

# STRATEGIC FOCUS continued

## Business acceleration pillar: 1 Better for customers

The Group recognises that its long-term success depends on the loyalty and support of its customers. It is therefore committed to delivering a strong and consistent customer offer which earns the lifetime loyalty of customers across South Africa and beyond. Unbeatable prices and promotions are key to this objective. Better business efficiency and financial discipline has enabled the Group to provide meaningful price support for customers through difficult economic times, while strengthening the quality of its range and its service.

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED	2018 STRATEGIC PRIORITIES FOR NEXT YEAR
<b>BETTER PRICES AND PROMOTIONS</b>	<ul style="list-style-type: none"> <li>Food selling price inflation kept to 6.1% against CPI food inflation of 11.0%</li> <li>Stronger promotions, including through bulk buys and combination offers</li> <li>Everyday low prices on staple commodities, particularly in our Boxer business</li> </ul>	<p><b>LOWER EVERYDAY PRICES</b></p> <ul style="list-style-type: none"> <li>focused on what our customers need most, including meat and fresh produce</li> </ul> <p><b>EXPANDED PRIVATE LABEL</b></p> <ul style="list-style-type: none"> <li>providing exceptional value through a stronger 3-tiered 'good, better, best' offer</li> </ul> <p><b>REFRESHED SMART SHOPPER</b></p> <ul style="list-style-type: none"> <li>a modern and highly engaged loyalty programme providing weekly personal discounts and greater reward</li> </ul> <p><b>IMPROVED FRESH PRODUCE OFFER</b></p> <ul style="list-style-type: none"> <li>better freshness, stronger range, more innovation</li> </ul> <p><b>IMPROVED CUSTOMER SERVICE</b></p> <ul style="list-style-type: none"> <li>staff training focused on an efficient and courteous shopping experience for our customers</li> </ul>
<b>BETTER ON-SHELF AVAILABILITY</b>	<ul style="list-style-type: none"> <li>On-shelf availability consistently maintained at 96% over the year</li> </ul>	
<b>STRONGER SMART SHOPPER LOYALTY PROGRAMME</b>	<ul style="list-style-type: none"> <li>More instant savings and an expanded partner programme</li> <li>Enhanced technology – Smart Shopper platform and app supports weekly personalised discounts</li> <li>Recognised as South Africa's favourite loyalty programme for the fifth year in a row</li> </ul>	
<b>IMPROVED FRESH PRODUCE OFFER</b>	<ul style="list-style-type: none"> <li>Expanded fresh and convenience range</li> <li>More space dedicated to fresh produce in Next Generation stores</li> <li>Investment in cold chain delivering better freshness and longer shelf-life</li> </ul>	
<b>EXPANDED PRIVATE LABEL</b>	<ul style="list-style-type: none"> <li>New and repackaged private label products reached 1 700 items – contributing to 18% of turnover</li> <li>Strong growth ahead of the market in a number of categories, including convenience</li> <li>Ongoing support and development of small suppliers and entrepreneurs</li> </ul>	
<b>IMPROVED CUSTOMER SERVICE</b>	<ul style="list-style-type: none"> <li>9 000 staff members received customer service specific training</li> <li>New tills rolled-out across all Next Generation stores to improve check-out experience</li> </ul>	

## Business acceleration pillar: 2 A flexible and winning estate

The Group's growth plan is to open stores in locations which can provide sustainable long-term returns. Changing customer demographics and dynamics mean that there is good opportunity for Pick n Pay to extend its reach and grow its sales without impacting on existing stores. One opportunity is to grow the offer through smaller stores which focus on the growing customer demand for convenience. Online and the development of a multi-channel business is another growing opportunity. 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.

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED	2018 STRATEGIC PRIORITIES FOR NEXT YEAR
<b>OPEN MORE PROFITABLE STORES</b>	<ul style="list-style-type: none"> <li>• 164 new stores</li> <li>• New stores contributed 3.6% to turnover growth</li> <li>• Estate has reached 1 560 stores across all formats, including 750 supermarkets</li> </ul>	<b>SUSTAINABLE GROWTH</b> <ul style="list-style-type: none"> <li>• continue to bring Pick n Pay and Boxer stores to new communities, whether on a company-owned or franchise basis</li> </ul>
<b>INCREASE THE REACH OF OUR BRANDS</b>	<ul style="list-style-type: none"> <li>• The Group brought Pick n Pay and Boxer to 15 communities in South Africa for the first time</li> <li>• Partnered with five new informal Spaza shops in Soweto and Bophelong</li> <li>• Strong growth in smaller clothing and liquor formats</li> </ul>	<b>MORE CONVENIENCE</b> <ul style="list-style-type: none"> <li>• meet our customers' growing need for convenience through the expansion of our Local and Express formats</li> </ul>
<b>GROW OUR CONVENIENCE OFFER</b>	<ul style="list-style-type: none"> <li>• 14 new Pick n Pay Local stores and 32 new Pick n Pay Express stores</li> <li>• Our convenience estate now numbers 168 neighbourhood supermarkets</li> </ul>	<b>MORE NEXT GENERATION STORES</b> <ul style="list-style-type: none"> <li>• targeted refurbishments that add real value to customers and deliver stronger turnover growth and return on investment</li> </ul>
<b>OPEN MORE FRANCHISE STORES</b>	<ul style="list-style-type: none"> <li>• 70 new franchise stores added over the year</li> <li>• Consistent growth in issues to franchisees, driven by a stronger buying and distribution channel</li> </ul>	<b>ENHANCED ONLINE OFFER</b> <ul style="list-style-type: none"> <li>• harness benefits of new dedicated online picking warehouse in Gauteng, to ensure customers benefit from a broader range, improved availability and lower prices</li> </ul>
<b>IMPROVE THE QUALITY OF OUR EXISTING ESTATE</b>	<ul style="list-style-type: none"> <li>• R1.9 billion invested in new stores and refurbishments</li> <li>• 62 refurbishments, including 28 Pick n Pay and 16 Boxer supermarkets</li> <li>• Closed 14 under-performing stores</li> <li>• Next Generation format now across 106 stores – almost 20% of our supermarket estate</li> </ul>	<b>INVESTMENT IN OUR HYPERMARKET DIVISION</b> <ul style="list-style-type: none"> <li>• a comprehensive Next Generation refurbishment planned for our Durban North Hypermarket in KwaZulu-Natal</li> </ul>
<b>INCREASED INVESTMENT IN OUR ONLINE BUSINESS</b>	<ul style="list-style-type: none"> <li>• Opened second dedicated online warehouse in Gauteng</li> <li>• Online sales in the Western Cape up 30%, driven by a broader range, improved availability and lower prices</li> </ul>	
<b>IMPROVE THE PROFITABILITY OF HYPERMARKETS</b>	<ul style="list-style-type: none"> <li>• Improved trade and profit performance from refurbished Hypermarkets – including Brackenfell and Boksburg</li> </ul>	

# STRATEGIC FOCUS continued



## Business acceleration pillar: Efficient and effective operations

Efficient, well-run and cost-effective store operations 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 specialist Retail Office is tasked with defining and implementing a more effective operating model across all store formats. The Group demonstrated strong cost control and improved operational efficiency in 2017, with like-for-like expense growth of only 3.0% in an inflationary environment. 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.

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED	2018 STRATEGIC PRIORITIES FOR NEXT YEAR
<b>LESS COST, MORE EFFICIENCY</b>	<ul style="list-style-type: none"> <li>Like-for-like expense growth of 3.0%, contained below like-for-like turnover growth of 3.4%</li> <li>Growth in like-for-like employee costs restricted to 3.3% supported by more efficient store operating model and improved labour scheduling</li> <li>Energy-saving initiatives contributed to well managed electricity costs</li> </ul>	<p><b>LEANER OPERATING MODEL ACROSS STORES</b></p> <ul style="list-style-type: none"> <li>minimum operating standards rolled out across all store formats</li> </ul> <p><b>COST-EFFECTIVE SUPPORT OFFICES</b></p> <ul style="list-style-type: none"> <li>more centralisation of administrative functions to improve efficiencies</li> </ul>
<b>IMPROVED BACK-DOOR PRODUCTIVITY</b>	<ul style="list-style-type: none"> <li>Next Generation stores have less back-up areas and more trading space</li> <li>Volumes distributed to stores out of Group distribution centres up 20% year-on-year</li> <li>Integrated warehouse management system improving service to stores and the administration of back-door receiving</li> </ul>	<p><b>MORE SYNERGIES WITH BOXER</b></p> <ul style="list-style-type: none"> <li>unlock synergies with Boxer wherever appropriate to provide cost-effective support across the Group and reduce duplication of effort</li> </ul>
<b>IMPROVED STOCK REPLENISHMENT</b>	<ul style="list-style-type: none"> <li>Stronger forecast and replenishment systems, Wi-Fi in store and mobile stock management app all contributing to improved replenishment and on-shelf availability</li> </ul>	<p><b>STRONGER WORKING CAPITAL MANAGEMENT</b></p> <ul style="list-style-type: none"> <li>with a specific focus on reducing inventory levels across the business</li> </ul>
<b>STRONGER WORKING CAPITAL MANAGEMENT</b>	<ul style="list-style-type: none"> <li>Franchise debtors book well managed</li> <li>Accounts payable well managed, with payment terms in line with last year</li> <li>Pick n Pay's "Fast Pay" supplier finance system implemented – allowing early settlement at competitive funding rates</li> <li>Inventory targets were not met – greater levels of centralisation, new stores and investment buys at year-end increased the number of days stock-on-hand</li> </ul>	<p><b>BETTER FRONT-LINE SERVICE</b></p> <ul style="list-style-type: none"> <li>supported by improvements in in-store technology and the roll-out of modern tills</li> </ul>

## Business acceleration pillar: 4 Every product, every day

The Group has made 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. The volume of centralised supply in the business now stands at 60%, with our distribution centres across the country delivering every product, every day to stores across the country, on a short order lead time.

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED	2018 STRATEGIC PRIORITIES FOR NEXT YEAR
<b>MORE SUPPLIERS CENTRALISED</b>	<ul style="list-style-type: none"> <li>• 140 new suppliers, including eight suppliers from our supplier development and business incubator initiatives</li> <li>• Central supply increased to 60% from 56% last year</li> <li>• Grocery centralisation reached 87% and 68% in the Western Cape and Inland regions respectively</li> </ul>	<p><b>MORE SUPPLIERS CENTRALISED</b></p> <ul style="list-style-type: none"> <li>• wherever it is more cost effective and efficient than direct to store deliveries from suppliers</li> </ul>
<b>INCREASED PRODUCTIVITY</b>	<ul style="list-style-type: none"> <li>• Single warehouse management system rolled out across all distribution centres (SAP EWM), improving efficiencies across channel</li> <li>• Volumes distributed to stores out of Pick n Pay distribution centres up 20% year-on-year</li> <li>• Ongoing reduction in cost per case delivered, contributing to improved gross margin</li> </ul>	<p><b>LOWER COST</b></p> <ul style="list-style-type: none"> <li>• we will continue to lower the cost of our distribution channel through improved operating efficiencies in order to enable investment in the customer offer</li> </ul>
<b>FOCUS ON FRESH SUPPLY CHAIN</b>	<ul style="list-style-type: none"> <li>• Opened our new fresh distribution centre at our Philippi facility in the Western Cape</li> <li>• Completed the centralisation of the main dairy suppliers in KwaZulu-Natal</li> <li>• The Philippi and Longmeadow distribution centres delivered a reduction in waste across all fresh categories, alongside ongoing improvements at store level</li> </ul>	<p><b>BETTER AVAILABILITY IN STORES</b></p> <ul style="list-style-type: none"> <li>• remains a strategic imperative to ensure our customers will always find what they need on our shelves</li> </ul>
<b>FEWER DELIVERIES, LESS KILOMETRES TRAVELLED</b>	<ul style="list-style-type: none"> <li>• Fewer direct to store deliveries</li> <li>• Ongoing optimisation of distribution logistics, including route efficiency</li> </ul>	<p><b>NEW DISTRIBUTION CENTRE CAPABILITY</b></p> <ul style="list-style-type: none"> <li>• we are exploring opportunities to build our grocery and fresh distribution capability in the Inland and Eastern Cape regions, including through a new Boxer distribution centre outside East London</li> </ul>
<b>NEW DISTRIBUTION CENTRE CAPABILITY</b>	<ul style="list-style-type: none"> <li>• Secured additional Pick n Pay distribution capacity in KwaZulu-Natal, with the site planned to open during the 2018 financial period</li> </ul>	

# STRATEGIC FOCUS continued

## Business acceleration pillar: 5 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.

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED	2018 STRATEGIC PRIORITIES FOR NEXT YEAR
<b>MORE JOBS</b>	<ul style="list-style-type: none"> <li>• We created 4 500 new jobs this year through our store opening programme</li> <li>• We secured a three-year wage agreement with labour partners, providing job certainty and a guarantee of 85 working hours per month for employees</li> </ul>	<b>LEANER AND FITTER HEAD OFFICE</b> <ul style="list-style-type: none"> <li>• reduce the cost and improve the productivity and efficiency of all support services; providing a stronger support base for our stores and our customers</li> </ul>
<b>MORE TRAINING</b>	<ul style="list-style-type: none"> <li>• Over 800 training courses reached more than 50% of our staff</li> <li>• 66 new graduates on our graduate training programme</li> <li>• Enhanced performance management programme to identify training needs and monitor performance</li> <li>• CA(SA) training programme now has five articulated clerks</li> </ul>	<b>FOCUS TRAINING ON CUSTOMER SERVICE</b> <ul style="list-style-type: none"> <li>• to ensure that we give our customers consistently good service in our stores and keep the customer at the very centre of all that we do</li> </ul>
<b>FOCUS ON CUSTOMER SERVICE</b>	<ul style="list-style-type: none"> <li>• Over 9 000 staff members received training aimed specifically at improved customer service</li> <li>• Standard store operating procedures includes management and staff structures that are focused on customer service, particularly at the front line</li> </ul>	<b>DRIVE AND REWARD EXCEPTIONAL PERFORMANCE</b> <ul style="list-style-type: none"> <li>• developing performance management and reward programmes aimed at building a strong, tenacious and ambitious team that is recognised for delivery of strategy</li> </ul>
<b>DIVERSE WORKFORCE</b>	<ul style="list-style-type: none"> <li>• Ongoing progress in achieving broad-based diversity across the organisation – with skills training, appointments and promotions focused on achieving diversity targets</li> </ul>	

## Business acceleration pillar: 6 Boxer – a national brand

The Group's ambition is to continue to build the Boxer business to become the leading limited-range discounter in southern Africa. Boxer delivered good growth over the past year, notwithstanding the difficult economic conditions facing the middle and lower income markets across communities in South Africa and Swaziland. Boxer celebrates its 40th birthday this year, and we are confident of the strong growth opportunities open to this valued brand.

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED	2018 STRATEGIC PRIORITIES FOR NEXT YEAR
<b>SHARPER PRICES AND PROMOTIONS</b>	<ul style="list-style-type: none"> <li>Unbeatable value on basic commodities, including through bulk and combination offers</li> </ul>	<p><b>FOCUS ON PROVIDING BEST VALUE IN THE MARKET</b></p> <ul style="list-style-type: none"> <li>low prices are critical for our Boxer customers and we will do everything possible to bring value and support to the communities we serve</li> </ul> <p><b>MORE STORES SERVING MORE COMMUNITIES</b></p> <ul style="list-style-type: none"> <li>we will open more stores this year, including building on our presence in the Western Cape</li> </ul> <p><b>CONTINUED REFURBISHMENT OF EXISTING ESTATE</b></p> <ul style="list-style-type: none"> <li>we will continue with a strong refurbishment programme to enhance the quality of the Boxer estate</li> </ul> <p><b>MORE SYNERGIES WITH PICK N PAY</b></p> <ul style="list-style-type: none"> <li>continued realisation of administration synergies across the Group</li> </ul>
<b>ACCELERATED SPACE GROWTH</b>	<ul style="list-style-type: none"> <li>25 new Boxer stores this year across all formats, including 11 supermarkets</li> </ul>	
<b>ACCELERATED REFURBISHMENT PROGRAMME</b>	<ul style="list-style-type: none"> <li>16 refurbishments</li> <li>Successful Next Generation store model rolled out across new and refurbished stores</li> </ul>	
<b>IMPROVED DISTRIBUTION CENTRE CAPABILITY</b>	<ul style="list-style-type: none"> <li>Greater centralised supply through Cato Ridge distribution centre in KwaZulu-Natal</li> <li>Plans in place for additional distribution capacity in the Eastern Cape</li> </ul>	
<b>STRONG ON FRESH</b>	<ul style="list-style-type: none"> <li>Stronger meat, produce, deli and bakery offer, driving turnover growth and a stronger gross margin contribution</li> </ul>	
<b>BUILD ON SYNERGIES WITH PICK N PAY</b>	<ul style="list-style-type: none"> <li>SAP Finance implementation driving more synergies with Pick n Pay, with improved administrative and reporting capability</li> <li>Pick n Pay's distribution centre in Philippi serving Boxer's Khayelitsha store in the Western Cape</li> </ul>	

# STRATEGIC FOCUS continued

## Business acceleration pillar: 7 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. Our foreign operations contributed R4.3 billion of segmental revenue this year, notwithstanding difficult trading conditions, heightened competition and political uncertainty in some of the regions in which we trade. We will continue to look for profitable opportunities to grow our footprint outside South Africa in countries which offer political stability, economic growth, ease of business and the prospect of strategic scale. The Group has plans to open stores in Ghana and Nigeria over the next few years.

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED	2018 STRATEGIC PRIORITIES FOR NEXT YEAR
<b>IMPROVE FRESH OFFER IN ALL MARKETS</b>	<ul style="list-style-type: none"> <li>The Group continued to strengthen the quality and breadth of its fresh offer in its operations outside South Africa, with a focus on local produce and closer engagement with local suppliers</li> </ul>	<p><b>MAINTAIN PROGRESS IN ZIMBABWE</b></p> <ul style="list-style-type: none"> <li>the Group will continue to invest in improving the quality of its stores and its customer offer, in order to maintain the momentum achieved over the past two years</li> </ul> <p><b>IMPROVE IN ZAMBIA</b></p> <ul style="list-style-type: none"> <li>the Group remains confident of the growth opportunity in Zambia, notwithstanding the current tough economic and political conditions, and will continue to open stores and drive growth through a competitive customer offer</li> </ul> <p><b>DEVELOPING OUR BUSINESSES IN GHANA AND NIGERIA</b></p> <ul style="list-style-type: none"> <li>our Rest of Africa division will continue with its plans to open stores in these countries over the next few years</li> </ul>
<b>MORE EFFICIENT OPERATIONS</b>	<ul style="list-style-type: none"> <li>Stronger operational efficiency and sound cost control in our Zambian operation tempered the impact of the tough trading environment on sales growth</li> <li>Ongoing collaboration with Pick n Pay has improved the operational efficiency and cost effectiveness of the TM business in Zimbabwe, which delivered strong profit growth over the year of 75%</li> <li>Two under-performing stores closed in Zimbabwe</li> </ul>	
<b>MORE STORES IN THE REST OF AFRICA</b>	<ul style="list-style-type: none"> <li>12 new stores outside South Africa – two in Botswana, three in Namibia, six in Zambia and one in Zimbabwe</li> </ul>	
<b>FIRST STORES IN GHANA AND NIGERIA</b>	<ul style="list-style-type: none"> <li>Our operations in Ghana and Nigeria are in an early start-up phase. There has been no capital expenditure to date, and administrative costs related to the development of local infrastructure and support systems have been well managed</li> <li>Depressed economic conditions in both countries have delayed the acquisition and development of sites, with the first store in Ghana likely to open in the 2018 calendar year, with Nigeria to follow thereafter</li> </ul>	