

CREATING VALUE THROUGH OUR BUSINESS MODEL

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

OUR CAPITALS

FINANCIAL CAPITAL

The financial resources raised and utilised by the Group, consisting of equity and debt funding, and earnings generated and retained by the Group.

Capital inputs at the beginning of the year include:

- R4.0 billion in shareholders' equity
- R2.3 billion in borrowings
- R1.1 billion in cash balances

We rely on our financial resources to fund our expansion plans, enhance the quality of our estate and our customer offer, invest in new systems and technologies, upskill and develop our staff, and to deliver on our growth strategy in line with our seven business acceleration pillars.

MANUFACTURED CAPITAL

The physical infrastructure used in the Group's operations which includes its real estate, distribution capacity, and its information technology platforms.

Capital inputs at the beginning of the year include:

- 1 685 stores
- 5 support offices
- 12 distribution centres
- 2 online distribution centres
- Valued partnerships with transport logistics providers

We rely on our manufactured capital to procure, transport, store and display our products in a range of store formats – from large hypermarkets to small convenience stores and an online platform – enabling us to serve customers across a diverse socio-economic spectrum.

INTELLECTUAL CAPITAL

The knowledge, systems, processes, intellectual property and brands contained within the Group.

Capital inputs at the beginning of the year include:

- 3 strong brands: Pick n Pay; Boxer; TM Supermarkets
- Smart Shopper loyalty programme
- Enterprise-wide SAP operating and reporting system
- Growing own brand offer

We rely on our intellectual capital to ensure that we understand our customers and how we can serve them better. Centralisation, including advanced forecast and replenishment systems, supports greater operational efficiency, alongside our outstanding information technology infrastructure. In addition to manufacturer-branded products we have a growing own brand range with products to suit every customer's budget.

HUMAN CAPITAL

Our valued staff across Pick n Pay, Boxer and TM, with their skill, talent, ambition and diversity that underpins a winning team.

Capital inputs at the beginning of the year include:

- 51 000 employees in our company-owned business
- 34 000 employees across our franchise stores

We rely on and invest in our human capital to provide our customers with convenient and reliable access to high-quality, safe and competitively priced products and valued-added services, with great service in outstanding stores.

SOCIAL AND RELATIONSHIP CAPITAL

The relationship the Group has developed with all its stakeholders, governed by its values and the enduring principle that doing good is good business.

Capital inputs at the beginning of the year include:

- Customer-led long-term strategy
- Meaningful corporate social investment programme
- Strong platforms for stakeholder engagement

We rely on our social and relationship capital to earn the loyalty of our customers, generate more jobs, contribute to the communities we serve and to develop local suppliers and small businesses.

NATURAL CAPITAL

The environmental resources utilised throughout the Group's operations, through its production, distribution and sale of consumer products.

Key environmental impacts last year (refer to page 76):

- Carbon footprint – 657 387.2 CO₂e tonnes
- Water consumed –1 161 megalitres
- 54.3% of waste diverted from landfill

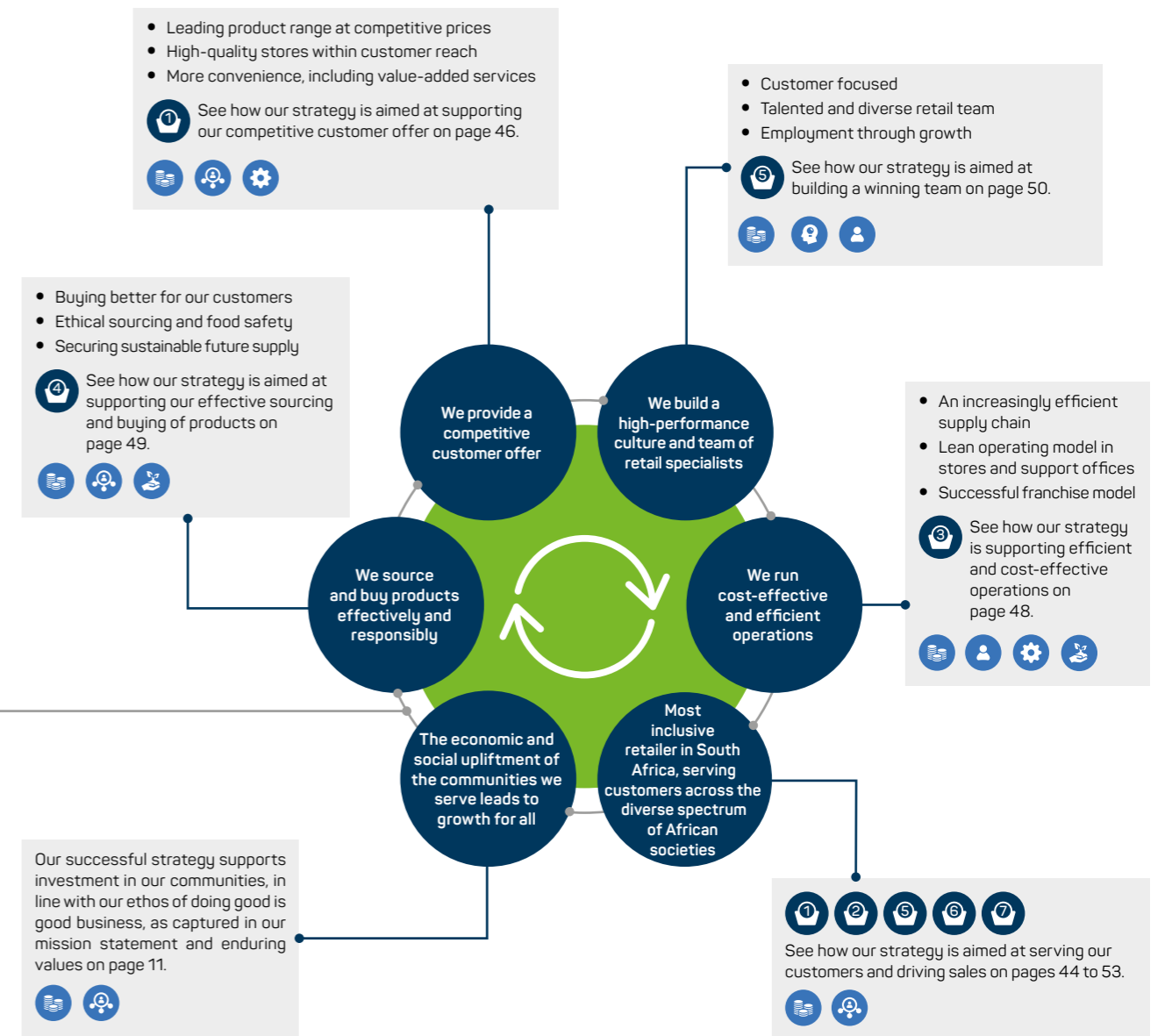
We are committed to reducing our consumption of natural and scarce resources in our operations and, with thousands of suppliers and millions of customers, we are extremely mindful of our broad reach and our broad impact.

OUR PRIMARY BUSINESS ACTIVITIES AND VALUE DRIVERS

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

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

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



Our capitals are transformed by our business activities and strategic business decisions. As part of this, we have to prioritise certain resources and stakeholder requirements above others.

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

A discussion of our capital trade-offs is available on page 25. These trade-offs are informed by our corporate governance framework, which ensures that we align our interests with those of our stakeholders and deliver sustainable value and a leading customer offer. Read more about our risk management from page 32.

CREATING VALUE THROUGH OUR BUSINESS MODEL (continued)

HOW OUR KEY BUSINESS ACTIVITIES TRANSFORMED THE CAPITALS DURING THE YEAR

OUR CAPITAL OUTPUTS

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

OUR CAPITAL OUTCOMES

Our capital outcomes include a range of internal and external consequences for our stakeholders, which are outlined in more detail below:

FINANCIAL CAPITAL

On a comparable 52-week basis:

- Sales growth of 7.1% in a tough market
- Market-leading like-for-like volume growth of 5.1%
- Balanced gross profit margin performance and cost discipline – with comparable HEPS growth of 18.0%
- Improved profitability and strong working capital management delivered a R665 million reduction in comparable net funding.
- Rest of Africa segmental profit down 16.2% year-on-year, reflecting difficult trading environments in Zambia and Zimbabwe
- Shareholders equity up 7.3% to R4.3 billion

HUMAN CAPITAL

- 4 675 net new jobs across the Group, with 55 000 employees in our company-owned business and 35 000 employees across our franchise stores
- R67.0 million invested in training and education
- 800 training interventions reached 16 000 of our staff

MANUFACTURED CAPITAL

- Opened 130 new stores
- Refurbished 103 stores
- Closed 20 under-performing stores
- Two new distribution centres in KwaZulu-Natal and Gauteng across Pick n Pay and Boxer

SOCIAL AND RELATIONSHIP CAPITAL

- Partnered with six new entrepreneurs in our Spaza-to-Market store initiative
- 95% local sourcing
- R500 million procurement spend with small local businesses
- R34.1 million corporate social responsibility spend
- Launched People n Planet – umbrella programme for all corporate social investment (CSI) programmes
- Supported 3 325 schools in Pick n Pay School Club
- Improved transparency of nutritional information on own brand product labelling

INTELLECTUAL CAPITAL

- Pick n Pay recognised as South Africa's most influential brand
- Advanced Smart Shopper app and point-of-sale technology, and partnered with BP on points
- Industry-first partnership with fully digital TymeBank
- Ongoing investment in online platform drives 24.3% growth in online sales
- Over 500 new and 700 redesigned Pick n Pay and Boxer own brand products – Pick n Pay and Boxer own brand products now at 21% and 15% respectively of relevant turnover

NATURAL CAPITAL

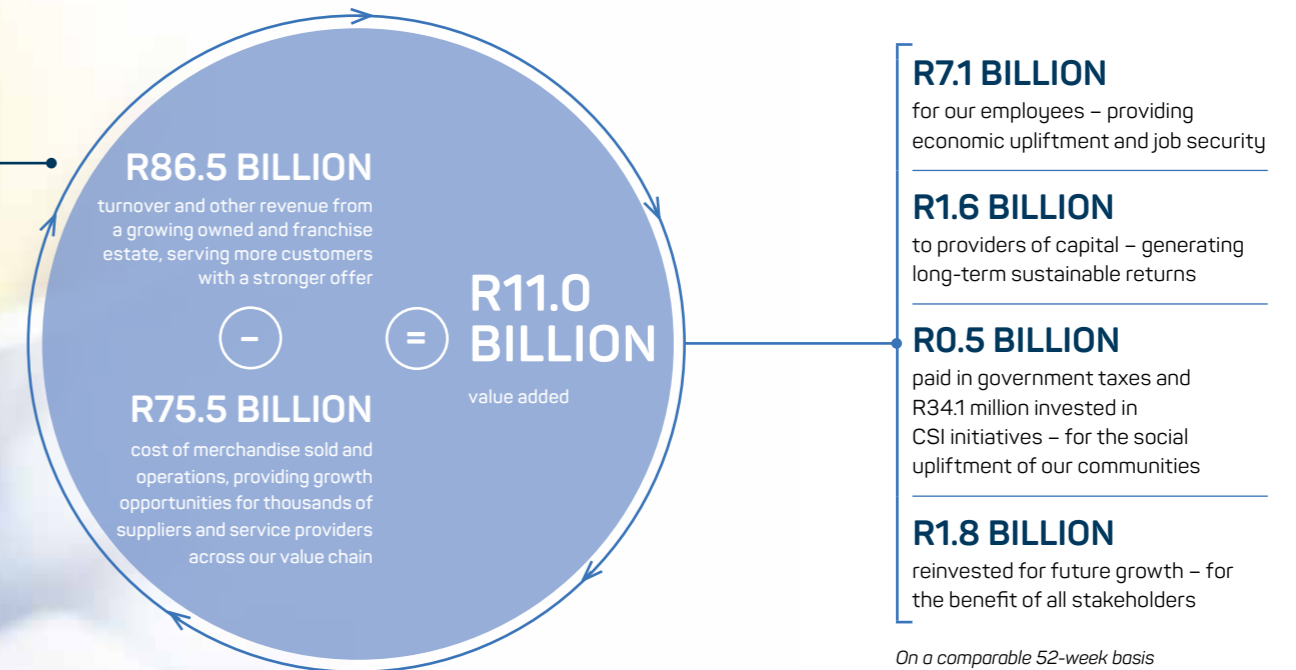
- Introduced 100% recycled and recyclable plastic bag – will keep 2 000 tonnes of plastic out of the environment each year
- Cut down on plastic used in-store and in our own brand products
- 40% water saving in the Western Cape
- Substantial decrease in electricity consumption – like-for-like costs down 1.8%
- 649 192.4 CO₂e tonnes carbon footprint – down 1.2% on last year
- 1 128 megalitres of water consumed – in line with last year
- 53.5% of waste diverted from landfill

Strong performance Satisfactory progress Disappointing, more to do

THE VALUE WE CREATED AND DISTRIBUTED AMONG OUR VARIOUS STAKEHOLDERS

Our ethical value system, underpinned by strong corporate and social governance, as detailed in our governance section from page 80, guides our everyday decision-making. This ensures that we balance and optimise the trade-offs that exist in our business to act in the best interests of our stakeholders.

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



OUR CAPITAL TRADE-OFFS

Our stakeholders have competing interests and needs. Similarly, there is interdependence between our capitals. Below are the most material and relevant trade-offs that have been necessary in our business this year to create greater shared value for all:

RESPONSIBLE REMUNERATION IN A TOUGH CLIMATE

We are committed to providing our employees with fair and responsible remuneration, including a suite of benefits which promotes the well-being of our employees in a difficult economic climate. The Group provided above-inflation increases in salaries and wages this year, which saw employee costs grow 6.2%, notwithstanding the positive efficiency impact of the voluntary severance programme undertaken last year.



RANGE OPTIMISATION

We are tailoring our product offer store by store to ensure we adequately meet the needs of customers served. In certain stores this has led to meaningful range rationalisation, lower stockholdings, better availability, less waste and improved trading densities. But it has at times meant more difficult engagement with suppliers, where key product lines have had to be prioritised above others.



SMALL BUSINESS DEVELOPMENT

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



FOOD SAFETY

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



ADDITIONAL DISTRIBUTION CAPACITY

The Group progressed on its centralised distribution journey this year with the opening of its new Pick n Pay distribution centre (DC) in KwaZulu-Natal and its new Boxer DC in Gauteng. The two new DCs required capital investment this year, adding start-up costs and higher inventory balances over the short term. However, these DCs have brought centralised supply to 75% in Pick n Pay and 40% in Boxer, unlocking the opportunity for further cost savings and efficiency gains across the distribution channel.



OPERATIONS OUTSIDE SOUTH AFRICA

We believe opportunities outside South Africa provide us with a second engine for long-term growth. However, expanding our footprint into the rest of Africa does not come without risk, including the operational challenges of trading in a new environment and the risk of foreign currency movements. This was particularly evident this year with difficult trading environments in Zambia and Zimbabwe.



REDUCING OUR IMPACT ON THE ENVIRONMENT

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

