





OUR STRATEGY

44 Strategic focus

STRATEGIC FOCUS

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

In formulating its plan, the Group acknowledged that a sustainable recovery would need to be achieved in a planned, considered and balanced way over a number of years, avoiding short-term actions that might weaken the business in the longer term.

STAGE 1

Stabilise the business ✓

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

Critical building blocks included the acceleration of a centralised supply chain, the development of a more efficient, "Next Generation" supermarket, and the restructure of our Boxer business into South Africa's leading limited-range discounter.

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

STAGE 2

Change the trajectory

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

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

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

STAGE 3

Sustainable long-term growth

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

OUR PERFORMANCE AGAINST OUR BUSINESS ACCELERATION PILLARS

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

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

The strategic focus of the business is to:

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

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

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

The focus here is on completing the centralisation of the Group's supply chain, reducing the cost and improving the accuracy and responsiveness of its distribution. The Group also aims to improve the efficiency and cost-effectiveness of its operations, including through the centralisation of administrative services and the optimisation of staff and support office structures, while minimising increases in rentals, rates, electricity, water and other charges.

Restore the underlying profit margin to a historically sustainable level:

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

BETTER FOR CUSTOMERS

The Group's long-term success depends on the loyalty and support of its customers. It is committed to delivering a strong and consistent customer offer that earns the lifetime loyalty of customers across the communities it serves. Greater business efficiency and financial discipline have enabled the Group to provide meaningful price support for customers through difficult economic times, while enhancing the quality of its range and its service.

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

Lower everyday prices

- Lower prices across 2 000 everyday grocery items
- Selling price inflation restricted to 2.2% against CPI food inflation of 5.9%
- Price investment drove market-beating sales growth in quarter four

Expanded own-brand offer

- Launched 730 new or refreshed own-brand products
- Key lines growing twice as fast as branded alternatives
- Pick n Pay convenience range awarded 20 first places in the Sunday Times Food Awards

Refreshed Smart Shopper

- Launched modern, more cost-effective programme in March 2017
- Stronger emphasis on weekly personalised discounts – R3 billion in personal discounts offered to Smart Shoppers
- More instant savings, more partners, greater supplier participation in promotions

Improved fresh produce offer

- Expanded fresh and convenience range
- Great deals on fresh fruit and vegetables combos
- Keen pricing on key butchery lines

Improved customer service

- Launched Pick n Pay Fan Score programme in July 2017 to measure and improve customer service
- Stores now measured monthly against customer feedback received, and ranked in order of their performance
- Incentives are provided to those stores that deliver exceptional service

2019 – Strategic priorities for next year

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

Performance measures include:

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



A FLEXIBLE AND WINNING ESTATE

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

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

Sustainable growth

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

More convenience

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

More Next Generation stores

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

Enhanced online offer

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

Investment in our hypermarkets

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

2019 – Strategic priorities for next year

- Sustainable growth in new space
- Targeted refurbishment programme
- Greater convenience

Performance measures include:

- Contribution of new stores to turnover growth
- Return on capital investment
- Cash pay-back periods
- Online turnover growth



EFFICIENT AND EFFECTIVE OPERATIONS



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

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

Leaner store operating model

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

Cost-effective support offices

- Ongoing centralisation of administrative functions continued to improve efficiencies and lower support office cost
- Like-for-like operations costs up just 2.4%
- Like-for-like merchandise and administration costs up just 1.7%, with savings in professional, legal and other support services

More synergies between Pick n Pay and Boxer

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

Stronger working capital management

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

Better front-line service

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

2019 – Strategic priorities for next year

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

Performance measures include:

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





EVERY PRODUCT, EVERY DAY

The Group continues to deliver substantive progress in developing an efficient and fully centralised procurement and distribution channel. The Group's centralisation strategy has significantly improved on-shelf availability, and is driving cost savings and efficiency across the business. Pick n Pay and Boxer distribution centres deliver every product, every day to stores across the country, on a short order lead time.

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

More suppliers centralised

- Total volume of centralised supply in Pick n Pay increased to 68% (FY17: 60%)
- 98 new suppliers, including 6 suppliers from our supplier development initiatives
- Centralised grocery volume in Pick n Pay has reached 70% across the country, with fresh and perishable produce at 80% and general merchandise at 40%

Lower cost

- Implementation of buy better programme with suppliers
- Gross profit margin unchanged at 18.7%, notwithstanding substantial price investment
- Stronger management of waste and shrink

Better availability in stores

- Reduction of slow-moving lines
- Improvement in strike rates leading to consistent levels of on-shelf availability

New distribution centre capability

- Boxer opened a new distribution centre in the Eastern Cape
- Pick n Pay opened a new distribution centre in KwaZulu-Natal

2019 – Strategic priorities for next year

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

Performance measures include:

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



A WINNING TEAM

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

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

Leaner and fitter head office

- Successful conclusion of voluntary severance programme across Pick n Pay
- Removed roles and functions that were no longer required – streamlining the workforce by 10%
- Like-for-like employee costs reduced to 7.9% of turnover (FY17: 8.3%), if the once-off cost of the VSP is excluded

Focus training on customer service

- More than 5000 employees completed customer services training
- Implemented Pick n Pay Fan Score to measure customer service against customer feedback

Drive and reward exceptional performance

- Pick n Pay Fan Score programme provides additional incentives for improved customer service
- Rolled out formal performance management and reward programme across the Group – with long-term and short-term incentives directly linked to the attainment of performance measures as set out in the seven business acceleration pillars
- First successful vesting of forfeitable plan shares, rewarding strong headline earnings per share (HEPS) growth over the vesting period

2019 – Strategic priorities for next year

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

Performance measures include:

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



BOXER – A NATIONAL BRAND

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

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

Focus on providing best value in the market

- Boxer provided unbeatable value on basic commodities and combination offers
- Price investment drove strong sales volume growth and an increase in market share

More stores serving more communities

- 22 new Boxer stores across all formats, including 10 supermarkets

Continued refurbishment of existing estate

- 37 refurbishments
- Successful Next Generation store model rolled out across new and refurbished stores

More synergies with Pick n Pay

- Unlocked further administrative synergies across Pick n Pay and Boxer, including centralising statutory reporting and compliance

2019 – Strategic priorities for next year

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

Performance measures include:

- Turnover growth
- Earnings growth
- Market share
- Return on investment



REST OF AFRICA – A SECOND ENGINE OF GROWTH

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

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

Maintain progress in Zimbabwe

- Opened new store in Gweru
- Three refurbishments, including flagship Borrowdale Pick n Pay
- Ongoing collaboration with Pick n Pay management team drives earnings up 45%

Improve in Zambia

- Refurbishment of our Next Generation Woodlands store
- Stronger operational efficiency and cost control tempered the impact of the tough trading environment
- Alignment of system infrastructure with South African operations, with introduction of new point-of-sale system

Develop our business in West Africa

- Working closely with AG Leventis, our partner in Nigeria, to secure suitable trading sites in Lagos
- First store planned to open over next two years

2019 – Strategic priorities for next year

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

Performance measures include:

- Sustainable turnover and earnings growth
- Increase of participation in Group profit

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

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

- 1** **Pick n Pay – South Africa's most trusted retailer**

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

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

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

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

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

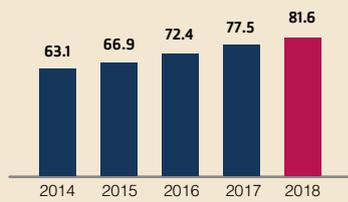
STAGE 3 OF OUR STRATEGY: LOOKING AHEAD

The Group has not communicated a timeline for the completion of Stage 2. We will look for the following indicators as markers for the successful completion of Stage 2, providing a strong foundation for Stage 3 – sustainable long-term growth:

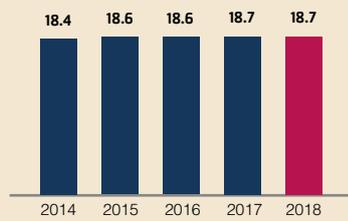
- A track record of consistent sales and profit growth over a number of years
- A resource-efficient business that is a positive force for good in the countries in which it trades
- Strong customer loyalty and advocacy
- Continued innovation in store and in our customer offer
- An operating model that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

STRATEGIC PERFORMANCE HIGHLIGHTS

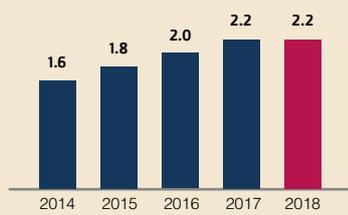
TURNOVER (Rbn)



GROSS PROFIT MARGIN (%)



TRADING PROFIT MARGIN (%)



RETURN ON CAPITAL EMPLOYED (%)

