my colleagues also uphold: to grow shared value for our business, our employees, our shareholders, our broader stakeholders and our customers.

As we strengthen the Company, our sustainability programme will include responding to the ESG risks that face our business, as well as leveraging our networks and partnerships to drive responsible action and positive change.

Driving access and inclusivity

Our success lies in responding to the evolving demands of our loyal customer base. More than half of South African consumers shop regularly with us. Our customers reflect the diversity of South Africa, and the numbers have grown over the past year. Pick n Pay smart shopper is now the largest loyalty programme in the region, and we have leveraged the capacity of this programme to find out which sustainability issues matter most to our customers.

From a sustainability point of view, our commitment to deliver affordable, quality food to all South Africans relates to the broader challenge of food security. In practical terms, this means tailoring our outlets to suit the needs of different people in different communities. We have a very strong and diverse portfolio of more than 1 000 stores, including Hypermarkets, supermarkets, Express, clothing, liquor and Boxer stores. Our trading space grew by 5.2% over the past year, and over the next year we will add more than 100 new stores. This is a key part of my vision: to grow Pick n Pay by opening stores in areas that bring new customers and communities into the Pick n Pay family. Pick n Pay can and

lives of our customers where we can. I have spent many hours listening and talking to customers, and their shared belief in, and support for, this commitment is clear.

Working with our supply chain

Another clear focus, and one that is a significant part of our sustainability programme, is on engaging with our supplier network. Changing market conditions require quality products produced in a socially and environmentally responsible way. This in turn requires us to work in partnership with suppliers, to understand their business needs and risks, and to work to achieve shared goals.

Our employees are crucial to achieving the objectives we have set for the Company, and I have been impressed by the Pick n Pay employees I have met

must be part of South Africa's journey towards extended access to retail and other services, growing wealth, and allowing for aspiration.

We believe that the key to success in retail is to appeal broadly, to exclude nobody, and to move hand in hand with customer needs and aspirations. This is also in line with our history of inclusiveness and its deep well of customer loyalty, and our commitment to an inclusive and prosperous South Africa. I am particularly excited by the performance of our Boxer stores, and their potential to reach more customers in lower-income segments: the crucial markets in LSMs 4-7.

It inspires me that our brand is built on trust and a commitment to improve the

These imperatives apply to our larger commercial suppliers, as well as to small suppliers, micro enterprises and black- and women-owned businesses. By opening market access for producers, we have an important role to play. I commend the work of the Ackerman Pick n Pay Foundation through the Enterprise Development Fund and Small Business Incubator, as well our buyers, supply chain managers and division heads who make this possible.

To continue building small suppliers and communities, and to uphold our maxim of "doing good is good business", we need to be commercially successful. The value of a business accrues not just to shareholders, but also to emerging suppliers through greater opportunities, and to communities through better service and employment opportunities. This equation is the basis of creating shared value. It is underpinned by efficiencies, improved business processes, and trusting relationships.

The coming year

Getting back to basics means identifying and addressing a number of practical priorities. The first is to complete the transition to central-category buying so that customers can benefit from better products, better prices and greater innovation. This applies to all our products, including those offering openly ethical, environmental and social benefits.

Our employees are crucial to achieving the objectives we have set for the Company, and I have been impressed by the Pick n Pay employees I have met. I am grateful to all my colleagues at Pick n Pay: from the thousands of employees in our stores through to our Chairman, all have welcomed and supported me since my arrival in February. Working together on our great Company, the rewards of this labour will benefit our customers, our employees, our shareholders, and a growing community of stakeholders.

RICHARD BRASHER

From a sustainability point of view, our commitment to deliver affordable, quality food to all South Africans relates to the broader challenge of food security

INTERVIEW

Chairman's comment



Our legacy defines how we do business across three important dimensions – “doing good is good business”, consumer sovereignty, and business efficiency. For Pick n Pay, this includes a prominent role in civic life, speaking out on pressing socioeconomic issues encompassing food security and accountability. It has led us to spearhead some critical initiatives in our sector, such as sustainable seafood.

Our sustainability commitments are taking shape in an environment of low economic growth, high levels of unemployment, and rising input prices. To succeed in this environment will require a sustained focus on innovation and efficiency throughout our operations.

Our new Chief Executive Officer, Richard Brasher, has both my confidence and support in his role of steering us on this course. He brings enthusiasm, clarity and deep experience, all of which are pivotal to achieving the level of delivery needed in

challenging times. With his appointment, my period as Executive Chairman – which started in February 2012 – came to an end, and I have reverted to the non-executive chairmanship of Pick n Pay Stores Limited.

Governance and risk

The increase in corporate governance and ethical demands placed on both local and global business is significant, and has our support. The move to integrated reporting, as required by the King III Code, aligns with the business philosophy that has informed our progress over decades. The changing reporting landscape has made prominent the clear link between societal issues and our position as South Africa's most trusted retailer, and the retailer with the best reputation. We are now in our third year of implementing this approach, which is supported by this sustainability report.

As ever, we strive to maintain ethical business practices, and to achieve the highest levels of compliance and integrity. We know that ESG issues are paramount; increasing inequality, escalating food prices and labour unrest are among the matters that have an impact on our customers and suppliers. These issues also affect fixed investment and job creation.

Companies ignore societal issues at their peril. Heated industrial action in the agricultural and mining sectors have driven this message home, and have raised important questions. Importantly, however, they have also highlighted the effects of

As ever, we strive to maintain ethical business practices, and to achieve the highest level of compliance and integrity

market volatility, escalating energy and fuel costs, and food basket inflation on South Africans in low-income brackets.

From risk to opportunity

It is imperative that we understand the challenges and respond with a willingness to deliver solutions. Our analysis of ESG risks and opportunities has focused our attention on our supplier network, promoting sustainable practices and resource efficiency while still seeking to deliver quality goods at the best prices.

Smart shopper customers have provided insight into the growing awareness of green and ethical issues. As customer preferences change, there are opportunities not only for new products, but new enterprises. This is exciting, because driving small business development is a key focus of our sustainability programme.

Food security

I continue to be concerned by how severe climatic events, increasing energy costs and water supply limitations are threatening our global food system. Food insecurity arises when we cannot guarantee access to enough safe and nutritious food for all.

In SA, food insecurity is determined less by how much food is produced on farms, and more by whether good food ends up on household tables

In SA, food insecurity is determined less by how much food is produced on farms, and more by whether good food ends up on household tables. Over the coming year, the most basic food basket looks set to increase in price by a higher margin than all other food products. Rising food, energy and transport costs are eating into low-income household budgets. As a retailer, we are working to play our part in tackling this challenge.

Richard Brasher and I share a commitment to reinvigorating Pick n Pay's focus on customers. This focus embraces access to affordable good food for all South Africans. Our customers are diverse and, significantly, we draw loyal support from low-income communities. Our Boxer stores are aimed specifically at reaching this market with the same promise of affordability and quality offered by other store formats.

Working with small suppliers

Opening access for small, medium and micro enterprises (SMMEs) requires the right support. We work through our Enterprise Development Fund and the Small Business Incubator to make sure this support is in place. Facilitating small business development, and particularly the empowerment of black- and women-owned businesses, is essential to grow our economy, drive employment and empower individuals.

GARETH ACKERMAN

Our new Chief Executive Officer, Richard Brasher, has both my confidence and support in his role of steering us on this course



Sustainability strategy

Social and environmental context

Events of the past year have confirmed that ESG issues are having an impact on businesses more overtly and with greater urgency.

Global debates on the interconnectedness of water, food and energy challenges are finding local expression. In South Africa, high levels of unemployment and inequality are intensifying these pressures, as evidenced by strikes and other protest action by farm workers in the Western Cape.

These issues all have an impact on our ability to provide fresh, quality food to our customers at affordable prices. They also highlight areas where effective intervention will be needed to address the challenge of food security in South Africa.

With greater state emphasis on implementing the National Development Plan, expectations for social delivery are likely to grow. At the same time, all companies within the food supply chain are facing significant increases in input costs. Many of the input cost pressures are social (for example, increasing minimum wage) or environmental (for example, rising fuel and electricity costs).

Although food security is not a specific focus of the plan, we see it as key to South Africa's development and an important area of contribution for food-related businesses, including retailers. These companies will need to balance their contribution to providing affordable food with the upstream social challenges of producing it. It is clear that solutions will involve significant co-operation

across the sector, and a preparedness to deal with broader issues of land policy, state support for the agricultural sector, and import tariffs.

At a macro level, a higher incidence of floods and drought in South Africa and other parts of the world kept commodity prices volatile, affecting grain-sensitive food suppliers in particular. These links show why sustainability is a key aspect of business strategy: understanding these links is critical to delivery, and has informed Pick n Pay's growth over many decades.

Given all these trends, we see value in strengthening our sustainability management and reporting systems. This will enable us to engage confidently with a wide range of stakeholders on ESG issues and the overarching need to ensure food security for the poor.

Strategic focus areas

Pick n Pay's sustainability strategy operates in tandem with our business strategy to shape our thinking and actions in two broad areas.

- 1. Are we managing risks and ensuring compliance in relation to environmental and social trends?**
- 2. Are we driving the innovations and partnerships that will move these trends in the right direction?**

We need to respond effectively in both of these areas if our company is to be sustainable, and to ensure that we contribute meaningfully to the challenges faced by our society.

Our sustainability strategy is put into action through six focus areas. These are clearly aligned to our business strategy, and place emphasis on creating value, both within our business and across wider society.

HOW WE DETERMINED THE MATERIAL ISSUES THAT ARE ADDRESSED BY OUR STRATEGY

We took an in-depth look in 2011 at the impact ESG issues have on our business strategy. Operational managers from across the Company participated in a process facilitated by consultants Incite Sustainability to analyse:

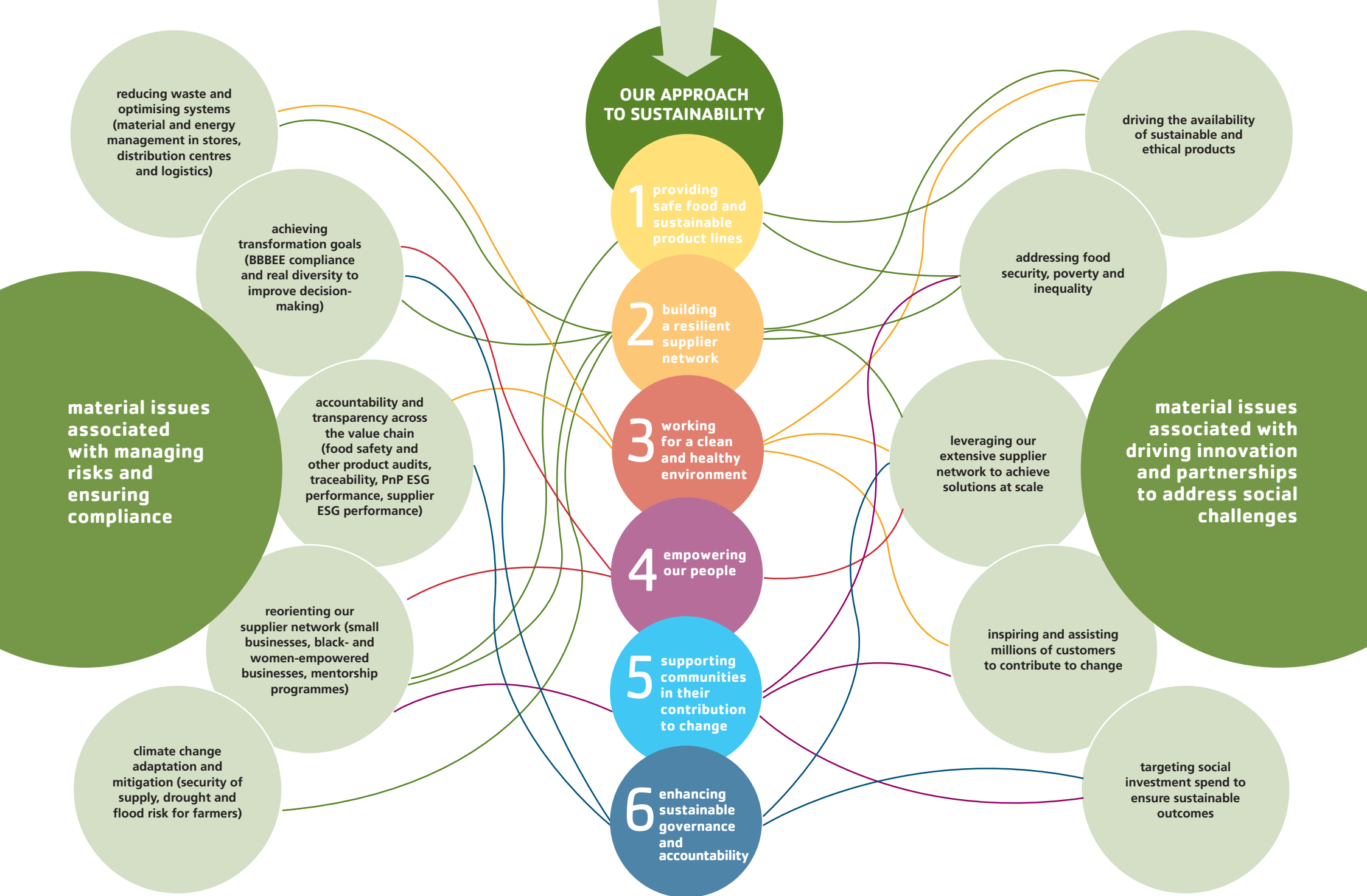
- our business model (how our business creates value)
- our impacts (how our business builds or withdraws financial, social and natural capital)
- key leverage points (where our efforts will achieve greatest impact)
- the risks and opportunities arising from social and environmental trends relevant to the retail sector
- stakeholder perspectives on current issues of concern

A range of ESG issues were identified – from food security to genetically modified organisms; from supplier ESG performance to increasing the number of small businesses in our supplier network; from reducing electricity use to inspiring our employees and customers to do the same. These were clustered into six focus areas for consideration by our Sustainability Steering Committee, consisting of our CEO, Chairman, Transformation Director and Head of Sustainability. Our strategic focus areas are formally reviewed every three years.

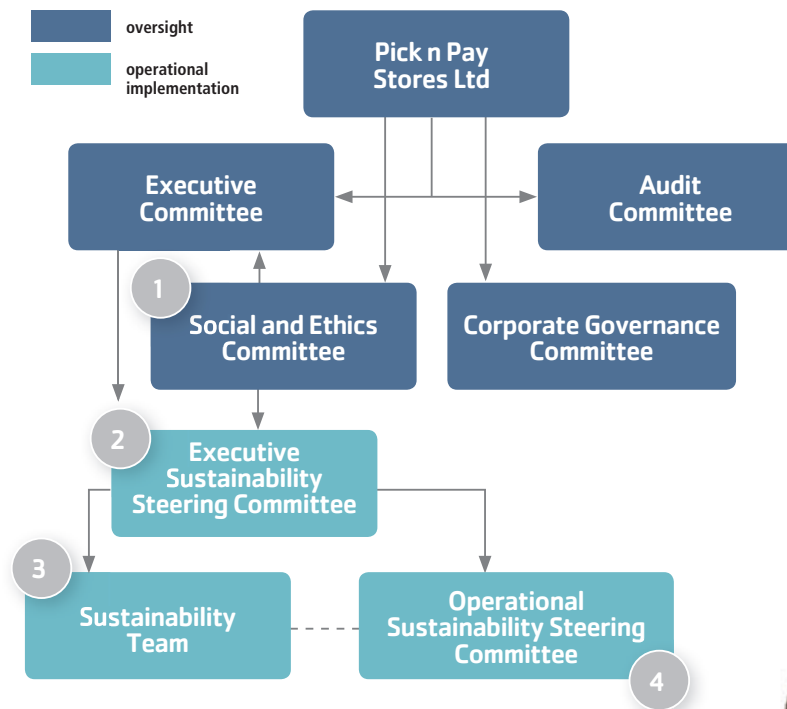
Looking ahead, we see...

- continued pressure from rising energy and fuel costs
- ongoing volatility of global commodity prices, and some upward pressure on food prices
- renewed focus on the downside risks associated with droughts and floods
- debate on mechanisation in agriculture, with implications for job creation and National Development Plan targets
- increased focus on the potential of retailers to act as a bridge between consumers and producers to tackle food value chain challenges
- sustained consumer interest in green and ethical products, with continued expectation for price parity between these products and those without eco labels
- growing global interest in integrated reporting, and ongoing focus on transparency, accountability and transformation





FOCUS AREA	HOW THIS CREATES VALUE FOR OUR CUSTOMERS	HOW THIS CREATES VALUE FOR SOCIETY
providing safe food and expanding sustainable product lines	addresses increasing demand for ethical and green products, sustains viability of supply and drives innovative thinking and action	promotes health and the good functioning of natural systems
building a resilient supplier network	supports existing supply chain initiatives, consolidating our relationship with suppliers	provides market access for producers and a support system for small-scale suppliers
working for a clean and healthy environment	manages environmental risks and achieves cost reductions in the short, medium and/or longer term	reduces negative impact, promotes ecosystem function and restoration
empowering our people	enables employees to act as brand ambassadors	provides personal and career development and an opportunity to contribute positively to social change
supporting communities in their contribution to change	builds the brand by putting social responsibility into action	builds social capital by encouraging action towards a sustainable society
enhancing sustainable governance and accountability	ensures compliance with existing and emerging codes of good governance	develops trust and accountability between stakeholders



Sustainability governance structure

1. The social and ethics committee provides ongoing governance and management review.
2. The executive sustainability steering committee meets every quarter to ensure alignment with the business strategy. The Board is represented on the steering committee by Suzanne Ackerman-Berman and Richard Brasher.
3. The sustainability team is tasked with the co-ordination of Pick n Pay's response to ESG challenges across all of the Company's operations.
4. The operational sustainability steering committee, consisting of senior management representing each of the focus areas of the strategy, is responsible for implementation.

Pick n Pay's operational steering committee is at the core of the implementation of our sustainability efforts. As we consolidate this forum, it is increasingly becoming a platform for shared learning and the identification of opportunities for collaboration both within the Company and beyond it.

In 2013/2014 we anticipate greater focus at store level, across our category buyer network, and with those employees involved in engaging with our external stakeholders.



Opening access for small, medium and micro enterprises (SMMEs) requires the right support. We work through our Enterprise Development Fund and the Small Business Incubator to make sure this support is in place

Sustainability knowledge and data management

ESG challenges and opportunities are wide-ranging, and non-financial data management presents a challenge for many companies. To ensure a tight focus, our sustainability strategy identifies two primary objectives for each focus area. The chapters that follow deal with each focus area in turn, and clearly outline the two primary objectives and associated key performance indicators (KPIs).

We aim to further increase transparency for our stakeholders by posting specific commitments within each focus area on our website

During 2012, we engaged with key internal decision-makers in refining performance indicators for each of our sustainability objectives. Although this remains a challenge due to the wide variability of data types and the necessity of working across business units, we are confident of our direction and have sought to make our progress available in this report.

As our learning deepens, we may substitute improved indicators or add further objectives. Further data and disclosures are available in our GRI report, available for download from our website (www.picknpay.co.za/sustainability).

In 2013/2014 we aim to further increase transparency for our stakeholders by posting specific commitments within each focus area on our website. This external lens will be supported by an internal sustainability document management system, and Pick n Pay managers will find clear ESG-related policies and procedures on our intranet.

Our Group Risk and Audit Services Team will start audits of Pick n Pay sustainability commitments in 2013.

ACHIEVEMENTS

- ✓ clearly focused sustainability strategy and key performance indicators
- ✓ sound sustainability governance structure and strong executive oversight
- ✓ use of smart shopper research to obtain customer feedback on sustainability concerns
- ✓ continued energy and carbon footprint reductions
- ✓ consolidated waste management strategy and an increase in recycling volumes
- ✓ greater number of data sources included in environmental footprint

CHALLENGES

- ✓ consolidating non-financial data management across the Group
- ✓ co-ordinating sustainability action across departments and business units
- ✓ increasing awareness of sustainability issues at shop floor and category buyer level

PRIORITIES GOING FORWARD

- ✓ improving non-financial data management
- ✓ providing managers with access to operational ESG information via our intranet
- ✓ achieving greater transparency for external stakeholders through sharing a wide range of ESG-specific commitments on our website
- ✓ creating a better-focused sustainability awareness programme for stores and customers
- ✓ integrating sustainability compliance into our internal audit system
- ✓ increasing focus on partnerships in our wider supply chain

We are committed to communicating accurate and relevant information to all our stakeholders, and welcome open dialogue with all the parties we do business with

What our stakeholders are saying

Stakeholder engagement is underpinned by our Board's commitment to implementing the recommendations of the code set out by the *King III*. We believe that stakeholder engagement is a critical feed into our decision-making and strategy development towards a sustainable future for the Group.

Our key stakeholders are parties who can affect or be affected by our activities, objectives and policies. We continue to identify and prioritise stakeholders and their concerns through:

- ongoing engagement with individuals and organisations (e.g. government, industry bodies, suppliers, NGOs and media)
- surveys of selected groups (e.g. customers and employees)
- audits (e.g. suppliers)

We are committed to communicating accurate and relevant information to all our stakeholders, and welcome open dialogue with all the parties we do business with. Stakeholder feedback and insights are incorporated in different sections of the report, where relevant.

We believe that stakeholder engagement is a critical feed into our decision-making and strategy development towards a sustainable future for the Group

Stakeholder overview

STAKEHOLDER	OUR VISION	OUR ENGAGEMENT	KEY ISSUES
our customers	● be the retailer of choice for all South Africans ● provide a wide range of products and services of outstanding quality and price ● commitment to ethical and informative marketing practices	● a Customer Director appointed on the Board ● personal meetings ● customer surveys, consumer forums and online customer panels ● our website and social media (we have 269 423 Facebook and 17 331 Twitter followers, and over 30 Pinterest boards; we addressed 33 335 ESG-related queries over email and 15 865 over social media) ● marketing campaigns ● smart shopper customer loyalty programmes, and a smart shopper online customer panel allowing direct communication with our entire database of smart shopper customers; we have used this platform to engage with customers on sustainability issues (see page 25), and on sustainable seafood (see page 13)	● product affordability, health and other ethical issues ● food safety ● corporate social responsibility ● opportunities for active engagement, such as buying sustainable seafood and using in-store recycling
our franchisees	● the most innovative and mutually beneficial franchise model in the retail industry ● operate as a sustainable franchisor of choice for retail entrepreneurs across the fast-moving consumer goods industry	● one-on-one relationships ● store visits by franchise specialists and service area consultants ● monthly meetings between the regional operational teams ● monthly CEO forum meetings with national franchise representatives ● corporate social responsibility investment programmes in the communities in which our franchisees operate	● building a sustainable business ● resource (energy, water, waste, logistics) efficiency ● security and sustainability of supply, timely delivery, pricing, product innovation, marketing support, quality of product and food safety ● opportunities for cost reductions ● transformation and enterprise development
our employees	● working for the most sought-after employer in the retail industry ● access to recognition, opportunities, good working conditions and competitive remuneration	● management updates ● employee surveys ● monthly publications ● in-house television and radio, employee conferences ● skills development and training ● ongoing union interaction For more information on how we manage our people, see page 27.	● training, career development and wellness programmes (including HIV) ● recognition, remuneration and rewards ● business performance and BBBEE and transformation ● our sustainability goals and performance
our suppliers	● fair, efficient and mutually beneficial business relationships ● develop new products that meet evolving customer needs and environmental requirements ● give “new product innovation” the best chance of success on our shelves through visibility and availability ● committed to continuous development of small businesses and suppliers ● contribute to job creation in Africa	● conduct annual food safety audits at supplier factories and production facilities ● store visits ● joint business planning sessions ● new store opening programmes ● cycle meetings ● technical support ● compliance training ● supplier conferences ● dedicated enterprise development programme This report includes further detail on our supplier engagement on sustainable farming (see page 18), preferential procurement (see page 19) and enterprise development (see page 20).	● resource (energy, water, waste, logistics) efficiency ● opportunities for cost reductions ● transformation and enterprise development ● fair pricing, research and development support, contracts and agreements, certification, infrastructure and logistical support

Stakeholder overview (continued)

STAKEHOLDER	OUR VISION	OUR ENGAGEMENT	KEY ISSUES
our shareholders	● generate consistent profits in a long-term, sustainable manner ● operate according to good corporate governance principles ● follow innovative business practices ● provide an attractive return on investment	● regular engagement with investors, analysts and fund managers by our CEO and CFO ● provision of all relevant Company information to all our shareholders ● analyst presentations twice a year ● annual general meetings ● investor relations section on our website (www.picknpay-ir.co.za)	● return on investment ● sustainability ● dividends ● risks and opportunities ● new stores and channels ● sufficient free float of shares
our community	● benefit from our ongoing investment in social economic development ● provide skills development, education, small enterprise support, community gardens and various other projects	● forums such as township co-operatives, community affiliations, university partnerships, and the Pick n Pay School Club (see page 33) ● social responsibility programmes run by our individual stores and the Ackerman Pick n Pay Foundation (see page 32)	● product quality and food safety ● affordability ● health, social responsibility and ethical issues ● opportunities for active engagement, such as buying sustainable seafood and in-store recycling
regulators and government departments	● engage with government to share our industry knowledge and feed into policy development ● facilitate co-operation on mutually beneficial projects	● formal meetings ● commentary on emerging issues (e.g. policy developments) ● engagement via industry organisations (more detail on our engagement with specific government departments, directly and through industry bodies, is available on page 38) ● community development partnerships (see page 30) ● enterprise development partnerships (see page 20).	● policy development ● food health and safety ● transformation and enterprise development ● socioeconomic development
our industry organisations	● facilitate co-operation and mutual learning on sustainability issues that affect the retail industry and business more broadly	● formal meetings, working groups and commentary on emerging issues (see page 38)	● food health and safety ● supply chain management ● transformation and enterprise development ● socioeconomic development ● policy development
our NGO partners	● work together with NGOs in long-term partnerships to establish trust and mutual benefit, and to leverage change	● formal meetings ● partnerships, including with: ● WWF (Sustainable Fisheries Partnership; see page 13) ● the e-Waste Association of SA (e-waste management) ● Wildlife and Environment Society of SA (nature conservation) ● Endangered Wildlife Trust (biodiversity) ● Food and Trees for Africa (community development) ● For Love Of Water (water resource awareness) ● Southern African Trust (poverty alleviation) ● Leadership for Conservation in Africa (nature conservation)	● transformation and enterprise development ● socioeconomic development
our associates	● support our associates in operations and expansion of their businesses ● provide the best shopping experience for our customers	● co-operative operational structures assist with operational and strategic decisions ● use logistical infrastructure to assist with efficient and cost-effective business management	● transformation and enterprise development ● opportunities for cost reductions ● infrastructure and logistical support ● research and development support

1

Providing safe and sustainable product lines

SAFE AND SUSTAINABLE FOOD

In the South African context particularly, we need to confront the issues of food security and the provision of affordable, nutritious food. We need to ensure that we understand the risks and impacts our direct operations and our supply chain pose to the environment and to society. In 2012 we undertook a study to quantify these impacts (see page 17), and the results made it clear that addressing these challenges will require innovative solutions and cross-functional collaboration across our Company.

Providing safe food is at the heart of Pick n Pay's values. Our determination to provide customers with wholesome, nutritious food of high quality is supported by our Pick n Pay employees, including a dedicated technical division that ensures we keep this promise.

To meet our commitment to food quality and safety, Pick n Pay has a policy under which all food suppliers are audited. This allows for unbiased inspection and monitoring of all aspects of a supplier's practice to ensure that our customers are assured of safe food of the highest quality. An audit includes evaluation and risk assessment according to various criteria detailed in the *Pick n Pay Supplier Food Safety Requirements, Industry Standards and Regulations*.

In March 2012, all technical managers revised the *Pick n Pay Audit Checklist* (version 5) to accommodate the updated GFSI and SANS 10049 standards. A total of 679 suppliers supply our Pick n Pay products, and 1 177 supplier visits were conducted last year. We also conducted food safety audits on every one of our suppliers last year. As part of our commitment to providing safe products, we performed 21 782 microbiological, chemical and nutritional safety tests on Pick n Pay products.

Third-party auditors provide an extra level of safety by monitoring suppliers, all of whom are made aware of the audit criteria. Suppliers are assessed and graded, with their grades determining when their next audit takes place – anything from 18 months for top

performers to 6 months for those who don't perform as well. All our third-party auditors comply with the Southern African Auditor & Training Certification Authority's Food Safety Management System criteria, which are based on ISO 19011.

As a leading food retailer, we recognise that we have influence through our supply chain in the creation of a more sustainable society. Through product innovation and an understanding of our supply-chain impacts, we can create more sustainable products.

We are focusing on the following major initiatives: the Pick n Pay Green range; our sustainable fisheries commitment; sustainable farming practices (through the Pick n Pay Foundation; see page 20); organic produce; and Fairtrade. Our partnerships are essential to the development of these products.

Pick n Pay recognises that modern farming methods are pivotal in ensuring adequate food supply. We strongly uphold that animal welfare standards are vital and indispensable to the production of any food from animal origin. Pick n Pay proudly supports producers who proactively manage animal welfare and environmental issues, and we encourage initiatives that promote improvements to animal welfare.

This is reinforced by our support for the NSPCA, and through our partnerships with other organisations, such as the WWF, the Endangered Wildlife Trust, the Wildlife and Environment Society of SA, Leadership for Conservation in Africa, and the Hoedspruit Endangered Species Centre.

KEY PERFORMANCE INDICATOR

increase the range of sustainable and ethical products in Pick n Pay's corporate brands

PnP-brand food suppliers audited on food safety

2013
100%

2012
94%

2011
94%

OUR PERFORMANCE	2013	2012	2011
OBJECTIVE: INCREASE THE RANGE OF SUSTAINABLE AND ETHICAL PRODUCTS WITHIN PICK N PAY'S CORPORATE BRANDS			
corporate-brand products sourced locally	89%	91%	88%
growth in Green range sales (units sold)	-7.2%	+27%	+266%
PnP-brand food suppliers audited on food safety	100%	94%	94%

CASE STUDY

Animal welfare and free-range pork

Pick n Pay is in constant discussion with the South African Pork Producers' Organisation (SAPPO) regarding proposed regulations for phasing out gestation crates, which are commonly used for sows, and are widely regarded as inhumane as the sows are contained in small metal crates for the entire term of their pregnancy.

SAPPO has agreed to a number of changes (within realistic timeframes, due to the scale of investment required by the farmers). From 1 January 2013 any new pig building erected must make provision for group housing or individual pens for the last eight weeks of gestation. From 1 January 2020, sows: may only be housed in individual stalls for a maximum of the first eight weeks of gestation; must be housed in groups or individual pens for at least eight weeks of gestation; may not be moved to farrowing accommodation earlier than seven days before the due date.

Under the free-range protocol, pigs must be free to roam in dry sow units, and the only time these sows may be subjected to any form of enclosure is amid the farrowing phase, during which they may be placed in a farrowing pen to prevent injury to their newborn piglets.

We recently expanded the free-range offering in our Country Reared range of beef and lamb to include pork. Although the free-range pork is currently only available in certain areas, we hope to roll it out across the country in the near future. Even though this comes at a premium, we absorb this cost for our customers and continue to give them choice in their meat products.





Organic

Pick n Pay encourages farming practices that contribute to a healthy environment and society; that's why we're supplying more and more organic food, which is grown without harmful chemical fertilisers and pesticides, and does not expose the environment or workers to potentially hazardous compounds.

In March 2012, Pick n Pay became the first retailer to agree to provide dedicated organic shelf space in 50 stores countrywide as its contribution to the development of emerging farmers and the organic produce sector. A partnership with the Nkomamonta Organic Farmers Agricultural Primary Co-operative in Tzaneen, Limpopo, will see the co-operative supply 217t of organic vegetables to Pick n Pay stores countrywide.

Our organic range conforms to international standards, and currently includes jams and biscuits (added in 2012), along with pasta, rice, tea, herbs, coffee, spices, cereal, cooking oil, flour, olive oil, sugar, and assorted fresh fruit and vegetable lines.

Principal challenges are: finding reliable local sources; managing a market whose growth is outpacing production; and managing the exchange-rate risk when local suppliers cannot be found. We are encouraging suitable farmers to implement organic systems to enable us to address these issues. Our performance in organic products has been encouraging; during 2012 the market grew at 29.6%, while Pick n Pay's unit growth was 66.8%. Strong performance was shown across the grocery and produce categories.



Pick n Pay's sustainable seafood commitments

Pick n Pay was a founding partner of the WWF-SASSI scheme, and in 2010 we announced our partnership agreement with the WWF Sustainable Fisheries Programme in a bid to support the organisation's efforts in this field.

Pick n Pay is investing more than R6 million in the three-year partnership, which supports the WWF's drive to promote an Ecosystem Approach to Fisheries, recognising the critical role that marine ecosystems play in the maintenance of resilient sociocultural systems in the face of the growing threats of climate change and food security.

In 2011 Pick n Pay committed to, by 2016, transforming its fresh, frozen and canned seafood operations to sell only products that are either: certified by the Marine Stewardship Council (MSC) for wild-caught products; certified by the Aquaculture Stewardship Council (ASC) for farmed products (or farmed according to equivalent standards); categorised as 'green' by SASSI – that is, most able to handle current fishing pressure; farmed in a manner that does not harm the environment; or sourced from fisheries or farms that are engaged in credible, time-bound improvement projects.

Fisheries

The world's fish stocks are under tremendous pressure. Despite signs of improvement in some large-scale developed-world fisheries, little improvement has been seen in non-target species such as turtles, seabirds and sharks.

Oceans are a vital resource: they absorb 25% of the CO₂ produced by humans, while coastal and marine ecosystems provide goods and services valued at US\$20 trillion. Fisheries and ancillary industries provide livelihoods for 10–12% of the world's population. Even so, small-scale fisheries, particularly in developing nations, continue to decline.

Pick n Pay was the first retailer in Africa to commit to selling 100% sustainably sourced fish by 2016, whether fresh, frozen or canned. In 2010 Pick n Pay entered into a three-year partnership with the WWF's Sustainable Fisheries Programme, which aims to restore over-exploited fish stocks to sustainable levels, and to maintain or improve the state of other stocks by applying an ecosystem approach to fisheries and reducing the impacts of destructive fishing practices.

Through investing in the Sustainable Fisheries Programme's work with both small- and large-scale fisheries, Pick n Pay increases its access to the resources generated by these sectors and plays a positive role in these communities. Through engaging with the seafood production sector – particularly the small-scale fishing sector – and communicating with consumers around this work, we anticipate greater opportunities to stimulate engagement and participation from new and existing stakeholders in this work.

Through the WWF-SASSI Participation Scheme, Pick n Pay has identified a number of business risks, and has developed comprehensive strategies to address existing and potential threats. Through its partnership with Pick n Pay, the WWF has been able to leverage further significant changes within the seafood sector, contributing to improved quality, quantity and reliability of seafood products on the South African market.

Pick n Pay achieved three critical milestones in 2012: producing a procurement list for all



fish purchased, and assessing their sustainability status; developing new supplier procurement guidelines; and addressing labelling concerns. All new products sourced by Pick n Pay must comply with the new supplier guidelines and seafood commitments.

Pick n Pay was the first retailer in Africa to commit to selling 100% sustainably sourced fish by 2016

Challenges to sustainable seafood

The commitment to sell sustainable seafood presents us with a number of challenges, notably: dealing with the limited range of sustainable and certified seafood currently available; increasing awareness and gaining commitment from all suppliers; and ensuring traceability. Three key deliverables for 2013 are: completing sustainability assessments for all species procured; developing clear strategies on species of concern; and training Pick n Pay employees at both Head Office and in stores.

THE BENEFITS OF SMALLHOLDER ORGANIC FARMING



Clothing

The clothing division recently launched a range of bamboo products that includes facecloths, soon to be followed by hand and bath towels. The products in the new bamboo range are suitable for composting: they don't end up in landfills once they are discarded, making them an environmentally friendly option. Used hangers are also recycled – in the previous financial year, 207 509 kg of Pick n Pay's hangers were sent for recycling.



Fairtrade

Sourcing products ethically is an essential part of how we do business. In 2010, Pick n Pay became the first retailer to make a public commitment to stocking Fairtrade products. Fairtrade is the leading certification system for sustainability and poverty alleviation in the world; each certified producer is audited yearly to ensure compliance. More information can be found on the Fairtrade website (www.fairtradelabel.org.za). Currently, the range of Fairtrade products we sell in stores comprises coffee, sugar, wine and chocolate. Pick n Pay is also a Fairtrade at Work partner, which means we have committed to using Fairtrade products in our working environment too – Head Office coffee shops serve only Fairtrade coffee.

Green range

Pick n Pay introduced the first range of green household products in South Africa in 1995. Since then our range has expanded to include 30 products, ranging from household cleaners to refuse bags.

The contents of our Green range are non-toxic, non-corrosive, and suitable for use in conjunction with septic tanks. No animal testing is done during their development.

Once used, the products biodegrade within 14 days.



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2

Building a resilient supplier network

TAKING RESPONSIBILITY ACROSS OUR BUSINESS

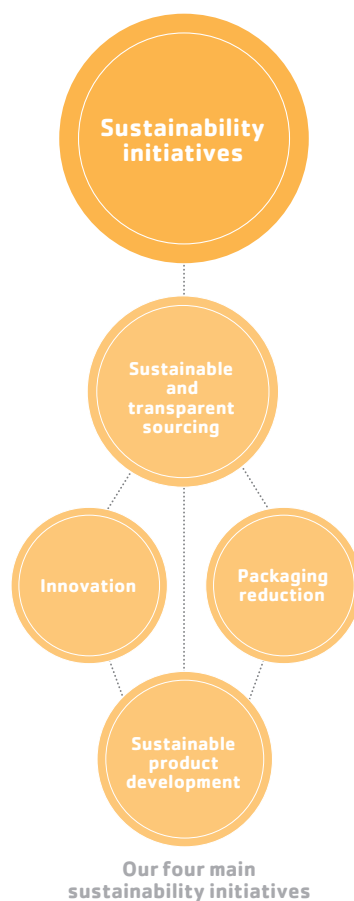


Changes in government expectations and regulation, as well as shifts in consumer demand, are resulting in new demands and opportunities in supply chain management; in response, we are increasing engagement with our supplier network to build value and resilience into our growth path.

From a business perspective, building a resilient supplier network enables us to help existing suppliers address social and environmental risks, deepen relationships within our supplier network, and comply with empowerment requirements. In doing so, we are supporting social goals by raising social and environmental standards, and by creating more opportunities for small-scale and black-owned businesses in our value chain.

Our supplier network is an area of significant leverage. We invest more than R40 billion in direct procurement spend into it yearly. The economic impact of this – derived using a multiplier that takes into account what we procure from suppliers, and what they procure from theirs – increases this value to more than R160 billion in our total supply chain.

We are partnering with our suppliers on various sustainability initiatives, including packaging reduction and innovation, sustainable product development, and sustainable and transparent sourcing.



Focusing our efforts

Our supply chain sustainability efforts focus on two objectives: our Company-wide commitment to supporting small-scale, black- and women-empowered businesses, and the promotion of sustainable practices throughout our supplier network. By this, we mean our suppliers' ability to develop businesses that deliver better value in the face of increasing social and environmental challenges. We measure progress on these broad objectives by tracking relevant key performance indicators year on year.

OUR PERFORMANCE	2013	2012	2011
OBJECTIVE: INCREASE THE NUMBER OF SMALL AND BBBEE-RATED BUSINESSES (INCLUDING FARMERS) IN THE SUPPLIER NETWORK			
small farmers and businesses in our Small Business Incubator	72	62	54
increase in turnover of businesses in the Small Business Incubator	48%	–	–
% of local suppliers in mentorship programme that are 100% black-owned	98%	–	–
OBJECTIVE: PROMOTE SUSTAINABILITY, COMMITMENT, LEARNING AND PERFORMANCE ACROSS THE SUPPLIER NETWORK			
number of local produce suppliers involved in mentorship programmes	38	–	–
number of local produce suppliers certified against the GLOBAL Good Agricultural Practice (GAP) standard	133	–	–

150%

The growth in turnover seen by Buda Farming Enterprise – a company that supplies a variety of fresh vegetables, including beetroot, spinach and carrots, to three Pick n Pay Family Stores in the province of Gauteng – over the past year.

Mulungo Co-operative, a small poultry, crop and vegetable farm that distributes to a local Pick n Pay Family store, experienced an increase in turnover of 46% over the last year. They currently collect 16 000 to 17 000 eggs per day, and still don't meet demand. They have also planted 160ha of maize, and expect a total yield of 650t after harvest.



Our PnP value chain

People impact

360 000 employees in our operations and supply chain

Our people profile covers the number and profile (e.g. race and gender) of employees, as well as employee compensation and development (e.g. education)

Action

sustainable farming; energy efficiency; cost savings from resource efficiency

Economic impact

R160 billion in total economic impact from Pick n Pay sales*

Our economic profile estimates the total economic impact of our business based on direct and indirect procurement and the consumption supported by employment in our supplier network

Action

enterprise development; spending on small and local suppliers

Environmental impact

6 million ha of land, 2 billion m³ of water, 1 4653.55kWh of energy, 6 million t of CO₂e, 3 million t of waste

Our environmental profile covers resource consumption (e.g. land, energy and water), emissions (e.g., air pollutants and greenhouse gases) and waste

Action

driving BBBEE, skills development, and transparency in labour practices

Supply chain risk landscape

We undertook a supply chain impact analysis to gain a clearer understanding of the sustainability risk profile of our major suppliers. Conducted in partnership with an external advisor, the analysis identified and quantified areas of potential environmental, social and governance (ESG) risk within the Pick n Pay supply chain. This has helped to focus our supplier engagements, and has identified key areas requiring performance management. Recent events in South Africa, including strikes in the mining and agricultural sectors, have shown how social

issues can have a significant impact both on individual companies and the broader sector. While assigning costs to a risk or opportunity is difficult, such a profile is increasingly needed for making informed business decisions.

Our risk profiles are dynamic. As we deepen and broaden our understanding, they will be refined. The first phase, as described above, is already feeding into our sustainable farming programme.

• FOOTNOTE

PnP's economy-wide impact is estimated to be R170 billion through a GDP multiplier of around 3 – so for every R1 in PnP sales revenue, R3 is added to the country's GDP as a result of PnP's direct and indirect procurement and the employment supported by it.

Value chain opportunities

Our supply chain impact analysis indicates where we could use our leverage to achieve the greatest positive impact.

The infographic to the left shows where opportunities lie in relation to people, SA's economy, and the environment. The text above the arrows to the left outlines our impacts; the text in the arrows explains the scope of that impact; and the text in the circles beneath relates our actions in that regard.

Integrating this information into our business decision-making process gives us the opportunity to build greater resilience and benefit into our value chain.

This year, we will begin to work with specific internal departments and place the focus of our engagement on our largest corporate suppliers. We have identified the following priority engagement areas:

- energy
- water
- intensive agriculture
- employee development
- ethical and local procurement

Building on our risk analysis, supplier teams are incorporating environmental and social criteria into their decision-making more formally



Sustainable farming

Pick n Pay farmers, from small-scale to large commercial producers, must be economically viable and protect the natural systems that make farming possible. Sustainable farming is fundamental to our ability to provide good, affordable food to our customers, and is only possible if all players – including retailers, farmers, government, workers' organisations and farm communities – work together to create a sustainable and secure food system.

Our challenges

- global systems
- resource scarcity, skills shortages
- social unrest and social licence to operate
- regulatory, investor, consumer, employee and competitor pressure

Extreme weather, water availability, soil quality, and waste management present serious challenges for SA farmers, but also drive opportunities for resource and cost efficiency, as well as innovative new products and processes.

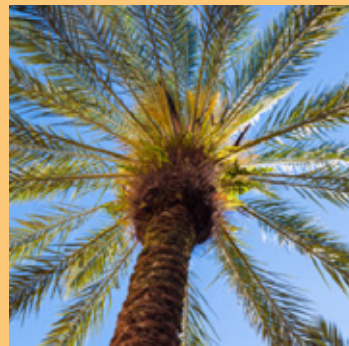
Larger commercial farmers can introduce risk-management practices for environmental and labour-related risks. For smaller farmers, however, the costs involved can be prohibitive, resulting in the implementation of far fewer robust environmental risk-management and sustainable farming initiatives.

The focus areas of our sustainable farming interventions

- rotational crops
- labour requirements
- capital expenditure requirements
- the role of government policies

Sustainable farming practices involve a number of significant challenges and trade-offs. With this in mind, our teams seek to ensure that sustainable farming investments do not drive up the costs of food production or make farmers unable to compete.

Our organic range (see page 13) and Green range (page 14) illustrate these challenges.



CASE STUDY

Palm oil

We have initiated a project to identify all PnP-brand products that contain palm oil as an ingredient. There is growing awareness about the need to ensure the palm oil we use is sustainably sourced.

Palm oil is widely used in packaged food products sold in supermarkets. The cultivation of palm oil can have serious social impacts and environmental consequences, often involving the destruction of tropical rainforests. This in turn has an impact on biodiversity in affected areas in Africa, Asia and South America.

During the next phase of this project, the palm oil used in products we sell will be quantified and traced to its source.

This phase will be completed by September 2014, and the results of the process will enable us to define a strategy to set targets for the use of sustainably sourced palm oil.

There is growing awareness about the need to ensure that the palm oil we use is sustainably sourced

Auditing and traceability

Promoting supplier resilience requires increased levels of auditing and traceability. Amongst food retailers an important driver has been growing consumer concern over the origin and contents of food.

The challenge is to increase transparency without impacting on the cost of food and other consumer goods. For information on our food health and safety audits, see page 12.

All supplier auditing is managed and carried out by our Technical Division. Traceability of food is controlled through food health and safety audits. We have begun to trace ingredients with high environmental and social impacts, such as palm oil and soya, to facilitate sustainable sourcing.

Our Technical Division also checks that:

- animal welfare standards are met
- suppliers of organic produce are correctly certified
- suppliers are compliant with all relevant labour legislation, covering issues such as wages and unlawful (forced or underage) employment





GLOBAL GAP

For nine years, our corporate suppliers of fresh produce have been audited against the GLOBAL GAP standard. Sixty-nine of Pick n Pay's 78 fresh produce suppliers audited against this standard were accredited in 2012.

Nine suppliers were accredited with a second-grade pass because they use chemicals registered outside South Africa. Suppliers that buy fresh produce to process and sell on to Pick n Pay are not audited according to GLOBAL GAP.

The GLOBAL GAP standard includes an extensive list of criteria against which our corporate-brand suppliers of fresh produce are assessed.

This accreditation covers the following sustainability elements:

- food safety and traceability
- environment (including biodiversity)
- workers' health, safety and welfare
- animal welfare
- integrated crop management
- integrated pest control
- quality management systems
- hazard analysis and critical control points

Local gap is the condensed version of GLOBAL GAP, designed for small farmers. This simplified certification addresses the sorts of challenges, such as cash-flow constraints and limited education, that make audits more onerous for small businesses.

Our procurement spend

**R20
billion**

BBBEE-certified businesses

**R432
million**

black-owned businesses

**R187
million**

women-owned businesses

**R255
million**

SMMEs

Sourcing from small, black- and woman-owned businesses

It is important to source locally, and to support South African businesses. Sourcing from small, black- and women-owned businesses fits into our broader transformation initiative (see page 37), and is one of the seven elements reflected on our broad-based black economic empowerment (BBBEE) scorecard.

Pick n Pay, as a socially responsible organisation, is required to meet the economic development objectives of the South African government. Our policy will seek to drive the development of the small and medium enterprise sector in South Africa, which can be leveraged to promote job creation and food security.

According to our supply chain risk analysis, every Rand we spend on procurement has an economic multiplier impact of more than three times that value, taking into account the impact on suppliers, employees of suppliers, and employees' families and communities. By directing our procurement spend strategically, our buying power makes a significant difference to the small businesses in our supplier network.

In 2012 we implemented a system to track our spending on BBBEE-certified companies, black-owned companies, women-owned companies and small, medium and micro enterprises (SMMEs).

Initially, we are looking at a sample of our largest and smallest suppliers; to date we have analysed 50% of our total supplier network. Over the coming year, this process will be extended to cover all suppliers. This is the first year in which we have been able to provide a breakdown of procurement spend in these categories.

Our buying power makes a significant difference

SMMEs join our supplier network through the Small Business Incubator (see the next page). Businesses that don't yet meet our product needs and standards are assisted through engagement with our buying team until they meet our requirements.

SMMEs are often too small to supply us directly. Those undergoing development do not reflect in our procurement spend until they can supply a larger packhouse.



CASE STUDY

Dreamland Piggery

Dreamland Piggery, owned by Anna Phosa, is a farming operation that has grown to become a significant supplier for Pick n Pay in Gauteng.

Anna was introduced to the idea of pig farming at a Pick n Pay Small Business Seminar. "I was inspired by what I was told, and decided to buy four pigs in 2004," she says. "By 2005 my pigs had increased to 25."

After several years in a co-operative, she branched off to pursue an independent farming project.

The Danish Business-to-Business Programme introduced Anna to Danish pig farmer Michael Tetslaff, who bought Dreamland Farm with her. Anna received further assistance from the Foundation, Absa, and the Danish government. With this joint effort, and Anna's hard work, the farm became operational in 2011. Currently, Dreamland Piggery supplies Pick n Pay with 100 pigs each week. It has 2000 pigs in total, and employs 17 people.

Dreamland has a contract worth R25 million with Pick n Pay over the next five years. Through her hard work and entrepreneurial spirit, along with the support she received, Anna is now a leading pork supplier in Gauteng – not to mention a supplier of free-range pork.

CASE STUDY

Bana ba Kgwale Project

The Bana ba Kgwale Project, made up of nine members and project mentor Jimmie Painter, is a farming co-operative that produces peppers, spinach, butternut and green beans in Jericho village, North West. The 110ha under irrigation are tended by 160 full-time workers.

To start up, the co-operative received a farm and water rights from the National Development Agency and the Department of Rural Development and Land Reform. They developed the 21.7ha of land with equipment provided by the Department of Agriculture, Forestry and Fisheries. Pick n Pay facilitated access to a market.

Bana ba Kgwale has become one of the most successful social transformation projects in North West. It creates food and employment, and generates a yearly turnover of R200 000 – a figure set to increase in the future.



From the ground up

Support for small businesses includes specific and ongoing mentorship, Administered through the Small Business Incubator and the Foundation separately, Pick n Pay's small business support includes:

- mentorship by Pick n Pay buyers and the Fresh Produce Division on product and technical aspects
- training on business, marketing, IT and finances facilitated and funded by Pick n Pay
- workshops run by the Small Business Incubator
- monthly progress and challenge consultations with businesses in the Small Business Incubator
- technical assistance facilitated with government departments

Small businesses are encouraged to adopt sustainable social and environmental practices. There is currently no formal audit to measure this.

Mentoring small businesses and driving enterprise development

Our small business mentorship and enterprise development initiatives support our procurement efforts and form part of our BBBEE certification. Our strategic approach is overseen by our Transformation Director and administered by our Transformation Office in hand with the Ackerman Pick n Pay Foundation.

We support businesses that will become sustainable suppliers for the whole retail industry. Due to volume requirements, most of our goods are procured from larger suppliers. However, through the Small Business Incubator, and the Enterprise Development Fund administered through the Foundation, we are building, up-skilling and sourcing from an increasing number of small businesses, most of which supply fresh produce.

Through these development programmes we have 72 suppliers (increased from 62 in 2012), and their turnover has grown on average by 48% in the past year, with many suppliers having doubled in size. Foundation farming projects in particular are growing at an annual rate of 50%. In total, 87% of the projects supported by the Foundation are managed by women, and 92.6% of the income-generation projects are led by women.

We support businesses that will become sustainable suppliers

As with our community development programmes, we use a partnership model to drive success.

Government departments

We work with the National Development Agency and the Departments of Trade and Industry; Agriculture, Forestry and Fisheries; and Rural Development and Land Reform. They identify potential projects, and contribute skills, training, equipment, infrastructure, funding and access to land.

Companies that invest in the same community development initiatives as Pick n Pay

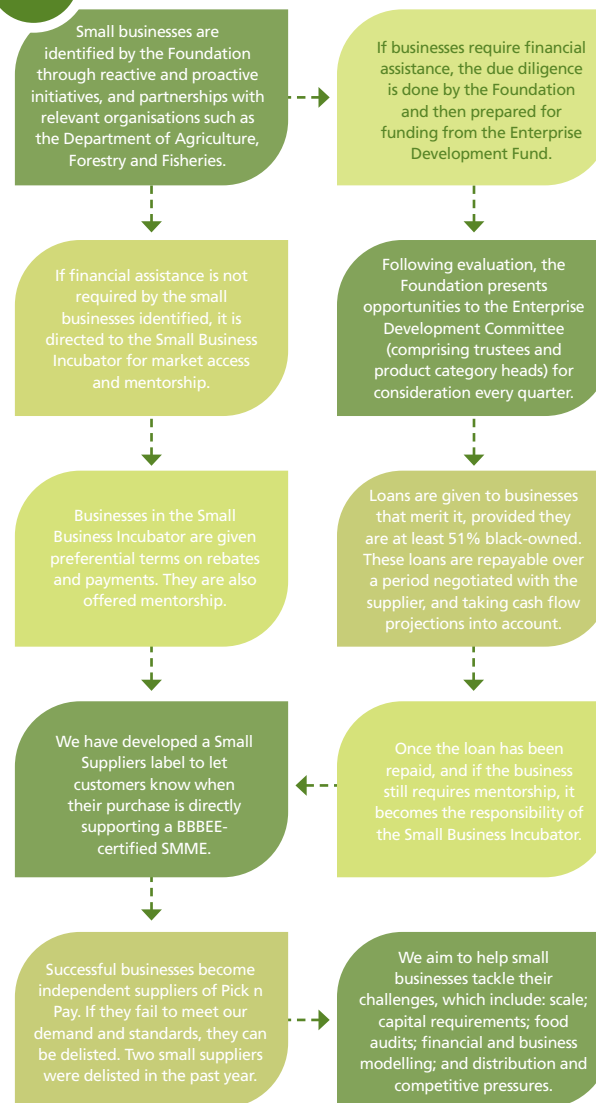
Partnering with companies and banks allows us to optimise funding to avoid duplication of efforts, and to streamline funding and other forms of support for projects.

Non-governmental organisations and service providers

Organisations offering specialist services such as financial planning are engaged and funded to work with our beneficiaries.

The process for identifying and working with small businesses

FLOW CHART



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3

Working for a clean and healthy environment

WORKING FOR A CLEAN AND HEALTHY ENVIRONMENT



Putting effort toward a clean and healthy environment makes good business sense. The rising costs and environmental impacts associated with electricity and fuel use, as well as sending waste to landfill, are key drivers in this area.

Reducing our environmental footprint helps us manage environmental risk and achieve cost reductions in the short, medium and long term. Given the pressure on natural resources, this focus also benefits the environment and broader society. Although the full

Our energy efficiency initiatives have saved R320 million since implementation in 2008

As a leading retailer, we have identified our key environmental impacts and opportunities. We have set the following ambitious targets to be achieved by 2016:

- stocking only seafood that has been sourced sustainably
- sending zero waste to landfill
- reducing our carbon footprint by 15% against the 2010 baseline
- developing a total of 215 community food gardens
- reducing our electricity consumption by 40% against the 2010 baseline

impacts of operations are difficult to quantify, resource efficiency can be a critical component of a company's value contribution.

Our energy efficiency initiatives have saved R320 million since 2008. We have a target of sending zero waste to landfill by 2015, and have several projects in place to enable this. Our reverse logistics trial has commenced in the Western Cape, where Pick n Pay trucks, once emptied, now transport recyclable materials from the stores back to our distribution centre (DC). These materials are then sorted and sold to recycling companies.

We continue to make progress in eliminating non-essential packaging materials from our products; during our last financial year, we saved 21t of packaging in our corporate-branded products alone.

The GHG Protocol

Pick n Pay applies the Greenhouse Gas (GHG) Protocol – the most widely used tool in the world to account for greenhouse gas emissions – in calculating its CO₂-equivalent (CO₂e) emissions. The GHG Protocol's Scope 1 covers direct greenhouse gas emissions – in other words, emissions from sources that are owned or controlled by Pick n Pay directly, including those from Company-owned vehicles and aircraft used for business travel and delivery. The protocol's Scope 2 covers greenhouse gas emissions resulting from the purchase of electricity.

15%
The target we've set to reduce our carbon footprint against the 2010 baseline.

Environmental objectives

In addition to our KPIs, we are working to:

- drive energy efficiency and reduce our carbon footprint
- reduce the waste we produce, and recycle as much as possible
- be a water-wise retailer and participate in the CDP Water Programme
- make it easier for our customers to be ethical and eco-friendly
- promote environmental and social innovation across all our operations and engagements
- engage in research to better understand the implications of climate change, food security challenges and other resource constraints – then to act on our findings
- help suppliers assess and build resilience to the environmental risks facing their operations, including climate change
- ensure our efforts are focused by a clear climate change and food security strategy
- continue to participate in the CDP Carbon Action Programme and remain on the Carbon Disclosure Leadership Index
- ensure all our employees are aware of climate change and food security issues relevant to their work areas, and give them opportunities to contribute to the sustainability effort
- focus a significant portion of our social investment on food security challenges in South Africa
- ensure that all our cleaning chemicals are safe for people and the environment

OUR PERFORMANCE	2013	2012	2011
OBJECTIVE: REDUCE THE CARBON FOOTPRINT ASSOCIATED WITH TRANSPORTATION AND STORE OPERATIONS			
reduction in carbon footprint against 2010 baseline	10.1%	5.5%	6%
carbon footprint (tonnes CO ₂ e*)	577 289	607 156	602 7822
energy intensity for corporate stores (kWh/m ²)	431	472	528
total energy use for stores, distribution centres and offices (GWh)	517	533	557
OBJECTIVE: ACHIEVE ZERO WASTE TO LANDFILL BY REDUCING, REUSING AND RECYCLING OUR WASTE STREAMS			
waste recycled from corporate stores (tonnes)	13 611	12 456	6 444

* FOOTNOTES

- 1 The change in reduction in carbon footprint from 6% in 2011 to 5.5% in 2012 does not represent a decrease in performance. It is the result of a change in scope applied to the calculation of the carbon footprint. See footnote 2 below.
- 2 The figure for Scope 1 and Scope 2 CO₂e emissions in 2011 was based on a limited scope that excluded a number of facilities and gas types. The emissions increase in the 2012 financial year is due to an increase in scope. The figure is being recalculated to allow for a more accurate year-on-year comparison of CO₂e emissions.



CASE STUDY

Philippi Distribution Centre

Through the centralisation of our DCs, from which products get supplied to stores, we are able to reduce our carbon footprint because fewer trucks need to travel to our stores. Innovative green initiatives have been implemented at our newest DC in Cape Town.

Alternative energy: roof-mounted photovoltaic cells are used for battery charging and external lighting and signage.

Hot water optimisation: heat pumps use only a third of the energy drawn by conventional hot water cylinders. This yields electricity savings of **60–67%**.

Efficient lighting: daylight harvesting largely eliminates the need for artificial lighting during the day. Motion and lighting sensors control when lights get switched on, and switch lights off when sufficient natural light is available.

Heat regulation: heat-reflecting roof insulation eliminates the need for excessive insulation, and helps control heat gain and loss in the warehouse.

Water usage: rainwater is harvested from the 28 000m² roof into a 120 000L tank; it's used for irrigation and, in conjunction with borehole water, to flush warehouse urinals.

Daylight harvesting largely eliminates the need for artificial lighting during the day

Dealing with diversity

Every single store has a different profile – in terms of both the behaviour in the store and the equipment used for lighting and refrigeration – therefore, the energy savings in each store are unique. Our energy efficiency projects have saved R320 million to date, and we have achieved an efficiency of 27.2% below our baseline.

320 million

The money our energy efficiency initiatives have saved since implementation in 2008.

We were also honoured to receive the Africa Energy Award for 'Energy Efficient Project of the Year' in 2012, and an Eskom eta Award for 'Energy Efficiency Awareness' in 2011.

Energy

Energy prices are expected to continue rising over the short and medium term. This is highlighted by the recently approved Eskom tariff increases, which we anticipate will increase our electricity bill by approximately 36% in four years' time. Together with all our suppliers, these increases put further pressure on our operating margins. Our energy consumption is primarily driven by electricity use (94.5%) and fuel consumption (5.5%).

OUR ENERGY CONSUMPTION COMPRISES

Fuel 5.5%

Electricity 94.5%

The complexity of energy efficiency

Saving energy is an operational imperative. Eskom price increases will continue to have an impact on our suppliers and consumers.

Energy reduction initiatives can create benefits throughout the energy supply chain, mitigating inefficiencies in the distribution, transmission and generation of electricity.

Energy efficiency is dependent on many factors. To determine how our efficiency has improved, we monitor the intensity (kWh consumption per m²) of usage over time across all our stores. For effective reporting, the measurement criteria need to be clearly defined. Pick n Pay is constantly changing and upgrading its store base; stores are closing, new stores are opening, and stores are being refurbished. These projects are not measured as part of the energy efficiency initiatives, because they do not fulfil the criteria for measurement.

The scope of the energy efficiency project continues to evolve; we have trialled initiatives that were found to affect our ability to trade, or that did not give us the savings we anticipated.

Based on these trials, we now focus our efforts on:

- behavioural change
- trading area lighting
- refrigeration plant control

Some of the main drivers in changing energy behaviour and awareness:

- running air conditioners only when necessary: stopping all overnight usage and reducing daytime usage cut the use of air conditioners by almost half from one year to the next
- a continued focus on night-time energy loads stops all unnecessary consumption after hours in store and employee areas
- implementing a specialised 'merchandising' setting that enables stores to conduct cleaning, stocking and maintenance while using only 20% of the energy required during normal operating conditions

All this proves that behavioural changes and awareness are paramount, not only for energy optimisation, but also for improved operational efficiencies.

Many opportunities lie ahead – specifically, technical interventions such as:

- efficient lighting solutions in trading and backup areas, and a focus on accent lighting
- retrofitting refrigeration plants and upgrading to new energy-efficient technology
- improving air-conditioning efficiency



Minimising waste

We have set the ambitious target of sending zero waste to landfill by 2015, and have intensified our waste management accordingly. Currently, all our corporate stores separate dry waste (predominantly plastics and cardboard, this constitutes 85% of the total waste from our stores) and sell it to recyclers. A greater challenge lies with organic (or wet) waste. Last year food that had passed its sell-by date but was still ahead of its best-before date – around 1.26 million tonnes at a value of R12 million – was donated to FoodBank SA. Even so, a portion of wet waste remains.

This remainder is the focus for our 2015 target. We are piloting a project to separate waste at source in stores, with the aim of adopting this as standard operating procedure. This will improve our ability to divert organic waste into our composting pilot projects.

We have two priority projects: the HotRot™ system and worm hammocks. HotRot™ uses a self-contained feedback system to ensure the most efficient composting process possible. The end product is used for worm composting (vermicomposting). The worm hammock is an innovative flow-through method for large-scale vermicomposting; several hammocks are used in layers to optimise the process. Pick n Pay chose to trial these projects because the compost produced has commercial value; it can be used in organic farming, and improves soil quality without the need for inorganic fertilisers.

PnP's carbon-cutting master plan

Our carbon-reduction strategy, which outlines our risks, commitments and climate change governance structure, is available to the public. Further details can be found in our CDP Carbon Action Programme submission at www.cdproject.net/en-US/Results/Pages/overview.aspx



Reverse logistics

Our reverse logistics project has been trialled with great success in the Western Cape. Stores have been separating cardboard and plastic for many years, but until now recycling agents have been collecting these items from our stores and our trucks have been returning empty to our DC. The reverse logistics project sought to bring the recycling process in-house; now our own trucks return these items to our DC. The pilot project has been a success, with the sale of this resource to recycling companies yielding value.



Climate change

Pick n Pay takes a proactive stance towards the climate change challenge, as well as the associated risks and opportunities, especially with respect to electricity consumption (discussed earlier).

We have adopted a short-term reduction target of 15% in our operations' CO₂e emissions by 2015, against our 2010 baseline. Our emissions in 2012 amounted to 577 289t of CO₂e (under both Scopes 1 and 2) – a decrease of 4.9% on 2011's emissions. This represents good progress in achieving our short-term emissions targets. Our emission intensity was 0.4t of CO₂ per m² in 2012, down from the previous year's level of 0.47t of CO₂ per m².

We recognise the potential for climate change to have an impact on our business, and on our supply chain in particular. South Africa's commitment to reduce emissions by 34% by 2020 – made at the 17th Conference of the Parties to the United Nations Framework on Climate Change (COP17) in Copenhagen – has resulted in some regulatory uncertainty. This may be addressed by the carbon tax discussion document, scheduled for release at the end of

2015
15%

CO₂e reduction target

2012
4.9%

CO₂e reduction from 2011

May 2013. Presently, a carbon tax has been widely discussed, and implementation has been proposed for 1 January 2015. Further proposals are likely to include a motivation for companies to implement carbon-reduction strategies, thus avoiding the need

to pay the tax altogether. Regardless of what carbon tax transpires, energy and electricity prices are likely to increase, pressurising operating margins and reducing the disposable income (and hence spending power) of our customers. These analyses provide further motivation for our energy efficiency initiatives aimed at reducing our carbon liability.

Further risks associated with the climate change challenge centre on our supply chain, in particular the impact of extreme weather on our agricultural producers. Projections of extreme weather and greater aridity point to potential impacts on produce growers in various regions, which in turn could have an impact on food security. Our Small Business Incubator is helping small-scale suppliers consider these risks (see page 20). Whilst we recognise that extreme weather could also have an impact on infrastructure, we regard the probability of its occurrence in the short term as low.

Did you know?

Electricity use is the major generator of our carbon emissions, with emissions falling under Scope 2 representing 88% of our total carbon footprint. The energy-saving initiatives highlighted earlier have reduced our Scope 2 emissions by 1 120 65t of CO₂e from our 2010 baseline. The refrigeration plant control solution also qualifies for carbon credits, which may contribute to future performance improvements.



Reducing packaging

Large retailers are often criticised for the amount of packaging that comes with products. While packaging clearly has value in ensuring quality and safety, we recognise the potential to make improvements.

We have a two-pronged approach: reducing the amount of packaging used for corporate-branded products (PnP Finest, PnP, and PnP No Name); and partnering with large suppliers

During the first year of this project we eliminated 2 268t of packaging – a saving of 18%

to influence how they package products and construct in-store displays.

With our corporate-branded products, we are doing well: we achieved a 21t reduction in our last financial year, and we are reviewing and enhancing the database of all packaging used within our corporate-brand portfolio; we will be able to set baselines following completion in the coming year. Our focus will centre on reducing packaging, reducing the environmental impacts associated with materials, and realising cost savings.

We are working with the major SA packaging suppliers to introduce packaging innovations. Projects underway include using recycled HDPE

in our cleaning product bottles, and a new PVC-free cling film in the butchery department. During the coming year, recycled PET will also be included in more of our products.

We are liaising with manufacturers to ensure that the correct recycling logos are featured on their product labels, and encouraging customers to recycle packaging accordingly.

A sustainability partnership with Unilever is leading to benefits across the retail sector in South Africa. The collaboration is currently working on strategies to reduce: the footprint of the products we sell; the footprint of transporting and displaying the products we sell; and, through encouraging changes in customer behaviour, the amount of packaging sent to landfill. During the first year of this project we eliminated 2 268t of packaging – a saving of 18% – and we are continuing towards our target of a 30% reduction in our supply chain by 2015.

The biggest challenge facing our packaging reduction initiatives is the ongoing need to ensure product quality and safety. Inadequate packaging may result in damaged products, greater waste, and reduced product safety. We continually seek to meet our customers' expectations on quality and safety, as well as reducing wasteful packaging.



Green stores

Reducing our environmental footprint is at the forefront of Pick n Pay's philosophy behind new store design. So, when building new stores, we include the minimisation of our impact on the environment as an integral part of our planning and design philosophy. In terms of construction, advanced energy efficiency, resource efficiency and environmentally responsible principles are key. In our recently opened The Falls store there are, for example, skylights that bring daylight into the store; heat pumps; solar control glass to reduce heat loads; LED lighting for external signage; dimmable fluorescent fittings indoors for optimum energy usage; external cavity walls to stop heat from entering the store and, conversely, to keep heat inside the building on cold days; and CO₂ monitoring to allow fresh air intake to be controlled, reducing the demand on air conditioning.



Customer engagement

Pick n Pay's smart shopper card now has more than 6.3 million cardholders, and enables us to engage with customers directly on environmental, social and governance issues. In 2012 we surveyed 3 393 of our customers to determine their top sustainability issues. During the year, we handled 33 335 ESG-related queries over email, and 15 865 over social media. The insights we gain from our customers help us ensure that our sustainability strategy delivers on their needs.



The top sustainability issues highlighted by our customer survey



The background features two overlapping circles. The larger circle is a light purple color and is positioned in the lower-left quadrant. The smaller circle is a darker purple color and is positioned in the upper-left quadrant, overlapping the larger one.

4

Empowering our people



POWER TO THE PEOPLE

Empowering our people is an integral part of how we do business. Our values of honesty, integrity and accountability are central to our brand and HR policies.

We pride ourselves on our culture, our values and our commitment to our people. We develop our employees to ensure that their skills are aligned with our business strategy and requirements, and that they have the opportunity to fulfil their goals and grow in their careers. Employees who are satisfied with their work are less likely to leave – and in an industry where staff turnover is high, it is a competitive advantage to be an employer of choice.

Our focus areas for our people are: equity and empowerment; training and skills development; and health and wellness. We have diverse operations and a decentralised approach to management. To promote equity and empowerment, we establish policies and plans supported by employment equity (EE) forums. These actions will help us meet our EE targets.

OUR PERFORMANCE	2013	2012	2011
OBJECTIVE: DEVELOP A SKILLED WORKFORCE, ENABLING EMPLOYEES TO GROW TO THEIR FULL POTENTIAL			
total investment in training, including bursaries	R89.9 million	R80.2 million	R71.8 million
employee turnover*	16%	15%	15%
OBJECTIVE: EMPLOYMENT EQUITY			
top management (target 40%)	40%	38%	39%
senior management (target 65%)	61%	61%	58%
professionally qualified middle management (target 70%)	84%	85%	84%
semi-skilled junior management (target 80%)	99%	95%	94%
unskilled and defined decision-making (target 100%)	99.5%	100%	100%

*FOOTNOTES

Employee turnover is calculated with respect to full-time, permanent employees only. The number excludes all non-executive directors and the staff of franchise stores.

Equity and empowerment

Diversity drives innovation, responsibility and a learning culture. As a large employer in South Africa, we are committed to transformation; while we have made good progress, we continue to face and address challenges, and galvanise our EE and transformation objectives.

The focus during the year was on diversity training, and on ensuring that our EE forums function effectively.

Broad-based black economic empowerment (BBBEE) is managed across two functions: preferential procurement, enterprise development and social economic development

(managed within the transformation portfolio under the custodianship of Suzanne Ackerman-Berman); and EE, skills development and management control (managed by our HR division). For further information on our progress in driving transformation, see page 37.

This year we developed and implemented a diversity management training programme, with 100 senior managers attending. We also piloted a diversity awareness workshop for employees who do not manage others. We are seeking to roll this training out in the coming year.

We established our EE plan in September 2009, setting yearly targets until September 2014. In 2006, the Department of Labour started reviewing the EE plans of JSE-listed companies, then made recommendations to them and gave them time to act. In 2012/2013, the department followed up on 30 companies, and Pick n Pay was one of 8 identified either to have surpassed their goals or to have shown significant progress. Our most recent scorecard is shown in the table to the left.

Our strategy of promoting from within and fast-tracking external candidates from designated groups has enabled us to make significant progress at the junior and middle management levels. Our EE plan and policy ensure that we continue to improve our performance; the policy prohibits discrimination based on race, gender, disability and religion,

among others. Last year our BBBEE rating improved from a level 8 to a level 6.

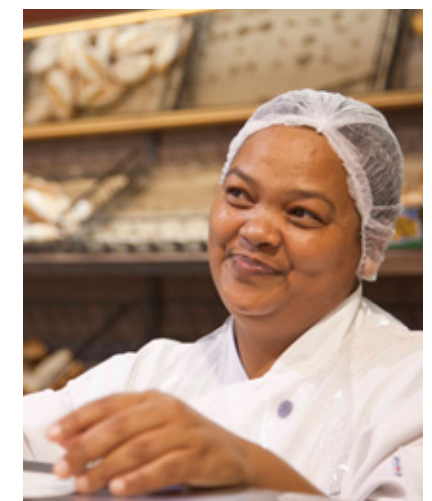
We still have challenges, specifically at senior and top management levels. This, coupled with our decentralised management structure, creates complexity and hinders our progress. General managers often make recruitment decisions outside of the global EE plan.

We recognise the importance of a multi-stakeholder approach to addressing these

Our strategy of promoting from within and fast-tracking external candidates from designated groups has enabled us to make significant progress

concerns, so our second focus was to ensure our EE forums function effectively. These forums include employees, senior managers and trade unions, and seek to engage and consult on the EE plan and its implementation. The forums monitor our progress toward representing the diversity of our nation at all levels of management, and within each division. This will further facilitate progress toward the goals we set for top and senior management.

In addition, the seven pillars of BBBEE now form part of all senior managers' KPIs.



Building skills

Career development and employee retention are key priorities due to their impact on talent management and employment equity. Building the skills of our 36 738 full-time employees (excluding non-executive directors, contractors and franchise staff) is a necessity, as satisfied employees are more likely to stay with us.

We are addressing the skills shortage left by South Africa's turbulent past by improving our employees' skills. A robust career-development framework is in place to help us meet our needs while enabling our employees to meet personal goals and grow in their careers. Last year we spent R89.9 million on training and bursaries (R80.2 million in 2012 and R71.8 million in 2011); 86% of this spend was on historically disadvantaged South Africans and employees below junior management level. The spend was the equivalent of 645 395 hours of training, an average of 17.6 hours per employee.

Our diverse training programme caters to the needs of our employees and the Company alike. We are committed to increasing awareness of sustainability issues within Pick n Pay, and last year trained 122 people using our sustainability training modules. Our key challenge in skills development is balancing the Company's operational needs with the training requirements of the individual.



In an industry where staff turnover is high, it is a competitive advantage to be an employer of choice

The training agenda

A focus on training and development is at the foundation of our people strategy, a key part of which is the retention of our employees. To support this we have a training library with over 170 different programmes available to our employees. These programmes are tailored to ensure that Pick n Pay meets its requirements and empowers employees to meet their potential. Among our achievements in 2013, we count the following:

Every customer every time

Improving relationships and service levels is the central message of this programme. Over 29 000 employees, support staff and external service staff have completed this training over the last year.

Retail management programme review and pilot

Without capable store management, our retail business would not survive. The development programme for trainee store managers has been redesigned, and aligned with changes within the Company. This pilot project will be rolled out to all operating units in the coming year.

Adult education and business literacy

Our adult basic education and training (ABET) courses have been extended to include business concepts such as sales promotion, turnover, wastage and merchandising. Employees in the full ABET programmes will now study business literacy and numeracy, which will contribute towards their achievement of a full qualification.

- These initiatives are reflected positively in our figure for annual employee turnover, which was 16% (a slight increase on the 2012 figure of 15%). This performance is notably better than the industry average of 20–25%.
- We respect the right to bargain collectively. Last year 69.58% of our employees were represented by a trade union or covered by collective agreements. We lost no days to protected strikes, though 3 hours and 25 minutes were lost to an unprotected strike.

Health and wellness

Promoting health and wellness has a positive influence on our employees' wellbeing and productivity, at work and beyond. Though we operate in a low-risk environment, employee safety, health and wellness are integral to our values. We work with the following organisations to improve performance: Aspirata (occupational health and safety); DTF Solutions (HIV/AIDS); and Marsh Africa (fire hazard identification).

Pick n Pay's *Safe Operating Procedure Manual*, developed in 2011, is available via Junxion (the Pick n Pay intranet) to all departments, and risk assessments are done on most job tasks. We comply with the Occupational Health and Safety Act, and store managers and general managers (GMs) are aware of their legal obligations. Internal and third-party safety assessments are conducted, with results communicated to the relevant GMs. All employees receive health and safety training as part of their induction.

Occupational levels



5

Supporting
communities in
their contribution
to change

HELPING COMMUNITIES CHANGE THE WORLD FOR THE BETTER

Social responsibility is one of Pick n Pay's 'four legs of the table'; it is at the foundation of good business and Pick n Pay's corporate philosophy.

For us, social responsibility has always meant giving back to society and the communities in which we operate. This has encompassed a range of activities, from lobbying for consumer rights through to working at a local level to uplift communities and individuals. This year we continued this proud legacy.

Our community engagement encourages financial empowerment and independence through business development. This focus is part of a broader commitment to socioeconomic transformation in South Africa. Investing in communities contributes to social capital by facilitating economic independence and co-operation to achieve shared developmental aims.

Supporting communities builds our brand and enhances our relationships with stakeholders, including customers and regulators. Our investment in communities is also reflected in our broad-based black economic empowerment (BBBEE) scorecard. For details on our overarching transformation initiative, see page 37.

We work with communities through the Ackerman Pick n Pay Foundation, and through corporate social responsibility investment managers in our regional offices. This investment is co-ordinated nationally, while funds are allocated regionally, in line with a centralised social investment strategy.

Partnerships are the key to finding solutions to sustainability challenges. Our principal partnerships are with:

non-governmental organisations and service providers – organisations that offer specialist services (such as training and development, or financial planning)



are engaged and funded to provide their services to our beneficiaries where needed

government departments – we approach and are approached by bodies such as the Department of Social Services and the Department of Agriculture, Forestry and Fisheries, which identify potential projects, contribute skills and training or infrastructure where appropriate, and provide funding

companies that invest in the same community development initiatives as Pick n Pay – partnering with companies such as Nedbank and Old Mutual allows us to optimise funding to avoid duplication of efforts, and streamline funding and other forms of support for projects

Kinds of care

In focusing on our engagement with communities, we have two important objectives: the first is to provide affordable and healthy food to those most in need; the second is to ensure that more than 6% of our post-tax profits are invested in social and community initiatives. We track our progress (see the table below) against these objectives.

OUR PERFORMANCE	2013	2012	2011
OBJECTIVE: PROVIDE THOSE IN NEED WITH EASIER ACCESS TO AFFORDABLE, HEALTHY FOOD			
number of community food gardens established	100	–	–
OBJECTIVE: INVEST 5% OF POST-TAX PROFITS IN SOCIAL AND COMMUNITY INITIATIVES			
post-tax profits invested in community initiatives (including enterprise development)	7.2%	6.8%	6.9%

'Helping local small farmers become sustainable suppliers is the Foundation's mission. We have for years supported emerging suppliers, providing not only market access, but mentorship, training, and help to acquire equipment, livestock and agricultural inputs.'

–Suzanne Ackerman-Berman, PnP transformation director

7.2%
of our post-tax profits went to community initiatives in 2012/2013.



Affordable, good food

Concern about the sustainability of the food system is driving global debate and action. In Africa, the context for these debates includes entrenched social challenges such as poverty, unemployment, gender imbalances and education inefficiencies.

Food insecurity arises when we cannot guarantee access to sufficient, safe and nutritious food for all. This affects many aspects of society, particularly the poor. In 2012, economists reported inflation of 8.7% for food and beverages (according to the April consumer price index). Increasing prices of inputs such as electricity, labour, fuel, fertiliser and packaging are driving food prices up. Forecasts do not see this levelling off soon, and we are aware of the

impact on our operations and customers – especially our lower-income customers.

The most basic food basket is set to rise in price more than any other product. The Food and Agriculture Organization's Food Price Index, which measures monthly price changes for a basket of cereals, oilseeds, dairy, meat and sugar, registered a 6% increase in June 2012, driven mainly by a surge in grain and sugar prices.

Experts are linking upward trends in food prices to extreme weather and climate change. We are duly looking at the climate-related risks faced by our own suppliers (see page 17). We are also placing an increasing focus on sustainable farming practices and sustainable farming audits.

Food insecurity is often not just about how much food is produced, but also

whether food actually gets to household tables. This is why we not only focus on sustainable farming, but also commit to providing good, affordable food to our customers. Rising food prices have serious consequences for vulnerable households.

Food security is part of the National Intelligence Agency's watch – and it is on our radar too; for vulnerable

The most basic food basket is set to rise in price more than other food products

communities, we have committed to developing community food gardens (for an example, see the sidebar to the right).

The average South African household spends 12.8% of their disposable income on food. Increasing food prices have a significant impact on household spending

32%

of the budget goes toward house, electricity, gas and other fuels

17.1%

of the budget goes toward transport expenses

12.8%

of the budget goes toward food costs

CASE STUDY Moringa trees

The Foundation has partnered with the Sedikong sa Lerato project to establish a moringa tree orchard in Tooseng, a village in Mphahlele, Limpopo Province. Moringa trees were chosen because of the nutritional value of the leaves and seed pods. The seeds can also be used to purify water by removing microbes and pollutants.

With the help of the Foundation, Sedikong sa Lerato fenced off 15ha of land – enough for 4000 moringa trees – and sourced 5t of seeds for planting. In addition to the Foundation's support, the project received equipment, infrastructure and business support from the Agricultural Research Council (ARC).

Currently, the project generates leaves that are used daily as a nutritional supplement for more than 500 children. The project's aim in the longer term is to produce sufficient quantities to be able to sell the excess, which will enable economic independence.

To support this aim, the ARC is exploring the possibility of supplying international markets.





The Ackerman Pick n Pay Foundation and Ackerman Pick n Pay Fund

The Ackerman Pick n Pay Foundation was created in 1997 to commemorate the 30th anniversary of the foundation of Pick n Pay as a company, and an endowment was invested in what is now the Ackerman Pick n Pay Fund. Every year the interest generated by this investment is directed into community development projects. The Foundation is independent, but works in partnership with various Pick n Pay business units. Activities are aligned to the Company's core business as a retailer, with a significant focus on food.

The Foundation's primary aim is to enable economic independence for individuals and communities. It focuses on income-generation initiatives in communities, and its key objectives are to:

- make a meaningful, measurable contribution within the sectors in which we operate
- forge strategic alliances and open, transparent partnerships with relevant organisations (such as government, the National Development Agency, and other corporates and foundations)
- focus on initiatives that complement ours
- work with and align itself with Pick n Pay for mutual benefit

To qualifying community projects, the Fund provides financial support, skills development and mentorship, and facilitates key partnerships with service providers and government departments. Applications for support are received by the Foundation.

Each project must:

- be registered as a non-governmental or non-profit organisation
- be able to generate a sustainable income
- indicate how many people will benefit from it
- provide evidence of suitable skills, key partnerships and previous experience

Foundation representatives assess projects, taking into account social, economic and environmental practices. The Foundation maximises the opportunity we have through our support of agricultural enterprises and

These projects both feed communities and allow for the sale of surplus produce

local economic development to promote the use of sustainable environmental practices. Most of the projects supported by the Fund are managed by women.

The main aim of project support is to enable income generation. Aligned to our core business, we are achieving this with the food gardens we invest in setting up around South Africa. These projects both feed communities and allow for the sale of surplus produce.

One of our goals is to help communities establish 215 gardens by 2015.

Of the 100 gardens established to date, 13 have evolved into suppliers for Pick n Pay and Boxer Superstores.

The diagram below illustrates the structure of the Ackerman Pick n Pay Foundation.

The Ackerman Pick n Pay Foundation
partners with communities with the aim of encouraging economic independence

The Pick n Pay Enterprise Development Fund

facilitates small-scale farmers and entrepreneurs with financial assistance and access to supply Pick n Pay

The Small Business Incubator

facilitates the operation of SMMEs and EMEs within our supply chain through mentorship, guidance and support

The Ackerman Pick n Pay Fund

facilitates the work of community-based organisations with financial assistance, with the aim of advancing income generation

For more information on our Enterprise Development Fund and Small Business Incubator, see page 20.



The most significant challenges we face involve resource (water, land, good soil) access and efficiency. Climate and changing weather patterns also pose a threat. To address these challenges, we engage with communities; work hand in hand with local structures, cultural dynamics and traditions; and facilitate learning through doing.

Community project assessment

Effective project development has enabled small enterprises to operate independently, and turned seed projects into thriving community gardens.

Successful projects have grown into enterprises supported by the Enterprise Development Fund. We measure the progress of projects by looking at key performance indicators, such as:

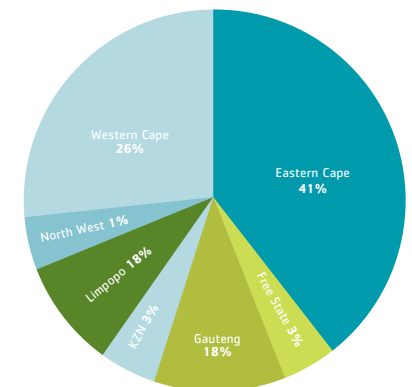
- number of people employed
- amount of produce generated
- income generated
- number of community members impacted

Each project is assessed individually. Assessment depends on the agreed objectives set out at the project's advent, and on whether it supports the following Millennium Development Goals:

1. eradicating extreme hunger and poverty
3. promoting gender equality and empowering women
7. ensuring environmental sustainability
8. developing a global partnership for development

This is a qualitative assessment.

Most of the Fund's investments are spent on developing food gardens in the Eastern Cape. This addresses both food security and unemployment there. The graph below provides a breakdown of the spend in each province.



DOING GOOD IS GOOD BUSINESS

Corporate social responsibility

Independent of the activities carried out through the Foundation, corporate social responsibility spend (CSR) remains a key part of our commitment to a more sustainable society.

We support a number of projects in the form of once-off or ongoing financial or in-kind contributions. **During the past financial year, we contributed a total of R40 928 934.80 (7.2% of post-tax profit) in CSR spending.** This figure includes funds directed into enterprise development through the Enterprise Development Fund (see page 20).

In all our investments, we aim to uphold the principle of "Doing good is doing good business." Our CSR initiatives are kept focused by a framework, and we aim to achieve balance between contributions to smaller, more local initiatives, and larger, wider-impact initiatives that can benefit from our scale and leverage. Our CSR is also managed in consultation with the Foundation to ensure alignment with community projects across the Company.

We also continue to invest in the Pick n Pay School Club; read more in the case study to the right.

'The school liaison officers affiliated with the Pick n Pay School Club keep us all motivated with their talks, they provide assistance to the learners, and they work to create an environment in which the School Club's wonderful resources can be used.'

—Grace Pillay of Tyburn Primary School, based in KwaZulu-Natal

2 500
The PnP School Club comprises more than 2 500 participating schools across the nation.

CASE STUDY

Pick n Pay School Club

The Pick n Pay School Club is the most influential and dynamic public-private educational platform in South Africa.

With 10 years of educational excellence, the Club has more than 2 500 participating schools, and reaches 1.966 million learners, parents and guardians.

The Pick n Pay School Club is SA's oldest school programme, and has established itself as the country's largest brand-funded educational programme

Schools are hungry for new, innovative approaches that help them deliver the curriculum; the free, brand-sponsored educational material supplied by the School Club – books, posters, overview brochures, recognition stickers, certificates, and mirror decals – is specific to learners' grades, aligned to the curriculum, and written by experts. It is extensively used and reused in the classroom.

The club's liaison officers visit schools, kicking off competitions and educating teachers on how to use the material. The officers also host regular workshops in communities to give teachers a chance to network and have their questions answered. The competitions activated by the Pick n Pay School Club's liaison officers help sustain interactions with schools across the nation.

Pick n Pay Nutrition Competition

Learners create their own 'Superfruit' character from their favourite fruit, and submit entries detailing the character's name and what it

does to ensure children eat their vegetables and fruit.

Pick n Pay Healthy World Competition

Learners design a poster on one of SA's endangered species, and explain: why the species is important; what people are doing to save it; and why it is important to do so. For more, see www.schoolclub.co.za



CASE STUDY Food Basket for Africa

The Foundation has partnered with Food Basket for Africa to establish rural and urban food gardens. Some of these food gardens have been converted into training facilities, and community members are invited to train and work in them.

The Department of Agriculture plays an important role in these projects, training residents in efficient resource use, and supplying equipment. Once the training is complete, successful trainees receive a starter pack containing organic seedlings and compost, along with a set of basic gardening implements.

Some of the established gardens have managed to grow surplus crops to be sold at community markets. Proceeds from these sales are invested back into the gardens.





6

Enhancing governance and accountability

GOVERNANCE & ACCOUNTABILITY

We continue to embrace sustainability across our operations, integrating it into our policies and practices, and increasing our engagement with stakeholders on environmental, social and governance (ESG) issues.

Good governance develops trust and a greater sense of accountability between Pick n Pay and our stakeholders, and contributes to a culture of corporate accountability in South Africa. It ensures

Good governance is the foundation we require to address the challenges related to sustainability

that we comply with all relevant codes and regulations, including codes of good governance such as the *King Code of Corporate Practices and Conduct III*. We also comply with the requirements of the JSE Socially Responsible Investment Index and the United Nations Global Compact.

Good governance is the foundation we require to address sustainability challenges. It also prioritises risk management, enabling us to incorporate social and environmental issues into a robust analysis of risks and opportunities for our business. For our sustainability governance structure, please see page 7.

General governance issues are captured in our *Pick n Pay Integrated Annual Report 2013*. For further information on our corporate governance, audit committee and company remuneration, please refer to that report.

Specific governance elements are relevant from the perspective of sustainability. We have identified, as our key objectives in this area, the development of a robust sustainability performance management system, and alignment with best practice in ESG standards. Currently, we track our performance against the indicators listed to the right.



OUR PERFORMANCE	2013	2012	2011
OBJECTIVE: ACHIEVE BEST PRACTICE WITH RESPECT TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING			
JSE SRI Listing	listed	listed	listed
CDP Carbon Action Programme (JSE Top 100)	included on 2012 Carbon Disclosure Leadership Index	included on 2011 Carbon Performance Leadership Index	included on 2010 Carbon Disclosure Leadership Index

Risk management

The Board has adopted a Company-wide risk management approach. Risks identified – including sustainability (environmental, social and governance) risks that are material to our business – are captured and rated on the Group's risk register.

The Board is responsible for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor key business risks. The Board is assisted in its responsibilities by the audit committee, whose objective is to monitor, develop and communicate the process for managing risk across all divisions in the Group. The day-to-day responsibility for identifying, evaluating and managing risk resides with management.

For sustainability, the identification and management of risks and opportunities is distributed throughout Pick n Pay. Specific risks and opportunities are discussed throughout this report. We are currently rolling out a full review of sustainability risks and opportunities across our supply chain (see page 17).

On the following page, we have identified the most significant sustainability-related risks on our Company risk register, with references to different sections of this report.

Specific governance elements are relevant from the perspective of sustainability. We have identified, as our key objectives in this area, the development of a robust sustainability performance management system, and alignment with best practice in ESG standards

Strategic and market risk

RISK	RISK MITIGATION
Damage to brand and reputation	The Group's governance philosophy seeks to protect and enhance our brand and reputation. Pick n Pay strives to maintain ethical business practices, and to achieve the highest level of compliance and integrity. (See page 2.)
Green and ethical issues	The Group consistently retains its leading position on matters of 'green retail' and commitments around addressing issues of sustainability. Our initiatives include energy-saving and carbon footprint reduction programmes (for example, the use of natural refrigerants over synthetic substances with the aim of reducing the emission of greenhouse gases). World-class sustainability features, introduced in our green store – Pick n Pay on Nicol in Sandton, Johannesburg – are being implemented where appropriate throughout the Group. (See page 22.)
Sustainable food supply	The Group continues its analysis of the potential effects of climate change on food supply, and is actively involved in sustainable food supply initiatives in at-risk product areas. A comprehensive analysis of ESG risks across the supply chain was initiated in 2013. A growing understanding of these risks will increasingly inform supply chain decision-making. (See page 17.)



Financial risk

RISK	RISK MITIGATION
Volatility of profit margins	Market conditions and their effect on profitability are continually reviewed by management and the Board. Unit sales growth and cost efficiencies are the primary factors protecting profit margins. Unit sales growth depends on high levels of customer satisfaction.

Legislative risk

RISK	RISK MITIGATION
Compliance with legislation	Pick n Pay has an in-house compliance office to monitor and assess the impact of legislation on the Company. We make use of external specialists and advice where necessary.

Pick n Pay strives to maintain ethical business practices, and to achieve the highest level of compliance and integrity

Operational risk

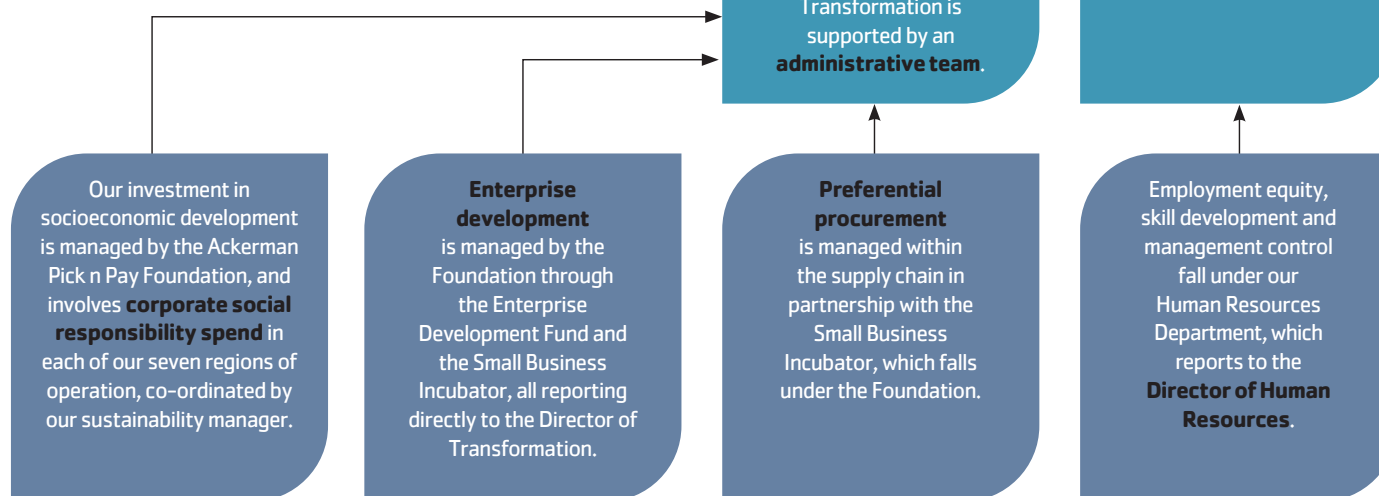
RISK	RISK MITIGATION
Product quality and third-party liability	The safety and quality of the products we sell – including our own PnP brands – are carefully scrutinised by our internal quality control and food safety technicians. If any indications of product flaws are found, the product in question is immediately returned to the supplier. Merchandise is purchased from reputable suppliers, and appropriate levels of insurance are in place. (See page 12.)
Security of supply	Pick n Pay places continued focus on good relationships with suppliers to ensure that the partnership is mutually beneficial. Electronic data interchange is underway, with the aim of improving delivery and communication levels between Pick n Pay and our suppliers. Central distribution is in place to improve lead times and minimise stock shortages.
Energy security and utilities	Resource use is a key focus of our optimisation drive. The Group has consistently reduced operational intensity over the past three years, and significant savings will enable further investment in reducing fuel and electricity consumption. (See page 23.)



Governance of transformation

We are fully committed to socioeconomic transformation in South Africa. To support our commitment, we have established a clear structure for managing transformation, as shown in the organogram to the right.

We report our progress against the Department of Trade and Industry's Broad-Based Black Economic Empowerment (BBBEE) scorecard framework. We improved our BBBEE score from level 8 to level 6 in 2012. Further information on each element of our transformation contribution is given in relevant sections of this report.



To support our commitment, we have established a clear structure for managing socioeconomic transformation

Pick n Pay's transformation management structure

The Social and Ethics Committee is the Board committee responsible for overseeing transformation.

The Director of Transformation sits on the Social and Ethics Committee, and is responsible for implementing the transformation strategy.

The Director of Transformation is supported by an **administrative team**.

The Director of Human Resources co-ordinates activities with the Director of Transformation.

Employment equity, skill development and management control fall under our Human Resources Department, which reports to the **Director of Human Resources**.

Prioritising skills

For 2013, we have identified skill development as a strategic priority. One of the strategies we have formulated to address this area involves using the skills development levy paid to the National Skills Fund – which is administered by the Department of Labour – to facilitate internships and learnerships in 2013. This strategy will feed into our skills pipeline, providing a pool from which to draw and develop store leadership. Another of our plans is to launch a Small Suppliers label for products procured from small, local suppliers. This will drive customer awareness around supporting small businesses.

**8→6
BBBEE**
The jump in Broad-Based Black Economic Empowerment levels we made in 2012.

Engaging with industry bodies and policy-makers

Pick n Pay has a history of speaking out on issues that impact on our operations and customers. We engage with policy-makers directly and through industry bodies. Our role, contribution and topics on the agenda in these engagements are detailed below.

Organisation engaged

Departments of Health; Trade and Industry; Agriculture, Forestry and Fisheries; and Social Development

Pick n Pay's role and contribution

- We engage extensively with relevant government departments on policies and policy issues pertaining to our business.
- We provide input on policy development, advocate actions, and co-operate on projects for socioeconomic development.

Hot topics on our radar

- food health and safety: nutrient profiling, soft drink regulations, salt reduction in food, and regulations on preservatives and antioxidants
- BBBEE

Organisation engaged

Consumer Goods Council of South Africa

Pick n Pay's role and contribution

- We are one of the Consumer Goods Council's 11 000 member companies in the retail, wholesale and consumer goods manufacturing sectors.
- We are able to work together to share knowledge and formulate industry standards through the Consumer Goods Council.
- We participate in the Food Safety Initiative, a focused working group.
- We work through the council to engage government departments, such as the Department of Health.

Hot topics on our radar

- industry capacity-building
- law regulating the trade of genetically modified organisms
- law regulating health and safety as it pertains to food
- auditing of suppliers, creating a single standard across retailers

Organisation engaged

Consumer Goods Forum

Pick n Pay's role and contribution

- Our Chairman, Gareth Ackerman, co-chairs the international Consumer Goods Forum.

Hot topics on our radar

- sustainable sourcing and traceability
- chemical use in refrigeration

Organisation engaged

PlasticsSA Sustainability Council

Pick n Pay's role and contribution

- We were engaged in founding the PlasticsSA Sustainability Council. The council provides strategic leadership to the plastics industry on matters of sustainability.

Hot topics on our radar

- resource efficiency
- waste management
- education and communications

Organisations engaged

PETCO and the Polystyrene Packaging Council

Pick n Pay's role and contribution

- We work with both of these organisations to drive innovation in packaging.

Hot topics on our radar

- sustainable packaging
- waste management

Organisation engaged

Global Social Compliance Project

Pick n Pay's role and contribution

- We are a member of this platform, which facilitates collaboration and sharing of knowledge.

Hot topics on our radar

- working and environmental conditions in global supply chains

Organisation engaged

National Business Initiative

Pick n Pay's role and contribution

- We are a member organisation of this initiative, which facilitates active engagement with a range of stakeholders, including companies and government departments.
- We also participate in the CDP Carbon Action Programme (see page 22).

Hot topics on our radar

- policy development
- climate change

Organisation engaged

United Nations Global Compact

Pick n Pay's role and contribution

- We are a signatory to the compact.

Hot topics on our radar

- governance and human rights issues

Organisation engaged

JSE Socially Responsible Investment (SRI) Index

Pick n Pay's role and contribution

- We are listed on the index, and every year disclose information on the environmental, social and governance (ESG) matters relating to our business.

Hot topics on our radar

- ESG issues



We continue to embrace sustainability across our operations, integrating it into our policies and practices, and increasing our engagement with stakeholders on environmental, social and governance issues

Contact us

We continually look for better ways to communicate our sustainability achievements, challenges and progress. If you have anything to add, question or comment on, please let us know.

- All comments can be emailed to Debra Muller, our Company Secretary, at demuller@pnp.co.za
- Alternatively, you can contact our Sustainability Department at: 101 Rosmead Avenue, Kenilworth, Cape Town +27 (0)21 658 1000 | sustainableliving@pnp.co.za
- You can also leave a comment in our online response box at: www.picknpay.co.za/picknpay/content/en/contact-us