
A MESSAGE FROM OUR CHAIRMAN

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

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

CREATING OPPORTUNITY

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

Over the past three years, we have invested R5.3 billion in opening and refurbishing stores and building our supply chain. By doing so, we have been able to create 13 700 net new jobs. As President Ramaphosa said in his first State of the Nation Address, it is our youth who are the hardest hit by unemployment and it is a tragic waste of human potential. The jobs we create often benefit young people who have not previously been employed. A job with Pick n Pay creates the opportunity to earn a decent wage, to learn new skills and, with hard work, to progress within the industry.

We will champion jobs in retail. Over the next three years Pick n Pay will endeavour to create another 15 000 new jobs, and we will find even better ways to target them towards young unemployed people.

EARNING TRUST

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

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

The Minister of Health's announcement on listeriosis in March 2018 gave rise to widespread concern across the country and our neighbours about whether the food people were eating was safe, and what they should do if they had any doubts. I'm proud of the way our teams and our staff in stores responded, acting decisively after the Minister's announcement and providing reassurance to our customers.

Behind the scenes, as a responsible retailer and through our representative organisations, we are working hard to ensure that an outbreak like this will not happen again. The industry has to work together on this, and making sure we do is one of my priorities as co-chair of the Consumer Goods Council of South Africa.

Thankfully, the water crisis in the Western Cape has not yet given rise to Day Zero. I want to pay tribute to the people of Cape Town and surrounds who really stepped up to prevent Day Zero becoming a reality.

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

Households, businesses, the farming community and Government working together cut water usage to levels which would not have been thought possible a year ago. It is an amazing lesson in trust. Social scientists tell us that we often don't do the right thing as individuals – like reducing our own personal water usage – because we think our neighbours can't be trusted to do the same. It's what they call "the tragedy of the commons". Together, by trusting each other, we have proven that theory spectacularly wrong.

And again, Pick n Pay will play a leadership role on the water issue. We have told our customers that we will find a way to keep our stores open and running as normal even if Day Zero comes. We have a strong plan in place. We will also supply as much bottled water as we can to supplement whatever people can get from other sources.

Customers know they can trust Pick n Pay – in the bad times as well as the good.

BEHAVING SUSTAINABLY

As a retailer with thousands of suppliers and millions of customers, we are mindful of our broad reach and broad impact. In 2015, we announced our War on Waste, focusing on reducing food waste, using water and electricity more efficiently and carefully, and reducing waste in human potential by committing ourselves to creating jobs.

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

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

Gareth Ackerman
Chairman



13 700
NET NEW JOBS
CREATED

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

This relationship must go beyond seeking the advice and counsel of business. We must actively work together. Together, we will make the most of economic growth and increasing stability, and at the same time, work more cooperatively to consider the impact of proposed legislation more carefully.

- 1 *Earning trust, creating opportunity, behaving sustainably. This is the Pick n Pay way, and I am exceptionally proud to be Chairman of this remarkable Group.*
- 2 *51 years ago my father set up Pick n Pay and said that doing good is good business.*
- 3 *We have never wavered from that belief and I am determined that we never will.*

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



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



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



Our supplier began as a beneficiary of our Enterprise Development Scheme. They are now a thriving independent business, employing more than 300 people.

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

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

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

We have made great progress as a business over the past year, and I want to thank everyone at Pick n Pay for their contribution to this success. Decisive action reduced costs and increased productivity, resulting in a leaner, fitter and stronger Group. This strategy, led by our CEO Richard Brasher and his team, delivered success, which was particularly evident in our final quarter. This augurs extremely well for the coming year and as we grow the benefits we bring to society will grow with us.

My thanks as always go to Richard and his team for their incredibly hard work. I would also like to extend a warm welcome to Pedro da Silva, now heading up our Pick n Pay division, who brings a wealth of international retail experience to our team. We are excited about the year ahead.

Gareth Ackerman
Chairman

22 June 2018



**WE ARE PLEASED
TO PROVIDE OUR 2018
INTEGRATED ANNUAL REPORT
TO OUR STAKEHOLDERS**



**INTRODUCING OUR
2018 INTEGRATED
ANNUAL REPORT**

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INTRODUCING OUR 2018 INTEGRATED ANNUAL REPORT

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ABOUT OUR REPORT

We are pleased to present our 2018 integrated annual report for the 52 weeks ended 25 February 2018.

The Board acknowledges its responsibility to ensure the integrity of the integrated annual report and believe it provides stakeholders with an accurate and balanced view of the Group's strategy, past performance, and future prospects, and addresses the material issues faced by the Group. The Board approved the integrated annual report for release to stakeholders on 22 June 2018.

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

The integrated annual report is our primary report to stakeholders. It is principally aimed at providers of financial capital, being our shareholders and debt providers; however, it considers the information needs of all our stakeholders. This includes customers, suppliers, franchise partners, employees and wider community groups.

We believe this report provides our stakeholders with a good understanding of our business and how our strategy supports sustainable value creation in the short, medium and long term. This report provides insight into the Group's financial and operational performance, as well as the opportunities and related risks faced by the Group. It further demonstrates how these risks and opportunities underpin our business model, strategic objectives, governance structures and remuneration policy.

MATERIALITY

Materiality has been applied in determining the scope and content of the integrated annual report, to ensure the report focuses on information that the directors believe is material to its stakeholders' understanding of the business and its ability to create sustainable value over the short, medium and long term. In determining materiality and material issues, the Board takes into account the macroeconomic environment, changing industry and consumer trends, and the expectations and concerns of stakeholders. Material issues are also considered with reference to the Group's underlying capitals, which impact its ability to create value over time.

Materiality is determined, reviewed and approved annually by the Board. The Board considers those matters that could substantially affect the Group's ability to create value over time and materially impact the Group's current and projected revenue and profitability. These material matters include:

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

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

→ ABOUT THIS REPORT

This report covers the integrated financial and non-financial performance of Pick n Pay Stores Limited and its subsidiaries and associate (the Group).

For more detail on the scope and boundary of this report, including forward-looking information, assurance, report structure and feedback, and distribution through online reporting, please refer to pages 102 to 103.

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

NAVIGATING OUR REPORTING SUITE

Our six capitals

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

 Financial	 Social and relationship
 Human	 Intellectual
 Manufactured	 Natural

Our key stakeholders

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

 Customers	 Suppliers
 Community	 Franchisees
 Employees	 Shareholders

Our business acceleration pillars

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

 Better for customers	 A winning team
 A flexible and winning estate	 Boxer – a national brand
 Efficient and effective operations	 Rest of Africa – a second engine of growth
 Every product, every day	

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

Integrated annual report 2018

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

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

Annual financial statements 2018

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

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

Corporate governance report 2018

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

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

Summarised results and 2018 AGM notices

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

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

Sustainable living report 2017

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

- King IV™
- The Global Reporting Initiative’s Standards

 Online version available on our website: www.picknpayinvestor.co.za

 Print version available