




Pick n Pay

# Annual Report 2010






# Financial highlights – continuing operations

**This has been an exceptionally tough year with the economic recession biting particularly hard in the second half of the year.**

Turnover: **R54 734.5 million**

**+9.8%**

Profit for the year: **R1 296.4 million**

**+10.5%**

EBITDA: **R2 388.4 million**

**+3.3%**

HEPS: **236.33 cents**

**+1.1%**

Total dividend per share: **174.50 cents**

**+2.6%**

## Our values

**We are passionate about our customers and will fight for their rights**

**We care for, and respect each other**

**We foster personal growth and opportunity**

**We nurture leadership and vision, and reward innovation**

**We live by honesty and integrity**

**We support and participate in our communities**

**We take individual responsibility**

**We are all accountable**

Pick n Pay

www.pnp.co.za

## Value added statement – continuing operations

| | FEB 2010 Rm | FEB 2010 % of turnover | FEB 2010 % | FEB 2009 Rm | FEB 2009 % of turnover | FEB 2009 % |
|---|---|---|---|---|---|---|
| Turnover | **54 734.5** | | | 49 862.1 | | |
| Amounts paid for merchandise and expenses | **(47 229.7)** | | | (42 851.9) | | |
| Interest and dividends received | **75.9** | | | 71.9 | | |
| **Value added** | **7 580.7** | **13.8** | **100.0** | 7 082.1 | 14.2 | 100.0 |
| Employee salaries, wages and other benefits | **4 925.6** | | **65.0** | 4 615.0 | | 65.2 |
| Investors: Dividends and interest paid | **906.2** | | **11.9** | 825.3 | | 11.7 |
| Tax | **531.9** | | **7.0** | 570.5 | | 8.0 |
| Retained for – Replacement of assets | **735.3** | | **9.7** | 615.8 | | 8.7 |
| – Growth | **481.7** | | **6.4** | 455.5 | | 6.4 |
| **Utilised** | **7 580.7** | | **100.0** | 7 082.1 | | 100.0 |

# Contents

## Pick n Pay at a glance



**Private label and Fresh**

Strong turnover growth in these categories. Great customer acceptance.



## Report to stakeholders





## Annual financial statements

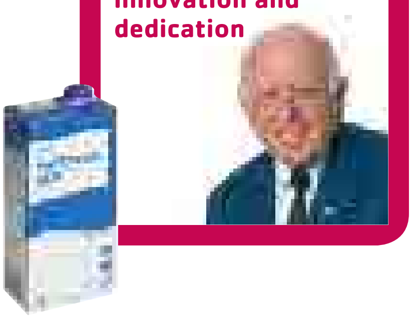


**Score conversions**

Now completed with average turnover growth in converted stores of 178%.



**43 years of innovation and dedication**



## Other information, notice of AGM and proxies

# Our mission and Group profile

**Our mission:**

**We serve**

**With our hearts we create a great place to be**

**With our minds we create an excellent place to shop**

**The Pick n Pay Group is one of Africa's largest and most consistently successful retailers, with 794 stores (466 corporate, 328 franchise), excluding in-store pharmacies and our investment in TM, a summary of which is presented below.**

| Formats | Hyper | Supermarket | Express | Liquor |
|---|---|---|---|---|
| Stores and outlets | 20 corporate | 157 corporate; 281 franchise | 7 franchise | 72 corporate; 33 franchise |
| Product description and services | Food, wine, clothing, with full range of general merchandise and home improvement supplies | Food, wine, clothing, with limited range of general merchandise | Food | Beer, wine and liquor |
| Site area 000 m² | 181.1 corporate | 349.7 corporate; 327.2 franchise | 0.9 franchise | 13.1 corporate; 4.9 franchise |

At Pick n Pay we strive for consumerism – to interpret and satisfy customers' needs

## Group profile

Pick n Pay is a family-controlled business. Four small stores were purchased in 1967 and the Group was listed on the JSE Limited, the recognised stock exchange in South Africa, in 1968 (as Pick n Pay Stores Limited).

Over four decades we have built a well-respected business. The growth and success of Pick n Pay is attributable to two fundamental principles – an unwavering belief in consumer sovereignty and the application of the "four legs of the table" principle.

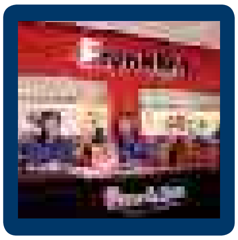
These principles were put into practice at foundation, and continue to be the cornerstone of our business. We believe that the application of these fundamentals, gives a solid platform for a truly sustainable business.

The "four legs of the table" principle follows a simple analogy. The business is a table supported by four legs on top of which the consumer sits. Each leg needs to be equally strong in order for the table to remain balanced and upright. The four legs of the table are:

- Administration
- Merchandise
- Promotion and social responsibility
- People

Each leg is equally important to the success and continued sustainability of the business. Each requires, and has received, equal focus and management support.




| Pharmacy | Clothing | | | |
|---|---|---|---|---|
| 1 corporate stand-alone; 16 in-store | 36 corporate stand-alone | 92 supermarkets; 7 hardware; 3 liquor; 1 Punch; corporate | 77 corporate; 7 franchise | 53 corporate |
| Pharmaceutical, health and beauty | Clothing and homeware | Food, wine, clothing and general merchandise | Food and general merchandise | Food and general merchandise |
| 0.1 corporate; n/a | 14.5 corporate | 178.3 corporate | 129.7 corporate; 11.7 franchise | 54.0 corporate |

Pick n Pay at a glance

# Ten-year review

| R million unless otherwise stated | | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003* | 2002* | 2001* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating results – Continuing operations** | Annual growth | | | | | | | | | | |
| Turnover | 9.8% | **54 734.5** | 49 862.1 | 42 474.3 | | | | | | | |
| Trading profit | (2.5%) | **1 653.1** | 1 695.6 | 1 471.2 | | | | | | | |
| Operating profit | 4.8% | **1 828.3** | 1 743.8 | 1 484.0 | | | | | | | |
| Headline earnings | 1.4% | **1 118.3** | 1 103.2 | 898.5 | | | | | | | |
| **Operating results – Group** | 10-year compound annual growth | | | | | | | | | | |
| Turnover | 15.1% | **55 314.3** | 51 932.9 | 45 380.7 | 39 337.1 | 35 078.4 | 31 885.0 | 29 276.1 | 26 194.2 | 18 817.5 | 15 126.1 |
| Trading profit | 18.9% | **1 546.0** | 1 572.6 | 1 436.0 | 1 200.2 | 1 051.4 | 947.8 | 736.5 | 636.0 | 434.0 | 322.9 |
| Operating profit | 17.1% | **1 722.3** | 1 625.3 | 1 452.7 | 1 200.1 | 1 074.8 | 996.3 | 771.8 | 695.2 | 479.2 | 385.3 |
| Headline earnings*** | 15.3% | **1 012.1** | 988.6 | 867.2 | 772.9 | 713.3 | 633.9 | 522.5 | 455.1 | 348.6 | 281.9 |
| **Consolidated balance sheets** | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| **Non-current assets** | | | | | | | | | | | |
| Intangible assets | | **1 126.7** | 1 093.6 | 1 155.9 | 904.6 | 745.8 | 659.5 | 687.6 | 742.1 | 704.1 | — |
| Property | | **977.8** | 863.9 | 848.6 | 752.2 | 499.0 | 251.6 | 182.3 | 110.9 | 95.4 | 70.3 |
| Equipment and vehicles | | **2 437.7** | 2 073.1 | 1 953.9 | 1 773.0 | 1 374.7 | 1 159.3 | 1 045.4 | 877.2 | 855.1 | 817.2 |
| Operating lease asset | | **33.5** | 19.3 | 10.9 | 5.9 | 4.8 | 3.7 | 2.5 | 2.1 | 2.0 | 2.0 |
| Participation in export partnerships | | **50.6** | 57.9 | 61.5 | 67.8 | 71.8 | 102.7 | 127.6 | 143.3 | 149.3 | 166.2 |
| Deferred tax | | **98.1** | 99.8 | 105.8 | 151.2 | 238.3 | 209.7 | 94.1 | 32.7 | (18.1) | ( 40.8) |
| Loans | | **124.7** | 128.6 | 120.7 | 108.8 | 96.7 | 95.8 | 89.6 | 97.5 | 89.2 | 135.8 |
| Investments | | **0.2** | 0.2 | 0.2 | 0.2 | 9.3 | 3.6 | 2.7 | 176.4 | 195.5 | 195.5 |
| Investment in associate | | **—** | — | — | 9.1 | 47.0 | 23.6 | 15.0 | 12.6 | 11.0 | 9.5 |
| | | **4 849.3** | 4 336.4 | 4 257.5 | 3 772.8 | 3 087.4 | 2 509.5 | 2 246.8 | 2 194.8 | 2 083.5 | 1 355.7 |
| **Current assets** | | | | | | | | | | | |
| Assets held for sale – discontinued operation | | **—** | 62.6 | — | — | — | — | — | — | — | — |
| Inventory | 16.4% | **3 326.2** | 3 334.5 | 3 028.5 | 2 352.7 | 1 979.9 | 1 851.7 | 1 560.7 | 1 501.4 | 1 259.5 | 862.5 |
| Trade and other receivables | | **1 968.0** | 1 769.5 | 1 243.9 | 943.7 | 750.7 | 634.5 | 628.1 | 495.7 | 357.5 | 287.1 |
| Cash and cash equivalents | | **1 055.3** | 1 072.8 | 663.2 | 709.1 | 944.6 | 1 329.0 | 1 502.5 | 1 035.6 | 986.5 | 1 085.3 |
| | | **6 349.5** | 6 239.4 | 4 935.6 | 4 005.5 | 3 675.2 | 3 815.2 | 3 691.3 | 3 032.7 | 2 603.5 | 2 234.9 |
| **Total assets** | | **11 198.8** | 10 575.8 | 9 193.1 | 7 778.3 | 6 762.6 | 6 324.7 | 5 938.1 | 5 227.5 | 4 687.0 | 3 590.6 |
| **Equity and liabilities** | | | | | | | | | | | |
| **Ordinary shareholders' equity** | | **2 144.6** | 1 695.5 | 1 340.9 | 1 004.9 | 851.9 | 699.5 | 772.3 | 640.1 | 782.6 | 492.7 |
| **Minority interest** | | **—** | — | — | — | — | — | — | — | — | 19.6 |
| **Non-current liabilities** | | | | | | | | | | | |
| Long-term debt | | **670.8** | 678.1 | 681.3 | 181.8 | 192.9 | 199.2 | 188.2 | 243.3 | 241.3 | 242.3 |
| Retirement scheme obligations | | **24.7** | 8.2 | 49.0 | 129.0 | 194.8 | 189.8 | 145.0 | 125.9 | 123.5 | 109.2 |
| Operating lease liability | | **695.9** | 658.5 | 626.9 | 584.3 | 554.4 | 505.5 | 430.8 | 428.9 | 391.0 | 314.4 |
| | | **1 391.4** | 1 344.8 | 1 357.2 | 895.1 | 942.1 | 894.5 | 764.0 | 798.1 | 755.8 | 665.9 |
| **Current liabilities** | | | | | | | | | | | |
| Short-term debt | | **38.7** | 38.3 | 36.4 | 51.6 | 79.5 | 61.7 | 159.9 | 186.7 | 17.2 | 15.3 |
| Tax | | **230.5** | 181.4 | 249.4 | 221.3 | 235.0 | 386.7 | 269.9 | 207.7 | 234.3 | 212.5 |
| Trade and other payables | 13.7% | **7 393.6** | 7 315.8 | 6 209.2 | 5 605.4 | 4 654.1 | 4 282.3 | 3 972.0 | 3 394.9 | 2 897.1 | 2 184.6 |
| | | **7 662.8** | 7 535.5 | 6 495.0 | 5 878.3 | 4 968.6 | 4 730.7 | 4 401.8 | 3 789.3 | 3 148.6 | 2 412.4 |
| **Total equity and liabilities** | | **11 198.8** | 10 575.8 | 9 193.1 | 7 778.3 | 6 762.6 | 6 324.7 | 5 938.1 | 5 227.5 | 4 687.0 | 3 590.6 |
| Directors' valuation – Property | | **1 303.5** | 1 318.1 | 1 230.6 | 1 029.0 | 781.4 | 476.6 | 365.5 | 247.4 | 223.0 | 232.4 |
| – Investments | | **2.5** | 2.5 | 2.2 | 0.2 | 9.3 | 3.6 | 2.7 | 176.4 | 195.5 | 195.5 |
| **Statistics** | | | | | | | | | | | |
| Number of outlets – Corporate | | **466** | 498 | 527 | 504 | 468 | 446 | 438 | 396 | 332 | 221 |
| – Franchise | | **328** | 284 | 230 | 209 | 179 | 172 | 162 | 157 | 139 | 193 |
| Total selling area – Corporate | 000 m² | **867** | 880 | 893 | 875 | 803 | 790 | 800 | 748 | 678 | 503 |
| – Franchise | 000 m² | **345** | 320 | 254 | 224 | 215 | 205 | 198 | 187 | 173 | 206 |
| Number of TM Supermarkets | | **53** | 56 | 56 | 56 | 54 | 54 | 53 | 53 | 53 | 50 |
| Number of Auto Centres | | **5** | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 10 | 9 |
| Total number of employees** | 000's | **49.0** | 53.1 | 54.7 | 49.2 | 47.0 | 47.7 | 44.7 | 31.0 | 27.3 | 24.5 |

* The Group adopted International Financial Reporting Standards (IFRS) in the 2006 financial year. The results presented above for the years after February 2004 are fully IFRS compliant and have been audited. The impact of IFRS for all years preceding February 2004 has been accounted for based on estimates, has not been audited and has only been presented to assist users with further comparative information.

** Prior to 2004 all casual employees were included as a one-third equivalent of full-time employees in this total. From 2004 these employees have been fully accounted for in the total number of employees, as they now receive full proportional Company benefits as variable-time employees.

***2007 is presented before the deferred tax adjustment.

| | | 10-year compound annual growth | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Performance measures – continuing operations** | | | | | | | | | | | | |
| Turnover growth | % | | **9.8** | 17.4 | | | | | | | | |
| Trading profit growth | % | | **(2.5)** | 15.3 | | | | | | | | |
| Operating profit growth | % | | **4.8** | 17.5 | | | | | | | | |
| Headline earnings growth | % | | **1.4** | 22.8 | | | | | | | | |
| Dividend cover | times | | **1.4** | 1.4 | | | | | | | | |
| **Performance measures – Group** | | | | | | | | | | | | |
| Turnover growth | % | 15.1 | **6.5** | 14.4 | 15.4 | 12.1 | 10.0 | 8.9 | 11.8 | 39.2 | 24.4 | 11.2 |
| Trading profit growth | % | 18.9 | **(1.7)** | 9.5 | 19.6 | 14.2 | 10.9 | 28.7 | 15.8 | 46.5 | 34.4 | 26.5 |
| Operating profit growth | % | 17.1 | **6.3** | 11.6 | 21.0 | 11.7 | 7.9 | 29.1 | 11.0 | 45.1 | 24.4 | 15.5 |
| Headline earnings growth | % | 15.3 | **2.4** | 14.0 | 12.2 | 8.4 | 12.5 | 21.3 | 14.8 | 30.5 | 23.7 | 23.1 |
| Trading profit on turnover | % | | **2.8** | 3.0 | 3.2 | 3.1 | 3.0 | 3.0 | 2.5 | 2.4 | 2.3 | 2.3 |
| Operating profit on turnover | % | | **3.1** | 3.1 | 3.2 | 3.1 | 3.1 | 3.1 | 2.6 | 2.7 | 2.5 | 2.7 |
| Headline earnings on turnover | % | | **1.8** | 1.9 | 1.9 | 2.0 | 2.0 | 2.0 | 1.8 | 1.7 | 1.9 | 2.0 |
| Return on shareholders' equity | % | | **52.7** | 65.1 | 73.9 | 83.2 | 92.0 | 86.1 | 74.0 | 64.0 | 54.7 | 70.8 |
| Return on total assets | % | | **9.3** | 10.0 | 10.2 | 10.6 | 10.9 | 10.3 | 9.4 | 9.2 | 8.4 | 8.8 |
| Headline earnings per share | cents | 15.6% | **213.9** | 209.6 | 190.9 | 169.5 | 154.7 | 135.2 | 111.0 | 94.1 | 69.8 | 61.1 |
| Headline earnings per share growth | % | | **2.1** | 9.8 | 12.6 | 9.6 | 14.4 | 21.8 | 18.0 | 34.7 | 14.3 | 22.2 |
| Net asset value per share | cents | 17.5% | **512.5** | 441.7 | 355.1 | 272.7 | 237.9 | 193.0 | 197.3 | 161.0 | 184.5 | 129.4 |
| **JSE Limited information** | | | | | | | | | | | | |
| **Pick n Pay Stores Limited (PICKNPAY)** | | | | | | | | | | | | |
| Number of shares in issue | millions | | **480.4** | 506.1 | 506.1 | 486.1 | 486.1 | 486.1 | 483.4 | 483.4 | 497.1 | 501.3 |
| Market capitalisation | Rm | 13.8% | **19 408.2** | 15 690.2 | 15 690.2 | 15 974.4 | 14 729.9 | 11 229.7 | 8 508.6 | 6 018.9 | 4 896.9 | 6 040.3 |
| Price-earnings ratio | times | | **18.9** | 14.8 | 16.2 | 19.4 | 19.6 | 17.1 | 15.9 | 13.2 | 14.1 | 19.7 |
| Dividend per share | cents | 17.5% | **174.5** | 170.0 | 149.1 | 134.3 | 113.8 | 96.5 | 80.0 | 69.0 | 51.8 | 42.9 |
| Dividend cover | times | | **1.2** | 1.2 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.4 |
| **PICKNPAY ordinary shares** | | | | | | | | | | | | |
| Volume of shares traded | millions | | **209.5** | 238.8 | 239.7 | 255.0 | 147.9 | 140.2 | 133.7 | 171.6 | 191.4 | 128.9 |
| Percentage of shares traded | % | | **43.6** | 47.2 | 47.4 | 52.5 | 30.4 | 28.8 | 27.7 | 35.5 | 38.5 | 25.7 |
| Share price – High | cents | | **4 160** | 3 749 | 3 880 | 3 631 | 3 200 | 2 494 | 1 850 | 1 500 | 1 350 | 1 400 |
| Share price – Low | cents | | **2 812** | 2 540 | 2 826 | 2 580 | 2 150 | 1 630 | 1 160 | 900 | 900 | 850 |
| Share price – Year-end | cents | 14.2% | **4 040** | 3 100 | 3 100 | 3 286 | 3 030 | 2 310 | 1 760 | 1 245 | 985 | 1 205 |
| **Pick n Pay Holdings Limited (PIKWIK)** | | | | | | | | | | | | |
| Number of shares in issue | millions | | **527.2** | 527.2 | 527.2 | 527.2 | 527.2 | 527.2 | 527.2 | 527.2 | 527.2 | 522.6 |
| Headline earnings per share | cents | 15.0% | **106.7** | 104.8 | 94.0 | 85.4 | 78.7 | 69.7 | 57.5 | 49.6 | 37.3 | 32.0 |
| Dividend per share | cents | 17.5% | **84.9** | 83.0 | 72.8 | 65.5 | 55.0 | 47.1 | 39.1 | 33.7 | 25.3 | 20.9 |
| **PIKWIK ordinary shares** | | | | | | | | | | | | |
| Volume of shares traded | millions | | **60.4** | 85.7 | 86.2 | 76.0 | 39.9 | 61.1 | 49.9 | 72.5 | 90.4 | 108.9 |
| Percentage of shares traded | % | | **11.5** | 16.3 | 16.4 | 14.4 | 7.6 | 11.6 | 9.5 | 13.8 | 17.1 | 20.8 |
| Share price – High | cents | | **1 783** | 1 560 | 1 603 | 1 570 | 1 420 | 1 135 | 814 | 610 | 540 | 580 |
| Share price – Low | cents | | **1 207** | 1 090 | 1 205 | 1 170 | 1 040 | 760 | 490 | 385 | 381 | 335 |
| Share price – Year-end | cents | | **1 680** | 1 310 | 1 290 | 1 484 | 1 355 | 1 125 | 800 | 520 | 420 | 490 |

**Definitions:**

**Headline earnings** – Net profit for the year adjusted for the after-tax effect of certain capital items

**Return on shareholders' equity** – Headline earnings expressed as a percentage of the average ordinary shareholders' equity for the year

**Return on total assets** – Headline earnings expressed as a percentage of the average total assets for the year

**Headline earnings per share** – Headline earnings divided by the weighted average number of shares in issue for the year

**Dividend cover** – Headline earnings per share divided by the dividends per share which relate to those earnings

**Net asset value per share** – Total value of net assets at year-end, adjusted for directors' valuations of property and investments divided by the number of shares in issue at year-end, held outside the Group

**Market capitalisation** – The price per share at year-end multiplied by the number of shares in issue at year-end

**Price-earnings ratio** – The price per share at year-end divided by headline earnings per share

**Dividends per share** – The interim dividend declared during the current financial year and the final dividend declared after year-end, in respect of the current financial year

# Chairman's statement

I took over as Chairman of the Company with effect from 1 March 2010, on the retirement of Raymond Ackerman after 43 years at the helm of Pick n Pay. With Wendy at his side, he built this business from four small stores in Cape Town in 1967 to 794 stores (corporate and franchise) at the end of February 2010. If you had invested in a R1.10 share in 1968 it would be worth R5 800 today. By any commercial standard, this has been a remarkable return with a compound annual growth rate of nearly 25%. Over the last 20 years the Stores and Pikwik shares have shown compound annual growth rates of over 14%.

It is a difficult task for anyone to step into Raymond Ackerman's shoes; his legacy has been profound and ubiquitous. Almost single-handedly, he transformed the face of retailing in South Africa, pioneering the hypermarket concept and advancing genuine economic empowerment with the introduction of black ownership through franchising, amongst many other innovations and industry-altering initiatives.

The Group today is unwavering in his commitment to the principle of consumer sovereignty and his mantra that "the customer is queen" is a household truism. The concept of sustainability is a core value which was introduced long before it became a universal practice. The belief that "doing good is good business" is not only a philanthropic virtue, but an act of enlightened business self-interest. Underscoring these convictions is the firm insistence that business efficiency is at the very core of Pick n Pay's success.

**"Being family-controlled has ensured that the values introduced in 1967 have carried through over 43 years. Importantly, this will not change"**

The past year has been tremendously challenging which has been characterised by our CEO, Nick Badminton, as "a tale of two halves". Trading in the second half was exceedingly difficult, caused primarily by the impact of the global recession on South Africa after August 2009 and a dramatic decline in consumer inflation. The impact of these two events resulted in a tightening of margins and extreme competition for customer share.

The global economy is slowly recovering and with the recent interest rate cuts, we foresee a pickup in the local economy. This should translate into our sector with a growth anticipated from the third quarter onwards. According to the SA Chamber of Commerce and Industry's Business Confidence Index published

**Doyen of supermarket retailing in South Africa, Raymond Ackerman, has stood down as Chairman just short of his 80th birthday. But family control of the Group will remain. His position has been handed to his son, Gareth.**

**Reflecting on his career, Ackerman said: "The last 43 years have been incredible. A fantastic adventure and wonderfully rewarding."**

for March 2010, confidence in that month showed its first year-on-year increase since September 2007. This was no doubt stimulated by the approach of the 2010 FIFA World Cup and the continuing resilience of the South African financial system. The economy has seen a surge in inward investment which will manifest itself in an improved GDP growth rate. This growth prospect augurs well for the future of the retail sector.

Although Government's responsible and prudent economic policy has ensured the stability of the national economy, I must express my concern about statements made by certain influential political individuals. If not refuted by senior policy-makers these statements could create negative foreign and domestic perceptions and impact negatively on future economic growth. South Africa is going through a period of considerable political and economic excitement and the corporate world will be watching with interest the unfolding debates which are currently afoot in the governing alliance.

As we enter a new financial year, we have a number of key priorities, which Nick outlines in his CEO report. We are confident that we will see benefits start to flow next year from the strategy, particularly from improved business efficiency and from a continued focus on consumerism, community involvement and sustainability.

During the next year we will perform a full strategic review of our Franklins operation in Australia.

**Raymond Ackerman's most valuable legacy**

is embodied in the words of statesman Henry Kissinger who defined a leader as someone 'who takes his people from where they are, to where he wants them to be'. Raymond Ackerman is such a man.


**Under Raymond Ackerman's auspices, Pick n Pay grew from four small stores in Cape Town, to 794 stores today**

**90% guts and 10% capital**

A philosophy which Raymond Ackerman applied when starting his own business was having 90% guts and 10% capital.



**Gareth Ackerman**
*Incoming Chairman*

**Raymond Ackerman**
*Outgoing Chairman*

We have reviewed the recommendations of King III on corporate governance. A large number of these recommendations have already been implemented. In the year ahead we will further inbed the new provisions of the code.

I thus embark upon my chairmanship with every confidence that Pick n Pay will continue to deliver to its shareholders, customers, suppliers and South African society, the standards of financial and social performance that have characterised the Group for more than four decades. South Africa remains an exciting and stimulating place in which to do business; its economic fundamentals are securely in place and Government continues to create an environment in which business is able to flourish and play its part in building a stable and prosperous nation.

As a family-controlled business, Pick n Pay will continue to provide the highest standards of governance and integrity, upon which this business was built. We value the input of our strong majority independent Board which works consistently towards creating the long-term results for which the Group has been renowned. We are confident of being able to continue the growth performance of the past.

I thank my father, Raymond Ackerman, for the strong and successful business he has built and wish him and my mother, Wendy, a wonderful and fulfilling time ahead.

I also thank Nick Badminton and his entire team for the tireless work they have put into this past difficult year. My thanks also go to the Boards of directors for their support. We extend a warm welcome to Richard van Rensburg who joined the Board in June 2009 and to Suzanne Ackerman-Berman and Jonathan Ackerman who joined the Board in March 2010, after the retirement from the Board of Raymond and Wendy Ackerman.

## "We value the input of our Board which works consistently towards creating the long-term results for which the Group has been renowned"

In light of sustainable business practices and with a view to reducing our paper usage, when permitted by the Companies Act, we intend to only produce a summarised version of the annual report in hard copy. This, together with a full version, will be published on our website.

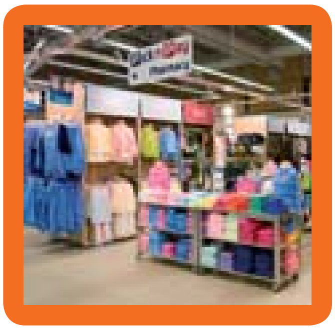
**The Company's mantra is consumerism which, in simple terms, is to interpret and satisfy customers' needs by selling quality products at competitive prices and to provide courteous service in stores which are well located and pleasing to shop in.**

**A policy of accepting returned goods without question has enabled Pick n Pay to establish long-term customer relationships which bring people back into its stores.**

At the end of June 2010, Aubrey Zelinsky, our MD of Franklins, will be retiring. We thank him for the many important roles he has played over the 40 years of dedicated service to the Group and wish him all the very best on his retirement.

We look forward to a more positive 2011 financial year.

**Gareth Ackerman**
*Chairman*




**The economy has seen a surge in inward investment which will manifest itself in an improved GDP growth rate. This growth prospect augurs well for the future of the retail sector**


## New directors

We extend a warm welcome to new directors **Richard van Rensburg, Suzanne Ackerman-Berman** and **Jonathan Ackerman**

## King III

We embrace the enhancements of the King III code which have already been largely **implemented**

# A tribute to Raymond Ackerman


Doyen of supermarket retailing in South Africa, Raymond Ackerman, has stood down as Chairman just short of his 80th birthday. But family control of the Group will remain. His position has been handed to his son, Gareth.

## ...the passion of a family business

The strength, sustainability and benefits of family businesses are very underrated in South Africa. You can't beat the passion of a family business. Pikwik is the way the Ackerman family retains control of the long term vision and sustainability of Pick n Pay and we feel the structure is still very appropriate for the company's growth and success into the future.

## 2010...


THE DAILY MAVERICK

Raymond Ackerman stands down – sort of

## BIG DECISIONS THAT HAVE CHANGED HISTORY

## ...franchising

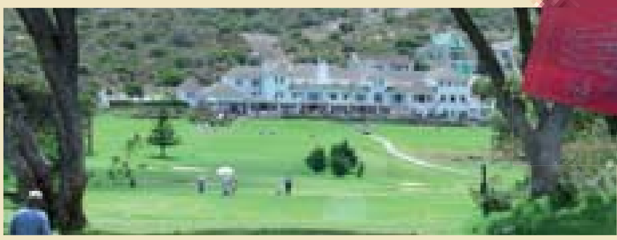
**Pick n Pay's franchising strategy could prove to be a winning formula for the food retailer in its effort to penetrate mass markets, particularly the Soweto market where its competitors have operated for years. Traditionally one would only find a Pick n Pay store in the high income areas but today the Company boasts many supermarkets in the townships, largely due to the conversion of its under performing Score stores into Pick n Pay franchise stores .**

## A great man!

Raymond Ackerman is synonymous with Pick n Pay and has been with the Company for 43 years, introducing to South Africa the concept of a powerful consumer orientation as the overriding, first law of store management.

The focus was ruthless, and in the process Ackerman was forced into scraps with suppliers, staff and Government, yet his single-mindedness in providing value goods presented in an attractive way forced other players to up their game – massively.

**The overall result was not only better supermarkets in SA, which compare easily with some of the best in the world, but also an impeccable record of long-term growth for the Pick n Pay Group. The Company noted that someone who invested R100 when Pick n Pay listed in 1968, that investment would be worth nearly R600 000 today.**



# Raymond Ackerman

Under Raymond Ackerman's auspices, Pick n Pay grew from four small stores in Cape Town, to 794 stores today. The number of employees increased from 175 to 49 000. The Company has produced 20-year share price compound growth as at February 2010 of 14.8%, and grew at 14.2% annually compounded over the past decade. Pikwik, the holding company, grew at 14.3% compounded over the period and at 15.4% over the past decade.

The distinguishing feature of the Company was its family ownership and control, which Ackerman only partially conceded with the appointment of a separate CEO in 1999.

But it will be Gareth Ackerman who takes over from his father as Chairman of the Company.

And neither will Raymond be entirely absent. He will stay on as an advisor to the Company performing an ambassadorial role and will continue to be based at the Company's head office in Cape Town.

**43 years**

"Being family-controlled has also ensured that the values introduced in 1967 have carried through over 43 years. Importantly, this will not change," he said.

**Reflecting on his career, Ackerman said: "I have no regrets at all. It has been a lifetime experience."**

**Asked if he was at all tired, he said: "A little bit. We now have operations in nine African countries, and there is always some crisis. It's like being on duty 24/7."**

**"I'm looking forward to playing a bit more golf – I've always loved golf – and travelling with my wife. We're going to go away immediately for a couple of months when I retire, so these guys will have to find their feet immediately."**

**Asked about the recipe for his success, he said: "I was once told that the aim of any retailer is to 'maximise consumer sovereignty'. "**

**"If you go out and say: 'I want to make money', then you won't."**

**"Instead, you have to have a passion to fight like mad for your consumer – in much the same way that a doctor would fight like mad for his patient."**

# Boards of directors

## Pick n Pay Stores Limited

### Executive Directors

**Raymond Ackerman**[Δ‡] (79) – **Appointed** 1967
Chairman, **Retired** 1 March 2010
**Years of service** 43

Raymond Ackerman purchased Pick n Pay in 1967 and was its Chairman for 43 years. He was also CEO of the Group until 1999 when the responsibilities of Chairman and CEO were separated. He has won many accolades during the years as a leader, a businessman and as the champion of the consumer.

Other listed company directorships: Pick n Pay Holdings Limited.

**Nick Badminton** (48) – **Appointed** 2007
Chief Executive Officer
**Years of service** 31

Nick Badminton joined the Western Cape region of Pick n Pay in 1979, and after working his way up the ranks was appointed General Manager (GM) of the region in 1994. While GM of the Western Cape he was appointed to the Retail division management board and became its Managing Director in May 2001. In March 2007, Nick was appointed CEO of the Group and a member of the Board.

**Wendy Ackerman** – **Appointed** 1981
Employee Liaison and Benefits, **Retired** 1 March 2010
**Years of service** 43

Wendy Ackerman was one of the founding executives of Pick n Pay. She was appointed to the Board in 1981 and is in charge of Employee Liaison and Benefits where her passion for people in the business is unwavering. This includes the management of our large internal and external bursary funds.

Other listed company directorships: Pick n Pay Holdings Limited.

**Dennis Cope** (59) – **Appointed** 1997
Chief Finance Officer
**Years of service** 32

Dennis Cope is a Chartered Accountant and has been with the Group for over 30 years, initially joining the Pick n Pay Butcheries division as the accountant and then Finance Director. In 1986 Dennis joined the Pick n Pay Corporate Finance division, was appointed Finance Director of the Group Enterprises division in 1995 and then in 1997 he was appointed CFO and a member of the Board.

**Suzanne Ackerman-Berman** (47) – **Appointed** alternate director 30 June 2009 and full board member 1 March 2010

Suzanne Ackerman-Berman joined Pick n Pay in 1995 after gaining valuable retail and general business experience overseas, after receiving her BA degree in 1985 from the University of Cape Town. She has worked her way up in the organisation and in 2001 was promoted to General Manager, Corporate Affairs and Social Responsibility. In 2007 she was appointed to Exco and Director of Transformation on the Retail management board. On 1 March 2010 Suzanne was appointed a member of the Board.

Other listed company directorships: Alternate director of Pick n Pay Holdings Limited.

**Jonathan Ackerman** (43) – **Appointed** alternate director 30 June 2009 and full board member 1 March 2010

Jonathan Ackerman joined Pick n Pay as a Trainee Manager in the Western Cape in 1992 where he worked his way through the ranks in stores. He was then transferred to Johannesburg where he gained more management experience culminating in his appointment as General Manager of 7-Eleven Africa. In 2001 Jonathan was appointed to his current position as Head of Marketing sitting on the Retail management board. On 1 March 2010 Jonathan was appointed a member of the Board.

Other listed company directorships: Alternate director of Pick n Pay Holdings Limited.

### Non-Executive Directors

**Gareth Ackerman**[#Δ‡] (52) – **Appointed** 1990
Chairman, **appointed** 1 March 2010

Gareth Ackerman was an executive director at Pick n Pay for 15 years before becoming a non-executive director in 1999. While an executive of Pick n Pay, Gareth ran many different divisions of the Company, was appointed Joint Managing Director in 1993 and Managing Director of the Group Enterprises division in 1995. Gareth was appointed to the Board in 1990 and in 2002 he was appointed as Chairman of Pick n Pay Holdings Limited.

Other listed company directorships: Pick n Pay Holdings Limited.

**David Robins** (56) – **Appointed** 2002

David joined the Group in 1994 and was appointed to the Group Enterprises management board in 2005 as the executive responsible for expansion outside South African borders. In 2002 David was appointed as Deputy Chairman of the Group and also as an executive director of the Company. During 2008 David retired from his executive position in the Group but remains on the Board as a non-executive director.

Other listed company directorships: Alternate director of Pick n Pay Holdings Limited.

# Pick n Pay Holdings Limited

## Independent Non-Executive Directors

**Hugh Herman**# (69) - **Appointed** 1976
Lead non-executive director
Remuneration Committee Chairman

Hugh Herman was Managing Director of Pick n Pay for many years after having joined the Group from our main legal advisory firm and was appointed as a member of the Board in 1976. He left Pick n Pay in 1993 when he joined Investec Bank, where he still serves as Chairman.

Other listed company directorships: Investec Limited (Chairman), Growthpoint Properties Limited, Pick n Pay Holdings Limited

**Constance Nkosi**‡ - **Appointed** 1996

Constance (Connie) Nkosi is chairperson of Lidonga Group Holdings (Pty) Limited. She is also chairperson of First Technology (Pty) Limited. Connie has been a member of the Company's Board since 1996 and also serves on the Nominations committee.

Other listed company directorships:

Protech Khuthele Holdings Limited and Spescom Limited

**Ben van der Ross***#‡ (63) - **Appointed** 2000

Ben van der Ross is a director of companies. Ben qualified as an attorney, was admitted to the Cape Side Bar and was in private practice for 16 years.

Other listed company directorships: Distell Group Limited, FirstRand Limited, Lewis Group Limited, Makalani Holdings Limited, Momentum Group Limited, Naspers Limited

**Jeff van Rooyen***Δ (60) - **Appointed** 2007
Audit, Risk and Compliance Committee Chairman

Jeff van Rooyen is a Chartered Accountant and is the founder and chief executive of Uranus Investment Holdings. He is a founding member and former president of the Association for the Advancement of Black Accountants, was chairperson of the Public Accountants and Auditors Board in 1995 and a former CEO of the Financial Services Board. He is also a trustee of the International Accounting Standards Committee Foundation.

Other listed company directorships: MTN Group Limited, Exxaro Resources Limited.

**Richard van Rensburg*** (49) -
**Appointed** 30 June 2009

Richard van Rensburg is a Chartered Accountant with extensive experience in the retail and information technology industries, including; a Partner at Ernst & Young, an IT and operational director of Massmart, a director of Woolworths and Wooltru and founder and CEO of IT services company Affinity Logic which later merged with UCS.

## Company Secretary

**Gary Lea** (44) - **Appointed** 2002
**Years of service** 13

## Non-Executive Directors

CVs presented on page 12.

**Raymond Ackerman** (79) - **Appointed** 1981
Chairman

**Gareth Ackerman** (52) - **Appointed** 1987

**Wendy Ackerman** - **Appointed** 1981

## Independent Non-Executive Directors

**René de Wet*** (67) - **Appointed** 1981
Audit Committee Chairman

René de Wet was an executive at Pick n Pay for 29 years, and was appointed to the Board in 1975. He was appointed Joint Managing Director in 1993 and Deputy Chairman in 1995. René retired as an executive director in 1999 but remained on the Board as a non-executive director.

**Hugh Herman*** (69) - **Appointed** 1981
Lead non-executive director
CV presented above.

## Alternate Directors

CVs presented on page 12.

**Suzanne Ackerman-Berman** (47) -
**Appointed** 1 March 2010
Alternate to Raymond Ackerman

**Jonathan Ackerman** (43) -
**Appointed** 1 March 2010
Alternate to Wendy Ackerman

**Dave Robins** (56) -
**Appointed** 1 March 2010
Alternate to Gareth Ackerman

## Officers

**Dennis Cope** (59) - **Appointed** 2008
Chief Finance Officer

**Gary Lea** (44) - **Appointed** 2002
Company Secretary

* Member of Audit, Risk and Compliance committee
# Member of Remuneration committee
Δ Member of Corporate Governance committee
‡ Member of Nominations committee

### Result overview – continuing operations

As indicated in October 2009, this financial year turned out to be exceptionally tough with the recessionary climate biting especially hard during the second six months.

This year was really a tale of two halves where, in South Africa, earnings growth was affected by the rapid decline in food inflation (from August 2009 off the previous year's high base), continued investment in lower selling prices, escalating electricity costs, and further conservative provisions made against franchise debt. In Australia, the increase in interest rates, which started before the Christmas trading period, severely affected consumer spend.

We foresee that the beginning of the 2011 financial year will continue to present a tough trading environment. However, we expect the 5.5% reduction in interest rates in South Africa over the last 15 months and reduced food inflation to ease the strain on consumers' disposable income.

Despite these challenges, we continue to make significant strides with the implementation of our strategy and in transforming Pick n Pay, an update of which is presented on page 17.

**Group turnover** at R54.7 billion was 9.8% above last year; Pick n Pay and Boxer grew by 11.5% and Franklins Australia by 1.4%, in Australian dollars.

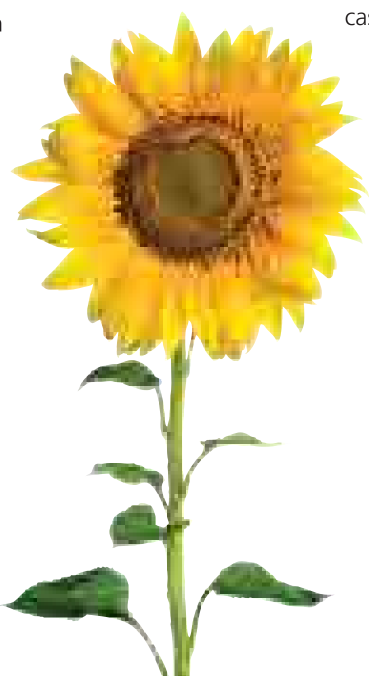
## "Despite these challenges, we continue to make significant strides with the implementation of our strategy and in transforming Pick n Pay"

**Trading profit** for the year decreased by 2.5% as a direct result of the reduction in gross profit margin from 19.0% last year to 18.6% this year. This reduction in margin is due to our continued investment in prices on basic foods. The overall decrease was cushioned by enhanced operating efficiencies, especially in supply chain.

**Profit before tax for** the year is up 10.5%, which includes a profit on sale of properties of R190.9 million and a decrease in net interest paid of R19.9 million due to an improvement in net cash balances during the year.

**Headline earnings per share** at 236.33 cents is 1.1% above last year.

The **total dividend** per share for the year of 174.50 cents for Pick n Pay Stores Limited and 84.94 cents for Pick n Pay Holdings Limited is 2.6% and 2.4% above last year, respectively.



**Nick Badminton**
*Chief Executive Officer*

## Operational highlights

### South Africa

**Pick n Pay and Boxer** increased turnover by 11.5% for the year. The second half of the year saw growth rates drop substantially as customers remained cautious despite lower interest rates and substantially lower levels of inflation. During the year we opened 5 new Pick n Pay corporate supermarkets, 20 Boxer stores and 38 Pick n Pay franchise stores (including 5 Express stores and Score conversions). In the year ahead we plan to open a further 27 supermarkets under the Pick n Pay and Boxer brands and are working on opening substantially more new stores for the years thereafter. This commitment to investing in expanding our footprint shows the confidence we have in both the country, our strategy and operating model.

Despite the economic conditions we saw a significant increase in the number of customer transactions during the year, demonstrating the resilience of the PnP and Boxer brands, and the tremendous support we receive from customers as we bring world-class retailing to all sectors of our community.

### Africa

Our expansion further into Africa is progressing well. We are due to open our first corporate store in Zambia midyear; we have signed up franchise partners in Mozambique; and we have identified sites for expansion into Mauritius. We will expand into countries where we see opportunities to give customers real value, support local enterprise and provide career opportunities.

### Australia

**Franklins** turnover at AUD861.1 million increased by 1.4% and before capital items produced a profit of R21.9 million which is on par with last year. This was on the back of the most challenging retail environment in a decade, with successive interest rate rises negatively impacting on consumer spending.

The impact of the 3 year, AUD50 million store refurbishment programme continues to be positive with completed stores achieving double-digit sales growth and improved profitability. The programme saw 18 refurbishments this year and a further 8 are planned for the next financial year. Next year we also plan to open 4 new stores and further grow the franchise business.

Franklins' Loyalty Club achieved substantial membership growth with cardholders now exceeding 780 000. The programme was recognised as offering customers better value than the programmes offered by other major supermarket groups.

**over 1800**

**PnP private label brands were repackaged with our new branding**

**"We've identified where we require intensified training to deliver the quality of service our customers demand"**

### General comments

The Competition Commission's investigation into the retail sector is ongoing and we continue to give the process our full cooperation.

Over the next financial year we will focus on the following priorities:

– Improve the efficiency of the core SA Retail business, by;

> Reducing supply chain costs through further improvements at Longmeadow and by commencing the roll out of central distribution to the rest of South Africa.

> Reducing the cost of doing business through Goods Not For Resale enhancements and further cuts in overheads.

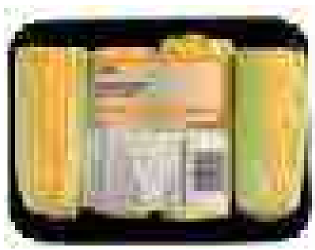
> Simplifying the organisation further, building on the consolidation of the inland region.

> Enhancing the way we use SAP to improve process efficiency.

– Accelerate store rollout with particular focus on LSM 4-7, smaller supermarkets and Express; and

– Make further improvements to the quality and range of Fresh food and Private Label.

All of these initiatives position us well to benefit from the anticipated upturn in the economy.



## South Africa's favourite and most admired grocery retailer

**The implementation of the six-pillar strategy we developed in 2007 is continuing rapidly. We are already seeing positive results from the changes we are making and are confident that the benefits from our investment in this strategy will pay dividends for decades to come.**

**Under each of the strategy pillars, a few of the success stories so far include:**

| Customers | | Operations | | People | Sustainability |
|---|---|---|---|---|---|
| Defend and grow leadership in LSM 8-10 heartland | Bring the best of Pick n Pay to LSM 4-7 | Invest to improve operating model | Continue to deliver operating efficiencies | Build world-class retail capabilities | Create a sustainable future |

### Customers: Defend and grow leadership in LSM 8-10 heartland

**– Private label and Fresh**

> We have had tremendous success in growing our private label and Fresh food sales by 15% and 17%, respectively.

**– Express**

> Pick n Pay Express with its 7 stores in the Western Cape continues to perform beyond expectations. We have now agreed with our partners, BP, to roll-out a further 50 Pick n Pay Express stores over the next 2 years.

**– Increased transactions**

> Each of our Supermarket, Franchise and Hyper formats is seeing an increase in the number of visits by customers. Although there has been a decrease in size of the average basket purchased during the year, we are pleased that our total transactions for the year from these 3 formats are up by 13.3 million.

### Customers: Bring the best of Pick n Pay to LSM 4-7

**– Score conversions**

> The closure of the Score retail trading operation is now complete with a total of 70 stores converted to the Pick n Pay and Boxer brands. After accounting for the closure costs and for the provision for doubtful debts, it made a material improvement to profits compared to the old Score business.

Conversion of these stores has not only ensured job security for the employees of the ailing Score business, but it increased the number employed in the converted stores by thousands. Sales growth in these stores is 178%.

We look forward to the years ahead when we expect significant financial upside and improved performance for both franchisees and the Group from these converted stores.

**– Price perception**

> Our price checks show that Pick n Pay continues to offer customers exceptional value. Given the high standards of our stores, this is challenging to communicate to our customers.

We will continue to ensure that we offer a better shopping experience at no extra cost.

### Operations: Invest to improve operating model

**– Supply chain**

> Implementation of our supply chain strategy is progressing well with the extension to the Longmeadow distribution centre in Johannesburg due to be complete by June 2010. This will allow for over 1.2 million cases to be distributed per week to our inland stores, representing 60% of dry grocery volume. Longmeadow showed a significant improvement in performance during the year, increasing volumes by 57% and reducing the cost per case by 15%.

Plans are now being finalised for the roll-out of a further 5 national distribution centres over the next 3 years.

**– SAP**

> We have now completed our SAP implementation in all corporate stores with only franchise stores in the northern part of the country to be converted by August 2010. Once completed, SAP will provide a platform to reap significant efficiency improvements.

### Operations: Continue to deliver operating efficiencies

**– Inland region**

> The consolidation of our 3 northern regions into one team will be complete by August 2010. This will greatly improve our efficiency, particularly in administration and buying, whilst delivering a consistent pricing and merchandising strategy across the northern part of the country.

**– GNFR**

> We have embarked on many initiatives to drive cost out of the business, including the setting up of a central Goods Not For Resale (GNFR) division. GNFR will now procure nationally all those goods and services that the Company purchases and utilises that are not for resale in our stores.

**– Expense control**

> We have launched "Project Fitness" to reduce costs within our business. This will involve streamlining all processes and resources to ensure that we operate at optimum efficiency.

### People: Build world-class retail capabilities

**- Investment in people**

> As we transform our business we reassess internal capabilities and, where necessary, we will bring in external help and expertise. We have also identified, especially at store level, where we require intensified training to deliver the quality of service our customers demand.

### Sustainability: Create a sustainable future

**– Energy**

> Operating sustainably is a priority within the business: We have embarked on several energy saving projects.

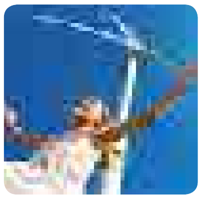
**– Business development**

> We continue with social development initiatives. Our transformation of business now shows more than 120 black franchise owners and we continue our support of small entrepreneurial BEE projects.

**– Recycling**

> Importantly we play a role in helping our customers live sustainably, for example, we are putting recycling bins in all our stores.

For more information on sustainability refer to the Sustainability Report on page 18.



**Nick Badminton**

*Chief Executive Officer*

Report to stakeholders

# Sustainability report

**Having been nominated in 2009 as the company that most actively promotes sustainable living we are keen to ensure our performance continues to meet and exceed the expectations of our stakeholders.**

## Our sustainability strategy

Our 2009 strategy sought to increase the visibility of our efforts and linkages with our core business through targeted communications and a focus on products (organic, local produce and an enhanced green range). To sustain and broaden this momentum, we have prioritised the following actions for the coming year:

> Establishing quantitative objectives and targets for each key commitment area
> Ensuring the Pick n Pay sustainability narrative is shared by all managers
> Developing a more robust system to track and communicate performance
> Consolidating our supplier initiatives to encourage more active sustainability commitment

Both our Chairman, Gareth Ackerman, and CEO, Nick Badminton, are members of our Sustainability SteerCom, which meets quarterly to review strategic direction. A five-year sustainability roadmap has been developed to guide our journey and we look forward to publishing our next comprehensive sustainability report later this year.

## Responding to climate change

Most of our carbon emissions are generated through electricity usage. Proactive energy management is an ongoing focus and we are currently implementing a coordinated action plan across our operations. We are presently finalising a revised climate change response strategy and will be rolling it out in the coming year. We continue to extend the scope and accuracy of our carbon footprint calculation. We actively support the Carbon Disclosure Project and will maintain public disclosure and a commitment to improve on our performance.

**Taking opportunities**

**We continue to build on our existing achievements and to make further progress in our strategic commitment areas. We are working towards some challenging objectives, and we are pleased to outline a few achievements in our focus areas.**

## Our carbon footprint

| Source of operational $CO_2$ emissions | $CO_2$ equivalent metric tonnes 2009/2010 | $CO_2$ equivalent metric tonnes 2008/2009 |
|---|---|---|
| Energy usage at stores, distribution centres and offices | 586 268 | 584 530 (improved estimate) |
| Diesel usage from commercial fleet, company cars and generators | 28 275 | 24 582 |
| Petrol usage from commercial fleet and company vehicles | 7 620 | 7 487 |
| Business air travel | 851 | 914 |

## Tracking our sustainable development key performance indicators (KPI)

| Pick n Pay's Sustainable Development KPIs | 2010 | 2009 |
|---|---|---|
| **Economic and related core baseline indicators** | | |
| **Continuing operations** | | |
| Turnover | R54.7 billion (9.8% increase) | R49.9 billion |
| Trading profit | R1 653.1 million (2.5% decrease) | R1 695.6 million |
| Operating profit | R1 828.3 million (4.8% increase) | R1 743.80 million |
| Headline earnings per share | 236.33 cents (1.1% increase) | 233.86 cents |
| Dividends per share | 174.50 cents (2.6% increase) | 170.00 cents |
| Total number of stores and distribution centres | Corporate stores: 466 | Corporate stores: 498 |
| | Franchise stores: 328 | Franchise stores: 284 |
| | Distribution centres: 6 | Distribution centres: 6 |
| Number of environmental, health and safety and/or governance legal incidents | None | None |
| **Employee matters*** | | |
| Total number of employees | 37 876 | 38 409 |
| Employee turnover | 9.11% | 11.75% |
| Employment equity targets: | Target (%): Actual (%) | Target (%): Actual (%) |
| – Top management | 40:39 | 40:36 |
| – Senior management | 65:59 | 55:56 |
| – Professionally qualified middle management | 70:84 | 55:85 |
| – Skilled junior management | 80:93 | 70:94 |
| – Semi-skilled and discretionary decision-making | 100:98 | 60:100 |
| Work-related fatalities | None | None |
| Number of classified injuries | 461 injuries requiring time off work | 116 injuries requiring time off work |
| | 1 030 injuries requiring minor attention | 916 injuries requiring minor attention |
| Investment in employee training and development** | R55.2 million | R50.5 million |
| Number of lost workdays due to industrial action | 57 man-days | 11.2 man-days |
| **Environmental matters*** | | |
| Energy usage (stores, distribution centres and offices) | 569 million kWh | 585 million kWh (improved estimate) |
| Energy usage per $m^2$ per annum | 573 kWh | 601 kWh |
| | | |
| Waste – KZN stores (by weight) | 55% waste recycled; 45% general waste (not recyclable) | 42% waste recycled; 58% general waste (not recyclable); |
| Fuel usage (commercial fleet, company vehicles and generators) | 10 750 907 litres (diesel) | 9 346 837 litres (diesel) |
| | 3 312 956 litres (petrol) | 3 255 018 litres (petrol) |
| | | |
| Carbon footprint*** | 623 014 $CO_2$ equivalent metric tonnes | 617 513 $CO_2$ equivalent metric tonnes (improved estimate) |
| | | |
| Water consumption (stores, distribution centres and offices) | 1.38 million kilolitres | 1.63 million kilolitres (improved estimate) |
| Water consumption per $m^2$ per annum | 1.39 kilolitres | 1.68 kilolitres (improved estimate) |
| **Corporate Social Investment** | | |
| Total spend | R61 million – 5.1% of post-tax profit | R60 million – 5.7% of post-tax profit |

*These performance indicators relate only to the operations of Pick n Pay Holdings Limited, Pick n Pay Stores Limited and Pick n Pay Retailers (Pty) Limited, our main operating company.

**Figures do not include the Skills Development Levy cost of R27.0 million for 2010 (2009: R24.5 million).

***Figures were calculated on the basis of fuel usage for our commercial fleet (product distribution and home shopping fleets), electricity usage in our stores, distribution centres and offices, business air-travel and our corporate fleet (company cars and corporate jet), and the use of diesel from our generators. Emissions from fuel usage and business air-travel were calculated using the DEFRA greenhouse gas emissions reporting protocol. Emissions from electricity usage were calculated using the Eskom conversion factor of 1,03 tonnes of $CO_2$ per MWh of Eskom electricity.

## Waking up to waste

An intelligent approach to waste requires the ability to measure how much we generate and to see materials as resources whether in the "waste stream" or not. With an innovative approach, we can make products and services, rather than waste.

Our focus is to significantly reduce the waste we contribute to landfill. Building on the success of our KwaZulu-Natal stores' waste-management plan (which increased its recycling rate by 13% this year), we are implementing store waste-management across all our corporate stores. Our Gauteng and Western Cape distribution centres currently recycle 35% of total waste generated at each site, and we aim to increase this to 50% in the coming year.

There is clearly more to be done. Our focus will increasingly move to the broader system level, fostering dialogue between waste-management and product and packaging innovation to close the loop on waste generation.
A promising example of this approach is our biodiesel initiative. Waste oil currently collected from all our Western Cape corporate stores is converted to biodiesel for use in our commercial fleet. The rollout to all other regions will be completed by the end of 2010. We have also introduced a new in-store recycling unit for customers which allows for the recycling of ink-cartridges, CFLs, batteries and plastic bags.

New in-store recycling units


### Some of our early win packaging initiatives:

- Reduced the volume and cost of packaging for Pick n Pay–branded products by converting cardboard sleeves to paper labels.
- Shifted away from plastic sleeves to board sleeves on our convenience food lines and reduced the thickness of the board, thereby reducing usage of board equivalent to 3 tonnes.
- Polystyrene trays are recyclable and can be used in the manufacture of hangers, seedling trays, cornices, frames and skirtings.
- Replaced PVC trays with more environmentally friendly PET/polypropylene trays for various Pick n Pay produce lines.
- Reduced the size of all Pick n Pay Fresh Produce product labels.

**Food safety standards**

**Pick n Pay's Food Safety Audit Standards have been accepted as the retail industry benchmark auditing standard by the Consumer Goods Council's Food Safety Initiative**

**Sustainable packaging:** Packaging presents an ongoing challenge and opportunity. While packaging reduction is clearly desirable from a cost and environmental point of view, damaged goods resulting from inadequate packaging generates an additional waste stream and must be avoided. Addressing this challenge within our house-brand division has led to some early wins and will provide for ongoing learning as we seek to apply packaging-reduction principles to all departments.

The approach was pioneered by our Fresh Produce division, which will introduce a range of new packaging materials shortly. Their initial explorations achieved a 2% reduction in packaging usage this year, amounting to an estimated annual reduction of 1 000 kg of waste.
A packaging database for our Fresh Produce division will be completed by the end of 2010, and for our Corporate Brands by the end of 2011.

## Innovative products

The ability to offer products and services that meet sustainability and ethical criteria is becoming a differentiator in the mass retail market. We pioneered "green products" in the early '90s, and using the experience gained from this, we are creating an enhanced portfolio of green and ethical products for our customers. Price remains a critical factor influencing customer decisions to purchase in accordance with sustainability criteria and we are striving to achieve price parity on sustainable and ethical lines. Our customers have also responded positively to the Green Label household cleaners launched in June 2009 – and we are currently extending our range of products.

We are extending our Pick n Pay Green Cleaning Range

**The ability to offer products and services that meet sustainability and ethical criteria is becoming a differentiator in the mass retail market. In the early '90s Pick n Pay led the way with a range of 'green products', and we continue to raise the bar with an expanded, enhanced portfolio of green and ethical products.**

The Flowervalley project now supplies flowers to our stores

## Leveraging enterprise development

There is a strong drive within the organisation to establish a more strategic enterprise development initiative. We believe enterprise development must seek to quantify social and environmental value created across the supply chain, and that this approach should ultimately inform the broader business model for Pick n Pay.

Our efforts in recent years have focused on assisting small-scale entrepreneurs to become sustainable suppliers to the retail industry; and have sought primarily to address the inequalities of the past by focusing on Broad-Based Black Economic Empowerment. This hub of entrepreneurship is now increasingly becoming a pipeline of new and enterprising products reaching our shelves, and a lever to drive our product innovation.

Pick n Pay Small Business Initiative

For further details on our sustainability journey, please visit our Sustainable Living section on **www.pnp.co.za**

## Corporate governance – Pick n Pay Stores Limited

The Board of directors of Pick n Pay Stores Limited (the Board) and senior management are committed to the highest standards of corporate governance and take pride in our high moral and ethical business standards. The Group is committed to sound and transparent business practices. The Board is committed to complying, in all material respects, with the principles contained in the King Code of Corporate Practices and Conduct (King III), as well as to the additional requirements for good corporate governance stipulated in the JSE SRI Index. We have performed a thorough review of the implications of King III and, where appropriate, the corporate governance structure has been amended to comply with the new code, which became effective on 1 March 2010. An overview of the Group's corporate governance framework is provided below including a section dealing with the aspects
of King III that are still under review.

A more comprehensive review with details of all board and committee charters, and roles and responsibilities of the Chairman, CEO and Managing Directors – is available in the Investor Relations section of our website (www.pnp.co.za).

This report applies to Pick n Pay Stores Limited and where applicable to Pick n Pay Holdings Limited. For corporate governance issues relating to Pick n Pay Holdings Limited only, refer to page 30.

### Group structure

The Group is controlled by Pick n Pay Holdings Limited whose only investment is its 53.6% shareholding in Pick n Pay Stores Ltd. The Group has a flat organisational structure and overall responsibility lies with the Board. This Board appoints the CEO to be responsible for day-to-day operations of the Group and in discharging this responsibility, the CEO has split the operations of the Group into three separate divisions. The three divisions are: the Retail division, the Group Enterprises division and Franklins Australia. Each division has its own management board, to control daily operations. This flat Group structure enables local operations to take ownership of decision-making and to assume individual responsibility for their actions and success. The structure encourages personal growth and achievement, ensuring that initiative is enabled, identified and rewarded.

### Enduring principles of Pick n Pay

The Board has a responsibility to ensure that the CEO and management do not depart from the following enduring principles that were applied by Raymond Ackerman while building the Group and which ensure that the spirit of Pick n Pay remains intact:

- Consumer sovereignty
- Striving for a flat organisational structure
- Where appropriate, maximising decentralisation of authority to enable local control
- Promoting from within, recruiting from outside only as an exception when specialist skills are required
- Maintaining a discount image
- Fighting collusion amongst suppliers, and rejecting collusion between retailers
- Maintaining strong cash balances for buying forward on a rising market

### The Board

The Board comprises seven non-executive directors and four executive directors. It is responsible for selecting a successful management team, approving corporate strategy, monitoring and assessing performance, and acting as a resource for management in matters of planning and policy. The Board is responsible for setting the governance policy and practices for the Group, and for appointing the Chairman and CEO, whose roles are separate. The Board meets four times a year to monitor the performance of the Group, its executive directors and senior management.

The Board performs an annual self-assessment of its performance and the results of this review are made available to the external auditors. The Board has a responsibility to ensure that internal controls over operations and finance have been implemented, are continuously monitored and are functioning effectively. The Board is not aware of and has not been informed of any issue that would suggest that internal controls have had a material breakdown during the financial year.

#### Appointment of directors

New appointments to the Board are considered by the Board as a whole, on the recommendation of the Nominations committee. When appointing a director, the Board considers the directors' ability to lead, requisite knowledge, relevant experience and independence. It is important that the appointment ensures the necessary balance of power (majority of directors to be independent non-executives) and also introduces new skills and expertise to supplement and or replace existing skills and experience of board members.

Background and reference checks are performed by the Nominations committee before the nomination of a director. Experience of directors are presented in their CVs on pages 12 and 13. Directors serve three year terms after which they are required to retire at the AGM but may offer themselves for re-election. At the end of each three year term the director is evaluated by the Chairman and will only be put forward for re-election by mutual consent of the Chairman and the respective director.

The appointment of all directors to the Board requires shareholder approval at the AGM. On appointment to the Board a new director is required to retire and offer themselves for re-election to the Board by shareholders at the first AGM following their appointment.

### Independence of non-executive directors

With the implementation of King III, all non-executive directors classified as independent will undergo an annual evaluation of their independence based on the guidelines provided by King III. Directors serving terms greater than nine years will undergo a rigorous review of their independence.

The majority of non-executive directors are independent in terms of King III. Gareth Ackerman and David Robins are not considered independent by virtue of their relationship with the Group's ultimate controlling shareholder. The remaining non-executive directors are considered independent. The Board has considered the independence of Hugh Herman, Constance Nkosi and Ben van der Ross in light of their years of service and are satisfied that their independence remains intact.

As Gareth Ackerman (non-executive Chairman) is not independent, Hugh Herman has been appointed as Lead Independent Director (LID). All members of the Board have unfettered access to the LID when required.

## Leadership development

The Chairman evaluates the performance of the CEO annually, which is then discussed with the non-executive directors. The evaluation is based on objective criteria including performance of the business, accomplishment of long-term strategic objectives and management development. The CEO reports to the Board on succession planning, with a defined succession plan in place should the CEO, MDs or any of the senior management personnel need to be replaced. The CEO's recommendation for his successor is known by the Board at all times. Succession planning is also performed across the Group to ensure continuity of the business. The CEO reports annually to the Board on the Group's programme and performance in respect of management development and employment equity.

## Board committees

The Board is assisted by the following specialist committees: Audit, Risk and Compliance; Remuneration; Nominations; and Corporate Governance. Each committee has a formal charter which is reviewed annually by the Board. Detailed information on each of the committees is available from our website.

A brief outline of the role and responsibility of each committee is provided below:

### Audit, Risk and Compliance committee

For details on this committee, please refer to the Audit, Risk and Compliance committee report on page 27.

### Remuneration committee

For details on the composition and the role of the Remuneration committee please refer to the Remuneration report on page 29.

### Nominations committee

The Nominations committee is chaired by the Chairman and members are only non-executive directors. The committee identifies and evaluates potential candidates for appointment to the Board and has strict guidelines on the qualities required of directors. These qualities include being tough-minded, independent and objective, as well as being loyal to the principles and values upon which the Group is built.

### Corporate Governance committee

The Corporate Governance committee is chaired by the Chairman and other members are non-executive directors and the Company Secretary. The committee ensures that corporate governance structures are in line with national and international standards, and are both appropriate and effective.

## Accountability

The CEO is responsible and accountable to the Board for all Group operations, including Franklins from July 2010. He has a formal role description (with limits

## Corporate governance – Pick n Pay Stores Limited *(continued)*

of authority) from the Board, which is reviewed and reaffirmed annually. The CEO, who manages the Retail management board, appoints a managing director (MD) of Franklins and a director of Group Enterprises to assist in discharging this responsibility. The duties and responsibilities of the MD and director are also detailed in a formal role description, together with limits of authority, which are approved and reviewed annually by the CEO.

The Chairman's Executive committee (Exco), which comprises top management, helps the Board assess strategic opportunities and guides the management board's on principles of strategy and policy.

The Group's policy of decentralisation and flat organisational structure means that each region is managed autonomously. Each region has its own management team that manages operational, marketing and social responsibility budgets. Each store is responsible for its own results, responds individually to customer needs and is autonomous in its choice of social responsibility programmes.

### Risk management

The Board has recognised the importance of an effective risk management process and has adopted an enterprise-wide approach to risk management. This has resulted in the Company investing in an Enterprise Risk Management (ERM) software package. Risks identified are captured and rated in the ERM package, which houses the Company's risk register.

The Board is responsible and accountable 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, Risk and Compliance 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. The risk management process, which is regularly assessed by the Audit, Risk and Compliance committee, involves a formalised system to identify and assess risk, both at a strategic and operational level. The process includes the evaluation of mitigating controls and other assurances in identifying and assessing the risks.

Risks are continually being identified and mitigated in terms of a process that involves allocating responsibility, developing action plans, and monitoring compliance with these action plans. Every employee has a role to play in this endeavour and in achieving the Group's goals and objectives. Risks are monitored and reported upon at quarterly management meetings, and in the Audit, Risk and Compliance committee meetings. The Group's annual internal audit plan incorporates the outcomes of the risk management process. Group Risk and Assurance Services (internal audit) provides a risk identification facilitation role. Management is responsible for managing risks on a daily and operational basis. The Group has developed a culture of identifying and managing risk. The internal audit plan is based on a risk-based audit approach.

The Group's assets are insured against loss, with cover being taken out above predetermined self-insurance levels. In a disaster recovery circumstance, business continuity plans will ensure the business continues with the least amount of disruption, both from an information technology and operational viewpoint. These plans are reviewed and updated regularly.

**A summary of major risks and mitigation strategies is presented in the table below:**

*Strategic and market risk*

| Risk | Risk mitigation |
|---|---|
| Brand and reputation | The Group operates within a governance philosophy that seeks to protect and enhance our brands and reputation. A core to this philosophy is built upon the continued maintenance of ethical business practices and the highest level of integrity. Recent enhancements to the Pick n Pay brand have been achieved through the new fresh Pick n Pay logos, the relaunch of private label brands, the continuous improvement of the quality of fresh foods and the Pick n Pay Express stores initiative in partnership with BP. We are aware of the constant need to differentiate the brands from competitors in terms of service offering and product range and this remains a key focus area. |

*Strategic and market risk (continued)*

| Risk | Risk mitigation |
|---|---|
| Competition | The Group continuously monitors market trends and sets its strategy accordingly to ensure that Pick n Pay remains the market leader. Two main pillars of Group strategy is to defend and grow LSM 8-10 and bring Pick n Pay to LSM 4-7. The former has been achieved by listening to our customers and providing quality products and services at affordable prices. The latter has been achieved by the conversion of Score stores into black owned Pick n Pay franchise stores and the opening of further stores in that market, both of which have allowed us to increase our share of the LSM 4-7 market. Boxer is also becoming a major player in that market. |

*Financial risk*

| Risk | Risk mitigation |
|---|---|
| Volatility of profit margins | Market conditions and its effect on profitability are continuously reviewed by management and the Board. At all times, in an increasingly competitive marketplace, the drive for unit sales growth and cost efficiencies are the primary drivers to protect profit margins. The former is driven by a focus of striving for high levels of customer satisfaction. |
| Going concern | The going concern of the Group is reviewed by the Board at least twice a year and includes a review of adequate levels of capital to continue operations and implement strategy. |
| Liquidity and credit risk | The Group's balance sheet is categorised by high levels of liquidity and a low debt ratio, supported by high levels of cash generation. Increasing credit risk as result of an expanding franchise division is closely monitored and, where appropriate, remedial action taken. The Group's working capital liquidity is supported by committed banking facilities. |

*Operational risk*

| Risk | Risk mitigation |
|---|---|
| Product quality and third-party liability | Product safety and quality is carefully scrutinised by our internal quality control and food safety technicians. Where any indications exist of a product flaw, the product is immediately uplifted and returned to the supplier. Merchandise is purchased from reputable suppliers and house brand's safety and quality is carefully scrutinised by food safety technicians. Appropriate levels of insurance are in place. |
| Safeguarding of assets | Group assets are insured against loss and business continuity plans are in place, where required. Surveillance cameras in place which are monitored to ensure the safeguarding of assets. |
| Supply chain | Pick n Pay places much emphasis on forging good relationships with suppliers to ensure that the partnership is mutually beneficial to both parties. Electronic Data Interchange has recently been put in place to improve delivery and communication levels between Pick n Pay and suppliers. Central distribution has been embarked upon via Longmeadow to improve lead times and product quality, which falls in line with our longer-term strategy of moving towards regional central distribution. |
| Sustainable food supply | The Group is well aware of the effects of climate change on food supply and supports initiatives that promote sustainable food supply. Examples of this are our involvement with South African Sustainable Seafood Initiative and our extensive involvement in farming enterprise development. |

*Legislative risk*

| Risk | Risk mitigation |
|---|---|
| Compliance with legislation | Pick n Pay has an in-house compliance officer to monitor and assess impacts of legislation on the business. This department makes use of external specialists where necessary. Each region has a risk and compliance manager whose responsibility it is to ensure compliance with current and impending legislation. |

## Corporate governance – Pick n Pay Stores Limited *(continued)*

### Code of conduct

The Group has endorsed a comprehensive code of conduct founded on the highest levels of honesty, integrity and respect. All employees are expected to comply with the code at all times. The Board confirms that systems and procedures have been implemented to entrench the values and ethics laid down in the code of conduct, and to monitor compliance with the code.

All new staff members receive training on the code of conduct at induction. These values are continuously instilled through ongoing communication and training. A function of the Human Resources division is to monitor compliance with the code across the Group, to follow up complaints, to review disciplinary measures and the outcomes thereof, and to ensure the consistent application of disciplinary measures.

Further information on our code is available on our website.

### Dealing in Group company shares

All dealings in Pick n Pay Holdings Limited and Pick n Pay Stores Limited shares by both Company and subsidiary company directors (where required by the JSE) and the Company Secretary are reported on the JSE Limited Securities Exchange News Service (SENS) within 48 hours of the trade having been made. Before these trades are entered into they must be preapproved by duly authorised directors of the company concerned.

In addition to the above JSE regulated approval process, all sales of Pick n Pay Group shares must be approved internally as follows:

- The Chairman, by the lead non-executive director.
- The CEO and other directors of the Board, by the Chairman.
- Exco members, by the Chairman and the CEO.
- Management board members and other senior executives, by the CEO and Head of Human Resources, respectively.

All employees and Group entities are not permitted to trade in the Group's shares during "closed periods" which start at the close of business on the last day of each financial reporting period and end with the publication of the respective result on SENS.

### Party political support

While it is our policy to support social initiatives across party lines, we do not support any individual political party, financially or otherwise.

### Directors' attendance at board meetings

| Director | 21 April 2009 | 12 June 2009 | 20 Oct 2009 | 22 Feb 2010 | AGM 12 June 2009 |
|---|---|---|---|---|---|
| RD Ackerman (Chairman to 1 March 2010) | P | P | P | P | P |
| GM Ackerman (Chairman from 1 March 2010) | P | P | P | P | P |
| NP Badminton (CEO) | P | P | P | P | P |
| W Ackerman | P | P | P | P | P |
| DG Cope (CFO) | P | P | P | P | P |
| HS Herman | P | P | P | P | P |
| C Nkosi | P | P | P | P | P |
| D Robins | P | P | P | P | P |
| BJ van der Ross | P | P | P | P | P |
| RSJ van Rensburg (appointed 30 June 2009) | — | — | P | P | — |
| J van Rooyen | P | P | P | P | P |

P = Present

## Aspects of King III under review

Over the next financial year the Board will consider application of the following King III proposals:

- Whether the Board's performance will be evaluated independently.
- The disclosure of the remuneration of the top 3 executives from 1 March 2010 (other than directors) in the Remuneration report.
- Whether independent assurance of the sustainability report is required.
- Whether internal audit will be the subject of an independent quality review. However we do perform an internal quality self-assessment using a toolkit developed by the Institute of Internal Auditors.

## Audit, Risk and Compliance committee's report

This committee is chaired by and comprises only independent non-executive directors. In accordance with the requirements of the Corporate Laws Amendment Act No. 24 of 2006, members of the committee are appointed annually by the Board for the ensuing financial year and in compliance with King III will also be appointed by shareholders at the AGM.

The committee has a fixed mandate (terms of reference) which is reviewed and approved by the Board annually.



### The composition of the committee and meeting attendance is as follows:

| Committee member | Qualification | Date appointed | 20 April 2009 | 19 Oct 2009 |
|---|---|---|---|---|
| J van Rooyen (Chairman) | CA(SA) | June 2007 | P | P |
| RSJ van Rensburg | CA(SA) | June 2009 | — | P |
| BJ van der Ross | Attorney | June 2003 | P | P |

P = Present

### The committee's general responsibilities include:

- acting as a liaison between the external auditors and the Board;
- the annual nomination of the external auditor for appointment at the AGM. Based on our review of the performance and independence of the external auditor, we recommend their reappointment at the AGM;
- the annual determination of the scope of audit and non-audit services which the external auditors may provide to the Group;
- the approval of the remuneration of the external auditors and assessment of their performance;
- an annual assessment of the independence of the external auditors. The committee confirms that it is satisfied with the independence of the Group's external auditors and the designated auditor;
- the receipt of and appropriate handling of any complaint relating to the accounting practices and internal audit of the Group or to the content or auditing of its financial statements, or to any related matter; and
- performing other functions as determined by the Board.

## Audit, Risk and Compliance committee's report *(continued)*

### In respect of internal control, and internal audit, (through consultation with internal and external auditors); the committee:

> reviews and approves the internal audit charter and audit plans and evaluates the independence, effectiveness and performance of the internal audit function and compliance with its mandate;

> reviews the Group's systems of internal control, including financial controls, ensuring that management is adhering to and continually improving these controls. The committee confirms that it is satisfied that the Group has adequate internal controls in place, commensurate with its operations;

> reviews significant issues raised by the internal audit process; and

> reviews policies and procedures for preventing and detecting fraud.

### In respect of risk management (through consultation with internal and external auditors), the committee:

> ensures that management's processes and procedures are adequate to identify, assess, manage and monitor enterprise-wide risks; and

> reviews tax and technology risks, in particular how they are managed.

### The committee discharges its Board responsibilities by:

> meeting at least twice a year to review the Group's financial results, to receive and review reports from both the internal and external auditors, and to meet with management to review their progress on identifying and addressing key risk areas within the business;

> reporting to the Board at the next meeting, which is always held within a week of the respective committee meeting;

> meeting separately with the internal and external auditors to confirm that they are receiving the full cooperation of management; and

> the committee Chairman meeting regularly with key executives to keep abreast of emerging issues.

The committee discharges all Audit committee responsibilities of all subsidiary companies within the Group. To help it discharges this responsibility to a Financial Review committee, chaired by the CFO, which reviews in detail the results of all material operating subsidiary companies with the external auditors and management of the respective subsidiary. This review committee reports its findings to the Group Audit, Risk and Compliance committee.

The external and internal auditors have unrestricted access to the committee and all of its members throughout the year.

Each year the committee must consider and be satisfied of the appropriateness of the expertise, experience and adequacy of the finance function and in particular the Chief Finance Officer and senior finance team.

In respect of the above, the committee is satisfied that the Company's finance function and in particular its CFO, Dennis Cope, possess the appropriate level of expertise and experience to fulfil its responsibilities to the Board and the Group.

## Remuneration report

This report sets out the Group's remuneration philosophy, the implementation thereof and the guidelines and assumptions used when determining senior executives' pay packages. The report and the recommendations of the Remuneration committee have been approved by the Board and will be submitted to shareholders for consideration at the AGM. For detailed disclosure of the remuneration of directors please refer to page 54.

### Remuneration committee

The Remuneration committee, which meets at least twice a year, is chaired by an independent non-executive director and comprises only non-executive directors. The committee is responsible for reviewing and recommending the remuneration of executive and non-executive directors and senior management, to the Board. The Remuneration committee bases its recommendations upon the achievement of certain Key Performance Indicators (KPIs) by senior executives and prevailing market conditions.

### Remuneration committee meetings attendance

| Director | 20 April 2009 | 19 Oct 2009 |
|---|---|---|
| HS Herman (Chairman) | P | P |
| GM Ackerman | P | P |
| BJ van der Ross | P | P |

P = Present

### Non-executive directors' fees

In respect of non-executive directors, the Remuneration committee proposes fees to be paid for the membership of the Board and board committees. Such fees are market related, commensurate with the time required to undertake their duties and are approved by the Board and shareholders. Such remuneration is not linked to the performance of the Group or its share performance.

**Fees for the current year and proposed for next year are as follows:**

| | **Proposed 2011 R** | 2010 R |
|---|---|---|
| Chairman of the Board | **3 000 000** | 1 500 |
| Lead non-executive director | **95 000** | 88 000 |
| Member of the Board | **280 000** | 265 000 |
| Chairman of the Audit, Risk and Compliance committee | **235 000** | 220 000 |
| Member of the Audit, Risk and Compliance committee | **95 000** | 88 000 |
| Chairman of the Remuneration committee | **120 000** | 110 000 |
| Member of the Remuneration committee | **60 000** | 55 000 |
| Member of the Nominations committee | **53 000** | 50 000 |

### Remuneration philosophy

The Group's philosophy is to remunerate its employees fairly in relation to the market and nature of services they provide. Employees may attract above market related remuneration in order to retain skills and experience. The Remuneration committee ensures that an appropriate portion of senior executives' remuneration is performance related. The committee considers KPIs when setting executive director and senior management's short-term incentives. In addition to cash remuneration (base pay, retirement and medical fund contributions, performance bonus, other fringe benefits), employees are afforded the opportunity to participate in Group share schemes, which align the interests of management to that of shareholders.

## Remuneration report *(continued)*

### Base pay

The Remuneration committee reviews the salaries of executive directors and senior management annually. They reflect the relative skill, experience, contribution by and performance of the individual.

### Retirement and medical

Pick n Pay contributes a total of 16.48% of salary towards retirement funding of executive directors and employees. In addition, the Company also contributes to the medical scheme.

### Performance bonus

Performance bonuses awarded to management are based on the Group and individual performance in achieving KPI targets such as budgets set by the Board, growth in headline earnings per share and milestones attached to the implementation of Group strategy.

### Other fringe benefits

Executive directors and management are granted the use of a company vehicle which includes service and maintenance, fuel and insurance. Vehicle bands vary according to management levels. Management have the choice of accepting a car allowance in lieu of a company car which value is determined by the vehicle band associated to their level of management.

### Share option scheme

All permanent employees participate in the Group's share option scheme. Share options are allocated for both years of service and status within the Group. It is the Group's philosophy to recognise all employees and to reward employees with a part ownership. Status share options have vesting conditions relating to years of service and can only be exercised when the vesting conditions are met. For further information on share schemes offered by the Group please refer to page 57.

The value of share options awarded to management is dependent on their level of seniority and the influence they may have over Group performance and strategy implementation. All options granted to executive directors and senior management are approved by the Remuneration committee and where appropriate may be linked to the attainment of certain share price growth hurdles. For further information regarding share options granted to directors refer pages 55 and 56.

## Corporate governance – Pick n Pay Holdings Limited

This report considers the corporate governance of Pick n Pay Holdings Limited which is the controlling company of Pick n Pay Stores Limited. Please note that only principles specific to Pick n Pay Holdings Limited are dealt with here as the majority of the principles have already been discussed in the Pick n Pay Stores Limited Corporate Governance report above.

### Directors

The Board comprises five directors who are all non-executive. In addition, there are three alternate directors who are available to step in for a non-executive director should the need arise. Three of the five non-executive directors are also non-executive directors of Pick n Pay Stores Limited and two directors are considered independent, which independence has been thoroughly scrutinised given their years of service on the Board.

As the Chairman, Raymond Ackerman, is not independent, Hugh Herman has been appointed as the Lead Independent Director (LID). All members of the board have unfettered access to the LID when required.

### Appointment of directors

The process of appointment followed is the same as disclosed for Pick n Pay Stores Limited.

On appointment to the Pick n Pay Holdings Limited Board (the Board) a new director is required to retire and offer themselves for re-election to the Board by shareholders at the first AGM following their original appointment.

### Board committees

The Board has appointed a separate Audit committee consisting of independent non-executive directors but it does not have separate Remuneration, Risk, Nomination and Corporate Governance committees as the tasks relating to these committees are undertaken by the Board as a whole.

### Audit committee

The responsibilities of this committee are the same as those set out in the Audit, Risk and Compliance committee for Pick n Pay Stores Limited, except limited to its sole investment in Pick n Pay Stores Limited. The committee meets twice a year to review the results of the Group, to ensure that the governance processes in place for the Group are adequate and to ensure that the carrying value of its investment is recoverable. These findings are reported to the Board within one week of the meetings. Refer to page 31 for attendance of members at meetings.

## Remuneration report

No separate Remuneration report is presented as the only remuneration paid by the Company is director's remuneration which is approved by the Board as a whole.

### Fees for the current year and proposed for next year are as follows:

| | Proposed 2011 R | 2010 R |
|---|---|---|
| Member of the board not serving on the Pick n Pay Stores Limited Board | **53 000** | 50 000 |

## Aspects of King III under review

Over the next financial year the Group will consider application of the following King III proposals:

- The Pick n Pay Holdings Limited Board of directors currently does not comply with the minimum requirement of two executive directors per King III. In this regard, the Company has been granted dispensation by the JSE as it is felt that there would be little benefit obtained from the appointment of executive directors as the Company has no material operating activities other than the receipt of and payment of dividends and assessment of the carrying value of its only investment in Pick n Pay Stores Limited.
- The majority of the directors are not independent and the structure is currently under review by the Board.
- The appointment of a third member of the audit committee.

## Directors' attendance at meetings

### Board meetings

| Director | 21 April 2009 | 12 June 2009 | 20 Oct 2009 | 22 Feb 2010 | AGM 12 June 2009 |
|---|---|---|---|---|---|
| GM Ackerman (Chairman to 1 March 2010) | P | P | P | P | P |
| RD Ackerman (Chairman from 1 March 2010) | P | P | P | P | P |
| W Ackerman | P | P | P | A | P |
| RP de Wet | P | P | P | P | P |
| HS Herman | P | P | P | P | P |

### Audit committee meetings

| Director | Qualification | Date appointed | 20 April 2009 | 19 Oct 2009 |
|---|---|---|---|---|
| RP de Wet (Chairman) | CA(SA) | June 2008 | P | P |
| HS Herman | Attorney | June 2008 | P | P |

P = Present A = Apology

# Analysis of shareholders

**as at 28 February 2010**

## Pick n Pay Stores Limited

| Shareholder spread<br>No. of shares held | No. of share-holders | % | No. of shares millions | % |
|---|---|---|---|---|
| 1 – 1 000 | 5 510 | 54.9 | 2.3 | 0.5 |
| 1 001 – 10 000 | 3 534 | 35.2 | 11.5 | 2.4 |
| 10 001 – 100 000 | 792 | 7.9 | 24.5 | 5.1 |
| 100 001 – 1 000 000 | 176 | 1.8 | 56.2 | 11.7 |
| 1 000 001 and over | 22 | 0.2 | 385.9 | 80.3 |
| **Total** | **10 034** | **100.0** | **480.4** | **100.0** |
| **Distribution of shareholders** | | | | |
| Banks | 91 | 0.9 | 36.7 | 7.7 |
| Brokers | 58 | 0.6 | 7.8 | 1.6 |
| Close corporations | 97 | 1.0 | 0.5 | 0.1 |
| Endowment funds | 59 | 0.6 | 1.6 | 0.3 |
| Holding company | 1 | — | 257.3 | 53.6 |
| Individuals | 7 703 | 76.8 | 23.7 | 4.9 |
| Insurance companies | 37 | 0.4 | 21.3 | 4.4 |
| Investment companies | 13 | 0.1 | 20.8 | 4.3 |
| Medical aid schemes | 11 | 0.1 | 0.9 | 0.2 |
| Mutual funds | 221 | 2.2 | 35.6 | 7.4 |
| Nominees and trusts | 1 327 | 13.2 | 12.7 | 2.7 |
| Other corporations | 73 | 0.7 | 0.2 | — |
| Pension funds | 165 | 1.6 | 52.5 | 11.0 |
| Pick n Pay Employee Share Trust | 1 | — | 6.8 | 1.4 |
| Private companies | 167 | 1.7 | 1.5 | 0.3 |
| Public companies | 10 | 0.1 | 0.5 | 0.1 |
| **Total** | **10 034** | **100.0** | **480.4** | **100.0** |
| **Public/non-public shareholders** | | | | |
| **Non-public shareholders** | 10 | 0.1 | 267.0 | 55.6 |
| Directors, including alternates | 8 | 0.1 | 2.9 | 0.6 |
| Pick n Pay Holdings Limited | 1 | — | 257.3 | 53.6 |
| Pick n Pay Employee Share Trust | 1 | — | 6.8 | 1.4 |
| **Public shareholders** | 10 024 | 99.9 | 213.4 | 44.4 |
| **Total** | **10 034** | **100.00** | **480.4** | **100.0** |
| **Beneficial shareholders holding 1% or more** | | | | |
| Pick n Pay Holdings Ltd | | | 257.3 | 53.6 |
| Government Employees Pension Fund | | | 49.5 | 10.3 |
| Liberty Life Assurance of Africa Ltd | | | 17.0 | 3.5 |
| Sanlam | | | 13.0 | 2.7 |
| Pick n Pay Employee Share Trust | | | 6.8 | 1.4 |

## Pick n Pay Holdings Limited

| Shareholder spread<br>No. of shares held | No. of share-holders | % | No. of shares millions | % |
|---|---|---|---|---|
| 1 – 1 000 | 2 996 | 23.1 | 1.8 | 0.3 |
| 1 001 – 10 000 | 7 673 | 59.0 | 30.3 | 5.7 |
| 10 001 – 100 000 | 2 027 | 15.6 | 56.4 | 10.7 |
| 100 001 – 1 000 000 | 255 | 2.0 | 75.7 | 14.4 |
| 1 000 001 and over | 43 | 0.3 | 363.0 | 68.9 |
| **Total** | **12 994** | **100.0** | **527.2** | **100.0** |
| **Distribution of shareholders** | | | | |
| Banks | 36 | 0.3 | 4.1 | 0.8 |
| Brokers | 26 | 0.2 | 4.5 | 0.8 |
| Close corporations | 93 | 0.7 | 1.3 | 0.2 |
| Endowment funds | 117 | 0.9 | 4.2 | 0.8 |
| Individuals | 9 336 | 71.9 | 65.9 | 12.5 |
| Insurance companies | 14 | 0.1 | 8.7 | 1.7 |
| Investment companies | 19 | 0.1 | 2.2 | 0.4 |
| Medical aid schemes | 9 | 0.1 | 0.3 | — |
| Mutual funds | 135 | 1.0 | 75.2 | 14.3 |
| Nominees and trusts | 2 743 | 21.1 | 303.7 | 57.6 |
| Other corporations | 82 | 0.6 | 0.5 | 0.1 |
| Pension funds | 127 | 1.0 | 37.8 | 7.2 |
| Pick n Pay Employee Share Trust | 1 | — | 10.1 | 2.0 |
| Private companies | 243 | 1.9 | 8.3 | 1.5 |
| Public companies | 13 | 0.1 | 0.4 | 0.1 |
| **Total** | **12 994** | **100.0** | **527.2** | **100.0** |
| **Public/non-public shareholders** | | | | |
| **Non-public shareholders** | 13 | 0.1 | 279.0 | 52.9 |
| Directors of the Company and its Subsidiary | 9 | 0.1 | 11.8 | 2.2 |
| Ackerman Family Trust | 1 | — | 254.9 | 48.3 |
| Group Pension Scheme | 1 | — | 0.4 | 0.1 |
| Pick n Pay Employee Share Trust | 1 | — | 10.1 | 2.0 |
| The Blue Ribbon Meat Corporation (Pty) Ltd | 1 | — | 1.8 | 0.3 |
| **Public shareholders** | 12 981 | 99.9 | 248.3 | 47.1 |
| **Total** | **12 994** | **100.0** | **527.2** | **100.0** |
| **Beneficial shareholders holding 1% or more** | | | | |
| Ackerman Family Trust | | | 254.9 | 48.3 |
| Investec Opportunity Fund | | | 11.5 | 2.2 |
| Pick n Pay Employee Share Trust | | | 10.1 | 2.0 |
| Symmetry Inflation Plus Fund No. 4 | | | 6.1 | 1.2 |

# Shareholders' information

## Annual general meetings (AGMs) – 18 June 2010

Registration commences at 09h00 for the AGMs of Pick n Pay Stores Limited and Pick n Pay Holdings Limited, to be held at 09h30 and 10h00, respectively. The venue for the AGMs will be the conference centre at the registered office, Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town.

The minutes of the previous year's AGMs held on 12 June 2009 are available on our website.

## Dividends

| | Pick n Pay Stores Limited | | Pick n Pay Holdings Limited | | | |
|---|---|---|---|---|---|---|
| | Share code: PIK | | Share code: PWK | | | |
| | ISIN code: ZAE000005443 | | ISIN code: ZAE000005724 | | | |
| | Number | Amount (cents) | Number | Amount (cents) | Last day of trade | Date of payment |
| Interim | 81 | 35.75 | 54 | 17.45 | 5 Dec 2008 | 15 Dec 2008 |
| Final | 82 | 134.25 | 55 | 65.52 | 5 June 2009 | 15 June 2009 |
| Interim | 83 | 39.75 | 56 | 19.31 | 4 Dec 2009 | 14 Dec 2009 |
| Final | 84 | 134.75 | 57 | 65.63 | 4 June 2010 | 14 June 2010 |
| Interim | 85 | | 58 | | 3 Dec 2010 | 13 Dec 2010 |
| Final | 86 | | 59 | | 3 June 2011 | 13 June 2011 |

## Preliminary profit announcements

Interim to 31 August 2010: about 20 October 2010
Final to 28 February 2011: about 20 April 2011

## Publication of 2011 annual report

Mid-May 2011

## Registered office

Pick n Pay Office Park, 101 Rosmead Avenue
Kenilworth, Cape Town, 7708

## Company Secretary

Gary Lea

### Business address

Pick n Pay Office Park, 101 Rosmead Avenue
Kenilworth, Cape Town, 7708

### Postal address

PO Box 23087, Claremont, 7735
Tel +27(0)21 658-1000. Fax +27(0)21 797-0314
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Information Officer – Penny Gerber
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## Website address

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## Web editor

Angela Kay
E-mail address: akay@pnp.co.za

## Registrar

Computershare Investor Services (Pty) Limited
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
Tel +27(0)11 370-5000. Fax +27(0)11 688-5248

## Auditors

KPMG Inc. – Group and southern African operations
Ernst & Young – Australia

## Attorneys

Edward Nathan Sonnenbergs Inc.

## Principal bankers

Absa Limited
First National Bank

## JSE Limited sponsor

Investec Bank Limited, 100 Grayston Drive, Sandton, 2196

# Annual financial statements, other information and AGM notices and proxies

## Contents

### Pick n Pay Stores Limited and its subsidiaries

Reg. No. 1968/008034/06
Share code: PIK ISIN code: ZAE 000005443



### Pick n Pay Holdings Limited and its subsidiaries

Reg. No. 1981/009610/06
Share code: PWK ISIN code: ZAE 000005724



### Other information, AGM notices and proxies

# Pick n Pay Stores Limited and its subsidiaries

## Directors' responsibility for the Company and Group annual financial statements

The directors are responsible for the preparation and fair presentation of the Company and Group annual financial statements of Pick n Pay Stores Limited and its subsidiaries comprising the directors' report, the statements of comprehensive income for the year ended 28 February 2010, balance sheets at 28 February 2010, and the statements of changes in equity and cash flow statements for the year then ended, a summary of significant accounting policies and the notes to the financial statements, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the Company's and Group's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

## Directors' approval

The directors acknowledge and accept full responsibility for the preparation and integrity of the information presented in the Company and Group annual financial statements for the year ended 28 February 2010.

These Company and Group annual financial statements of Pick n Pay Stores Limited, which have been prepared in accordance with the Companies Act of South Africa and comply with International Financial Reporting Standards, were approved by the Board of directors on 10 May 2010 and are signed on their behalf by:

**Gareth Ackerman**
*Chairman*

**Nick Badminton**
*Chief Executive Officer*

**Dennis Cope**
*Chief Finance Officer*

## Company Secretary's certificate

In terms of section 268G (d) of the Companies Act No. 61 of 1973, as amended, I certify that Pick n Pay Stores Limited has lodged with the Registrar of Companies all such returns as are required by the Companies Act, and that all such returns are true, correct and up to date.

**Gary Lea**
*Company Secretary*

10 May 2010

Financial statements

# Independent auditor's report

**for the year ended 28 February 2010**

### To the members of Pick n Pay Stores Limited

We have audited the Company and Group annual financial statements of Pick n Pay Stores Limited which comprise the statements of comprehensive income for the year ended 28 February 2010, the balance sheets at 28 February 2010, and the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 37 to 87.

### Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

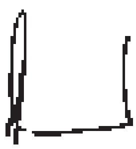
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Pick n Pay Stores Limited at 28 February 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

**KPMG Inc.**
*Registered Auditor*



Per **Patrick Farrand**
*Chartered Accountant (SA)*
Registered Auditor
Director
10 May 2010

MSC House
Mediterranean Street
Cape Town
8001

# Directors' report

**for the year ended 28 February 2010**

### Nature of business

The Company, which is domiciled and incorporated in the Republic of South Africa and listed on the JSE Limited, the recognised securities exchange in South Africa, is an investment holding company. The Group comprises trading subsidiaries that retail food, clothing, general merchandise, pharmaceuticals and liquor throughout southern Africa and in New South Wales, Australia, both on an owned and franchise basis. Subsidiary companies also, on occasion, acquire and develop strategic retail and distribution sites.

### General review

The Group statement of comprehensive income is presented on page 39 and reflects the Group's operational results.

The Group's headline earnings from continuing operations and dividends for the year are as follows:

| Per share – cents | 2010 | % increase | 2009 |
|---|---|---|---|
| Headline earnings | **236.33** | 1.1 | 233.86 |
| Dividends* | **174.50** | 2.6 | 170.00 |

*The dividend per share presented is the interim dividend paid in the current year and the final dividend declared after year-end, but in respect of current year profit.

### Audit, Risk and Compliance committee

We draw your attention to the Audit, Risk and Compliance committee report on pages 27 and 28 where we set out the responsibilities of the committee and how it has discharged these responsibilities during the year.

### Dividends paid and declared

A cash dividend (number 82) of 134.25 cents per share was paid to shareholders on 15 June 2009.

A cash dividend (number 83) of 39.75 cents per share was paid to shareholders on 14 December 2009.

For further details refer to note 7, on page 62.

The directors have declared a cash dividend (number 84) of 134.75 cents per share. The last day of trade in order to participate in the dividend (CUM dividend) will be Friday, 4 June 2010. Shares will trade EX dividend from the commencement of business on Monday, 7 June 2010 and the record date is Friday, 11 June 2010. The dividend will be paid on Monday, 14 June 2010. Share certificates may not be dematerialised or rematerialised between Monday, 7 June 2010 and Friday, 11 June 2010, both dates inclusive.

As dividend number 84 was declared on 20 April 2010 it will only be accounted for in the 2011 financial year. The declaration of this dividend will result in a charge for secondary tax on companies of approximately R61.8 million, which will be accounted for in the 2011 financial year.

### Share capital

The movement in the number of issued ordinary shares in the capital of the Company during the year was:

| | |
|---|---|
| As at 1 March 2009 | 506 133 882 |
| Shares repurchased and cancelled | (25 736 561) |
| As at 28 February 2010 | 480 397 321 |

On 25 February 2010 the Company repurchased and cancelled 25 736 561 ordinary shares, which were held as treasury shares by a subsidiary company. As the transaction was between the Company and a subsidiary company the cancellation of the shares had no financial impact, other than R2.7 million paid in Securities Transfer Tax. For further information refer note 19.3, on page 69.

At year-end the Pick n Pay Employee Share Purchase Trust held 6 780 488 (2009: 7 614 604) shares in the Company and 10 077 639 (2009: 10 418 493) shares in Pick n Pay Holdings Limited. A subsidiary company held 1 784 303 (2009: 1 708 203) shares in Pick n Pay Holdings Limited, all of which are accounted for as treasury shares. These shares are held to meet obligations of options granted.

### Going concern

These annual financial statements have been prepared on the going concern basis.

The Board has performed a formal review of the Group's ability to continue trading as a going concern in the foreseeable future and, based on this review; consider that the presentation of the financial statements on this basis is appropriate.

There are no pending or threatened legal or arbitration proceedings which have had or may have a material effect on the financial position of the Company or the Group.

### Special resolutions

On 12 June 2009 the Company's shareholders approved the following special resolution:

#### General authority to repurchase Company shares

It was resolved that the Company or any of its subsidiaries may, in accordance with sections 85 and 89 of the Companies Act, acquire issued shares of the Company or its holding company, upon such terms and conditions and in such amounts as the directors of the Company may determine from time to time. Acquisition of such shares is subject to the articles of association of the Company, the provisions of the Companies Act and the Listings Requirements of the JSE Limited (JSE), and provided further that acquisitions by the Company and its subsidiaries of shares in the Company may not, in the aggregate, exceed in any one financial year 10% of the Company's issued share capital.

#### Subsidiary companies' special resolutions

100%-owned subsidiary companies, Carrefour (Pty) Limited and Pick n Pay (Mitchells Plain) (Pty) Limited passed special resolutions in terms of section 228 of the Companies Act, to sell their only asset being investment property.

### Directors and Secretary

In terms of the Company's articles of association the directors listed on page 104 retire by rotation and they offer themselves for re-election. Information pertaining to the directors and the Company Secretary appear on pages 12 to 13.

### Holding company

The holding company is Pick n Pay Holdings Limited.

### Directors' interest in shares

| | 2010<br>% | 2009<br>% |
|---|---|---|
| Beneficial | **1.1** | 1.1 |
| Non-beneficial | **27.6** | 27.7 |
| **Total** | **28.7** | 28.8 |

The directors' interest in shares is their effective direct shareholding in the Company (excluding treasury shares) and their effective indirect shareholding through Pick n Pay Holdings Limited (excluding treasury shares).

### Subsidiary companies

Details of subsidiary companies are presented in note 21.

### Borrowings

The Group's overall level of debt decreased from R716.4 million to R709.5 million during the year.

### Subsequent events

There have been no facts or circumstances of a material nature that have arisen between the financial year-end and the date of this report.

# Statements of comprehensive income

**for the year ended 28 February 2010**

| | Notes | GROUP 2010 Rm | GROUP 2009 Rm* | COMPANY 2010 Rm | COMPANY 2009 Rm* |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Revenue** | 1 | **54 996.9** | 50 135.8 | **1 811.2** | 778.7 |
| **Turnover** | | **54 734.5** | 49 862.1 | **—** | — |
| Cost of merchandise sold | | **(44 576.4)** | (40 404.7) | **—** | — |
| **Gross profit** | | **10 158.1** | 9 457.4 | **—** | — |
| Other trading income | 1 | **186.5** | 201.8 | **—** | — |
| Trading expenses | | **(8 685.9)** | (7 949.9) | **(1.9)** | (1.6) |
| Employee costs | 2 | **(4 925.6)** | (4 615.0) | **—** | — |
| Occupancy | | **(1 225.9)** | (1 071.2) | **—** | — |
| Operations | | **(1 651.1)** | (1 414.1) | **—** | — |
| Merchandising and administration | | **(883.3)** | (849.6) | **(1.9)** | (1.6) |
| Loss on sale of equipment and vehicles | | **(5.6)** | (13.7) | **—** | — |
| **Trading profit/(loss)** | | **1 653.1** | 1 695.6 | **(1.9)** | (1.6) |
| Interest received | 1 | **75.9** | 71.9 | **0.3** | — |
| Interest paid | 2 | **(91.6)** | (107.5) | **—** | — |
| Profit on sale of property | | **190.9** | 68.7 | **—** | — |
| Profit on sale of stores | 1 | **—** | 15.1 | **—** | — |
| **Operating profit/(loss)** | 2 | **1 828.3** | 1 743.8 | **(1.6)** | (1.6) |
| Dividends received | 1 | **—** | — | **1 810.9** | 778.7 |
| **Profit before tax** | | **1 828.3** | 1 743.8 | **1 809.3** | 777.1 |
| Tax | 5.1 | **(531.9)** | (570.5) | **(0.1)** | — |
| **Profit for the year from continuing operations** | | **1 296.4** | 1 173.3 | **1 809.2** | 777.1 |
| Loss for the year from discontinued operation | 18 | **(107.5)** | (118.5) | **—** | — |
| **Profit for the year** | | **1 188.9** | 1 054.8 | **1 809.2** | 777.1 |
| **Other comprehensive income** | | | | | |
| Exchange rate differences on translating foreign operations | | **73.8** | (98.8) | **—** | — |
| Retirement benefit actuarial losses | | **(34.3)** | (6.5) | **—** | — |
| **Total comprehensive income for the year** | | **1 228.4** | 949.5 | **1 809.2** | 777.1 |
| **Earnings/(losses) per share – cents** | | | | | |
| Basic | 6 | **251.25** | 223.60 | | |
| Continuing operations | | **273.97** | 248.72 | | |
| Discontinued operation | | **(22.72)** | (25.12) | | |
| Diluted | 6 | **247.40** | 221.81 | | |
| Continuing operations | | **269.76** | 246.73 | | |
| Discontinued operation | | **(22.36)** | (24.92) | | |

*Restated – refer to note 31.

Financial statements

# Balance sheets

## as at 28 February 2010

| | Notes | GROUP 2010 Rm | GROUP 2009 Rm | COMPANY 2010 Rm | COMPANY 2009 Rm* |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 8 | **1 126.7** | 1 093.6 | **—** | — |
| Interest in subsidiaries | 21 | **—** | — | **159.2** | 262.3 |
| Property, equipment and vehicles | 9 | **3 415.5** | 2 937.0 | **—** | — |
| Operating lease asset | 24.1 | **33.5** | 19.3 | **—** | — |
| Participation in export partnerships | 13 | **50.6** | 57.9 | **—** | — |
| Deferred tax | 14 | **98.1** | 99.8 | **—** | — |
| Loans | 12 | **124.7** | 128.6 | **—** | — |
| Investments | 10 | **0.2** | 0.2 | **0.2** | 0.2 |
| | | **4 849.3** | 4 336.4 | **159.4** | 262.5 |
| **Current assets** | | | | | |
| Assets held for sale – discontinued operation | 18 | **—** | 62.6 | **—** | — |
| Inventory | 15 | **3 326.2** | 3 334.5 | **—** | — |
| Trade and other receivables | 16 | **1 968.0** | 1 769.5 | **—** | — |
| Tax | 5.4 | **—** | — | **—** | 1.9 |
| Cash and cash equivalents | 17 | **1 055.3** | 1 072.8 | **—** | — |
| | | **6 349.5** | 6 239.4 | **—** | 1.9 |
| **Total assets** | | **11 198.8** | 10 575.8 | **159.4** | 264.4 |
| **Equity and liabilities** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | 19.1 | **6.0** | 6.3 | **6.0** | 6.3 |
| Share premium | 19.2 | **—** | 121.7 | **—** | 121.7 |
| Treasury shares | 20.1 | **(261.2)** | (743.6) | **—** | — |
| Accumulated profits | | **2 050.4** | 2 035.5 | **147.9** | 134.5 |
| Foreign currency translation reserve | | **349.4** | 275.6 | **—** | — |
| **Total shareholders' equity** | | **2 144.6** | 1 695.5 | **153.9** | 262.5 |
| **Non-current liabilities** | | | | | |
| Long-term debt | 22 | **670.8** | 678.1 | **—** | — |
| Retirement scheme obligations | 23.4 | **24.7** | 8.2 | **—** | — |
| Operating lease liability | 24.2 | **695.9** | 658.5 | **—** | — |
| | | **1 391.4** | 1 344.8 | **—** | — |
| **Current liabilities** | | | | | |
| Short-term debt | 22 | **38.7** | 38.3 | **—** | — |
| Tax | 5.4 | **230.5** | 181.4 | **—** | — |
| Trade and other payables | 25 | **7 393.6** | 7 315.8 | **5.5** | 1.9 |
| | | **7 662.8** | 7 535.5 | **5.5** | 1.9 |
| **Total equity and liabilities** | | **11 198.8** | 10 575.8 | **159.4** | 264.4 |

*Restated – refer to note 31.2.

# Statements of changes in equity

**for the year ended 28 February 2010**

| | Notes | Share capital Rm | Share premium Rm | Treasury shares Rm | Accumulated profits Rm | Foreign currency translation reserve Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| **GROUP** | | | | | | | |
| **At 1 March 2008** | | 6.3 | 121.7 | (814.3) | 1 652.8 | 374.4 | 1 340.9 |
| **Total comprehensive income for the year** | | — | — | — | 1 048.3 | (98.8) | 949.5 |
| Profit for the year, as restated | 31 | | | | 1 054.8 | | 1 054.8 |
| Foreign currency translation differences | | | | | | (98.8) | (98.8) |
| Change in accounting policy | 31 | | | | (6.5) | | (6.5) |
| **Transactions with owners** | | | | 70.7 | (665.6) | — | (594.9) |
| Dividends paid | 7 | | | | (717.8) | | (717.8) |
| Share repurchases | 20.1 | | | (21.6) | | | (21.6) |
| Net effect of settlement of employee share options | 20.1 | | | 92.3 | (6.9) | | 85.4 |
| Share options expense | 4.3 | | | | 59.1 | | 59.1 |
| **At 28 February 2009** | | **6.3** | **121.7** | **(743.6)** | **2 035.5** | **275.6** | **1 695.5** |
| **Total comprehensive income for the year** | | **—** | **—** | **—** | **1 154.6** | **73.8** | **1 228.4** |
| Profit for the year | | | | | **1 188.9** | | **1 188.9** |
| Actuarial losses | | | | | **(34.3)** | | **(34.3)** |
| Foreign currency translation differences | | | | | | **73.8** | **73.8** |
| **Transactions with owners** | | **(0.3)** | **(121.7)** | **482.4** | **(1 139.7)** | **—** | **(779.3)** |
| Dividends paid | 7 | | | | **(814.6)** | | **(814.6)** |
| Share repurchases | 20.1 | | | **(80.1)** | | | **(80.1)** |
| Net effect of settlement of employee share options | 20.1 | | | **92.6** | **(40.5)** | | **52.1** |
| Cancellation of treasury shares | 19.3 | **(0.3)** | **(121.7)** | **469.9** | **(350.6)** | | **(2.7)** |
| Share options expense | 4.3 | | | | **66.0** | | **66.0** |
| **At 28 February 2010** | | **6.0** | **—** | **(261.2)** | **2 050.4** | **349.4** | **2 144.6** |
| **COMPANY** | | | | | | | |
| **At 1 March 2008** | | 6.3 | 121.7 | — | 135.6 | — | 263.6 |
| **Total comprehensive income for the year** | | — | — | — | 777.1 | — | 777.1 |
| Profit for the year, as restated | 31.2 | | | | 777.1 | | 777.1 |
| **Transactions with owners** | | — | — | — | (778.2) | — | (778.2) |
| Dividends paid | 7 | | | | (778.2) | | (778.2) |
| **At 28 February 2009** | | **6.3** | **121.7** | **—** | **134.5** | **—** | **262.5** |
| **Total comprehensive income for the year** | | **—** | **—** | | **1 809.2** | **—** | **1 809.2** |
| Profit for the year | | | | | **1 809.2** | | **1 809.2** |
| **Transactions with owners** | | **(0.3)** | **(121.7)** | **—** | **(1 795.8)** | **—** | **(1 917.8)** |
| Dividends paid | 7 | | | | **(880.7)** | | **(880.7)** |
| Cancellation of treasury shares | 19.3 | **(0.3)** | **(121.7)** | **—** | **(915.1)** | | **(1 037.1)** |
| **At 28 February 2010** | | **6.0** | **—** | **—** | **147.9** | **—** | **153.9** |

# Cash flow statements

## for the year ended 28 February 2010

| | Notes | GROUP 2010 Rm | GROUP 2009 Rm* | COMPANY 2010 Rm | COMPANY 2009 Rm* |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Trading profit/(loss) | | **1 653.1** | 1 695.6 | **(1.9)** | (1.6) |
| Loss on sale of equipment and vehicles | | **5.6** | 13.7 | **—** | — |
| Depreciation and amortisation | 2 | **735.3** | 615.8 | **—** | — |
| Share options expense | 4.3 | **65.2** | 59.1 | **—** | — |
| Net operating lease obligations | | **36.5** | 33.4 | **—** | — |
| **Cash generated/(utilised) before movements in working capital** | | **2 495.7** | 2 417.6 | **(1.9)** | (1.6) |
| **Movements in working capital** | | **(47.0)** | 212.0 | **3.6** | 0.2 |
| Increase in trade and other payables | | **268.5** | 1 148.8 | **3.6** | 0.1 |
| Increase in inventory | | **(148.9)** | (415.2) | **—** | — |
| (Increase)/decrease in trade and other receivables | | **(166.6)** | (521.6) | **—** | 0.1 |
| Amounts received from a subsidiary company | 21.2 | **—** | — | **103.1** | 0.9 |
| **Cash generated by/(utilised in) trading activities** | | **2 448.7** | 2 629.6 | **104.8** | (0.5) |
| Interest received | 1 | **75.9** | 71.9 | **0.3** | — |
| Interest paid | 2 | **(91.6)** | (107.5) | **—** | — |
| **Cash generated by/(utilised in) operations** | | **2 433.0** | 2 594.0 | **105.1** | (0.5) |
| Dividends received | 1 | **—** | — | **1 810.9** | 778.7 |
| Dividends paid | 7 | **(814.6)** | (717.8) | **(880.7)** | (778.2) |
| Tax (paid)/received | 5.4 | **(457.5)** | (567.7) | **1.8** | — |
| **Net cash from operating activities – continuing operations** | | **1 160.9** | 1 308.5 | **1 037.1** | — |
| Net cash utilised in operating activities – discontinued operation | 18 | **(212.7)** | (56.1) | **—** | — |
| **Total net cash from operating activities** | | **948.2** | 1 252.4 | **1 037.1** | — |
| **Cash flows from investing activities** | | | | | |
| **Investment in property, equipment and vehicles to expand operations** | | **(367.3)** | (386.0) | **—** | — |
| Intangible asset additions | 8.2 | **(50.3)** | (52.9) | **—** | — |
| Property additions | 9 | **(140.3)** | (46.7) | **—** | — |
| Equipment and vehicle additions | 9 | **(176.7)** | (286.4) | **—** | — |
| **Investment in property, equipment and vehicles to maintain operations** | | **(826.2)** | (616.5) | **—** | — |
| Intangible asset additions | 8.2 | **(1.2)** | (13.2) | **—** | — |
| Property additions | 9 | **(8.6)** | (5.6) | **—** | — |
| Aircraft additions | 9 | **(0.7)** | — | **—** | — |
| Equipment and vehicle additions | 9 | **(815.7)** | (597.7) | **—** | — |
| Proceeds on disposal of property | | **207.5** | 78.0 | **—** | — |
| Proceeds on disposal of equipment and vehicles | | **1.9** | 21.8 | **—** | — |
| Loans repaid/(advanced) | | **3.9** | (7.9) | **—** | — |
| **Net cash utilised in investing activities – continuing operations** | | **(980.2)** | (910.6) | **—** | — |
| Net cash from investing activities – discontinued operation (net proceeds on closure) | 18 | **56.8** | 68.9 | **—** | — |
| **Total net cash utilised in investing activities** | | **(923.4)** | (841.7) | **—** | — |
| **Cash flows from financing activities** | | | | | |
| Debt repaid | | **(6.9)** | (1.3) | **—** | — |
| Share repurchases | 20.1, 19.3 | **(80.1)** | (21.6) | **(1 037.1)** | — |
| Proceeds from employees on settlement of share options | | **36.4** | 31.3 | **—** | — |
| **Net cash (utilised in)/from financing activities – continuing operations** | | **(50.6)** | 8.4 | **(1 037.1)** | — |
| **Net (decrease)/increase in cash and cash equivalents** | | **(25.8)** | 419.1 | **—** | — |
| Cash and cash equivalents at 1 March | | **1 072.8** | 663.2 | **—** | — |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **8.3** | (9.5) | **—** | — |
| **Cash and cash equivalents at 28 February** | 17 | **1 055.3** | 1 072.8 | **—** | — |

*Restated – refer to note 31.

# Accounting policies

Pick n Pay Stores Limited is domiciled in South Africa. The consolidated financial statements of the Company for the year ended 28 February 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its associate, TM Supermarkets (Pvt) Limited.

The financial statements were approved by the directors and authorised for issue on 10 May 2010.

These consolidated financial statements are presented in South African rands, which is the Company's functional currency. All financial information has been rounded to the nearest million, unless otherwise stated.

They are prepared on the historical-cost basis except for:

> assets held for sale measured at fair value.

> derivative financial instruments at fair value through profit and loss.

All accounting policies have been applied consistently by all Group companies.

Non-current assets and asset disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

## Statement of compliance with International Financial Reporting Standards (IFRS)

The consolidated and separate financial statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Estimates, and associated assumptions, are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities. Actual results may differ from these estimates. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 4 – measurement of share–based payments

Note 8.1 – measurement of the recoverable amounts of cash-generating units containing goodwill

Note 8.2 – estimates of useful lives and residual values of software development (intangible assets)

Note 9 – estimates of useful lives and residual values of property, equipment and vehicles

Note 11 – the impairment review undertaken in respect of our foreign associate in Zimbabwe

Note 14 – the recognition of deferred tax assets

Note 16 – the estimation of the impairment provision for trade receivables

Note 18 – the classification of Score Supermarkets Operating Limited as a discontinued operation

Note 22 – classification of finance leases

Note 23.4 – measurement of defined benefit obligations

Note 24 – classification of operating leases

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except for IAS 1: Presentation of Financial Statements and the changes in accounting policies with regards to retirement benefits (IAS 19), borrowing costs (IAS 23) and segmental reporting (IFRS 8). The Group has adopted the statement of comprehensive income which replaces the income statement, however it has not changed the title of "balance sheet" to "statement of financial position". Certain comparative amounts have been restated to correctly reflect the change in accounting policy (refer note 31.1).

## Basis of consolidation

### Investment in subsidiaries

The Group financial statements include the financial statements of the Company and the entities that it controls. Control is achieved where the Company has the power directly or indirectly to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements of the Group, from the date that control commences until the date that control ceases.

As the Company controls the Pick n Pay Employee Share Purchase Trust (share trust), this entity has been consolidated into the Group financial statements.

The Company carries its investments in subsidiaries at cost less impairment losses.

### Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of the associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its investment in an associate, the Group's carrying amount of that interest (including any long-term loans considered as part of the net investment) is reduced to Rnil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

The Group performs an annual impairment review on its investment in its associate, TM Supermarkets (Pvt) Limited, in Zimbabwe. There are a number of factors which have been taken into account in determining the fair carrying value of this investment as being Rnil, including the operating losses currently being incurred by the associate, the still uncertain economic and social climate in Zimbabwe and the lack of available foreign exchange to enable the transfer of dividends from Zimbabwe.

### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## Intangible assets

### Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill is measured as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Goodwill is stated at cost less any accumulated impairment losses. For the purposes of annual impairment testing, goodwill is allocated to the Group's subsidiaries (cash-generating units) which represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The underlying key assumptions of the tests of impairment include, but are not limited to, profit and cash forecasts discounted at an appropriate rate. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Negative goodwill arising on an acquisition is charged directly to the statement of comprehensive income.

In respect of acquisitions prior to 1 March 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under SA GAAP.

### Development costs

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in the statement of comprehensive income when incurred.

### Intangible assets acquired and subsequent expenditure

Intangible assets that are acquired by the Group are stated at cost (including any related borrowing costs) less accumulated amortisation and impairment losses.

Where payments are made for the acquisition of trademarks or brand names, the amounts are capitalised and amortised over their anticipated useful lives. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. No valuation is made of internally developed and maintained trademarks or brand names. Expenditure incurred to maintain trademarks or brand names are expensed in full in the statement of comprehensive income.

### Amortisation

Intangible assets are amortised over their anticipated useful lives from the date that the assets are available for use.

The current estimated useful life of SAP software development costs is seven years.

Intangible assets with an indefinite useful life and intangible assets not yet brought into use are systematically tested for impairment at each balance sheet date.

## Property, equipment and vehicles

Property (comprising land and buildings) owned by the Group is classified as owner-occupied property and is shown at cost less accumulated depreciation and impairment losses.

Equipment (comprising furniture, fittings and computer equipment), vehicles and aircraft are stated at cost less accumulated depreciation and impairment losses.

The cost of property, equipment, vehicles and aircraft includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalised to the cost of the asset. These were previously expensed (refer to the accounting policy on borrowing costs).

The Group recognises in the carrying amount of property, equipment, vehicles and aircraft the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, equipment, vehicles and aircraft. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Where significant components of an item of property, equipment, vehicles and aircraft have different useful lives, they are accounted for as separate assets.

The estimated useful lives for the current and comparative years are as follows:

| | |
|---|---|
| Buildings | 40 years |
| Major property components | 10 to 20 years |
| Furniture and fittings | 5 to 10 years |
| Computer equipment | 2 to 7 years |
| Vehicles | 4 to 5 years |
| Aircraft and major components | 7 to 20 years |

Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. If the expected residual value of an asset is equal to or greater than its carrying value, depreciation on that asset is ceased. Depreciation is resumed when the expected residual value falls below the asset’s carrying value.

Gains and losses on disposal of an item of property, equipment, vehicles and aircraft are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognised directly in the statement of comprehensive income.

## Assets held for sale

### Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group’s accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

## Leases

### Finance leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the Group as lessee.

Assets acquired in terms of finance leases are capitalised at the lower of the fair value of the leased assets and the present value of the minimum lease payments at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance lease assets are carried at the initial recognised amount less accumulated depreciation and impairment losses.

Finance lease assets are depreciated over the shorter of the useful life of the asset or the lease term.

### Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

### Service contracts dependent on specific underlying assets

Where the Group enters into a contract that depends on the use of a specific asset and that contract conveys the right to control the specific asset, the arrangement is treated as a lease. Recognition criteria in terms of IAS 17: Leases are applied to determine whether the arrangement should be treated as a finance lease or an operating lease.

## Inventory

Inventory comprises merchandise for resale and consumables. Inventory is measured at the lower of cost and net realisable value. Cost is calculated on the weighted-average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition, including distribution costs, and is stated net of relevant purchase incentives. The cost of merchandise sold includes shrinkage, waste and other inventory losses.

Obsolete, redundant and slow-moving items are identified on a regular basis and are written down to their estimated net realisable values. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

## Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

## Guarantees

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These financial guarantees are classified as insurance contracts as defined in IFRS 4: Insurance Contracts. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the balance sheet date. Where the effect of discounting is material, the liability is discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Group performs liability adequacy tests on financial guarantee contract liabilities to ensure that the carrying amount of the liabilities is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Group discounts all the expected contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made.

## Financial instruments

### Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, investments, trade receivables, loans, participation in export partnerships, trade and other payables and interest-bearing debt.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument.

These financial instruments are recognised initially at fair value. For instruments not recognised at fair value through the statement of comprehensive income, any directly attributable transaction costs are included.

Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

The subsequent measurement of financial instruments is stated below:

### Cash and cash equivalents

Cash and cash equivalents are measured at fair value. Cash and cash equivalents comprise cash on hand and amounts held on deposit at financial institutions. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### Investments

Investments are classified as available-for-sale assets. Listed investments are valued at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business at the balance sheet date. Other investments are shown at fair value. Gains and losses are recognised directly in equity in the revaluation reserve.

### Trade receivables and loans

Trade receivables and loans are measured at amortised cost, using the effective interest rate method, less impairment losses.

### Participation in export partnerships

Participation in export partnerships is a financial asset that is best classified as receivables originated by the Group and was initially measured at the fair value of the consideration given. Subsequent to initial measurement, the participation in export partnerships is measured at amortised cost using the effective interest rate method. All gains and losses on subsequent measurement are recognised in the statement of comprehensive income.

### Trade and other payables

Trade and other payables are recognised at amortised cost.

### Debt

Debt is carried at amortised cost. Convertible debentures, that can be converted to share capital where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. The equity element of convertible debentures, shown as a reserve in equity, is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the statement of comprehensive income is calculated using the effective interest rate method.

### Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes in fair value are recognised in profit or loss.

## Impairment of assets

### Financial assets

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the statement of comprehensive income. When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is transferred to the statement of comprehensive income. The amount of the cumulative loss that is recognised in the statement of comprehensive income is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the statement of comprehensive income.

### Non-financial assets

The carrying amounts of non-financial assets other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (or groups of units) and then to reduce the carrying value of the other assets in the unit (or groups of units) on a pro rata basis.

### Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### Reversals of impairment

An impairment loss for a financial asset is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

An impairment loss for a non-financial asset is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

## Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

## Treasury shares

Shares in the Company held by Group entities are classified as treasury shares. These shares are treated as a deduction from the weighted average number of shares in issue and the cost price of the shares is deducted from equity in the statement of changes in equity. The Pick n Pay Holdings Limited shares held by Group entities have been treated as treasury shares. Dividends received on treasury shares are eliminated on consolidation.

When treasury shares are sold or reissued, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from accumulated profits.

Upon settlement (take-up) of share options by employees, the difference between the proceeds received from the employees and the purchase price of the shares is accounted for directly in accumulated profits.

## Turnover

Turnover comprises retail sales to consumers and wholesale sales to franchisees through the Group's supply arrangements. All turnover is stated exclusive of value added tax.

## Trading profit

Trading profit is net income and expenditure from trading operations, excluding interest received, interest paid and any profits or losses on the sale of investments, property and stores.

## Operating profit

Operating profit is trading profit, including interest received, interest paid and any profits or losses on the sale of investments, property and stores.

## Revenue recognition

### Turnover

Revenue from the sale of goods is measured at the fair value of consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

### Interest income

Interest income is recognised on a time basis, by reference to the principal amounts outstanding and at the interest rate applicable.

### Dividend income

Dividend income from investments is recognised when the right to receive payment is established.

### Incentive income

Incentive income and franchise fee income is recognised when the purchase/sale which gives rise to the income takes place.

### Lease income

Income from operating leases in respect of property is recognised on a straight-line basis over the term of the lease.

## Borrowing costs

Borrowing costs relating to the acquisition, construction or production of qualifying assets, for which the commencement date for capitalisation is on or after 1 March 2009, are capitalised to the cost of the asset. General borrowing costs are capitalised by calculating the weighted average expenditure on the qualifying asset and applying a weighted average borrowing rate to the expenditure. Specific borrowing costs are capitalised according to the borrowing costs incurred on the specific borrowing provided the borrowing facility is utilised specifically for the qualifying asset. All other borrowing costs incurred are recognised as an expense in the statement of comprehensive income and are accrued on a time basis by reference to the principal amounts outstanding and at the interest rate applicable.

Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23: Borrowing Costs (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

## Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

### Current tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment of tax payable for previous years.

### Deferred tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that neither affects accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is charged to the statement of comprehensive income, except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reviewed at each balance sheet date and are expensed to the extent that it is no longer probable that the related tax benefit will be realised.

### Secondary tax on companies

Secondary tax on companies (STC) on net dividends paid is recognised as a tax charge in the year it is incurred. To the extent that it is probable that STC credits will be utilised, a deferred tax asset is raised.

## Foreign currency transactions

### Transactions in foreign currency

Transactions denominated in foreign currencies are translated to the functional currency of the Company and to the respective functional currencies of the Group entities at the rates of exchange ruling on the dates of the transactions. Gains and losses arising from such transactions are recognised in the statement of comprehensive income on settlement date or balance sheet date, whichever is the earlier.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the rates of exchange ruling at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortised cost in foreign currency translated at the exchange rate at the end of the period.

The net effect of unrealised exchange rate differences is recognised in the statement of comprehensive income in the period in which they occur, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in equity.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at the monthly weighted average rate of exchange for the year. Profits and losses arising on the translation of assets and liabilities of foreign entities are taken directly to equity and shown separately in a foreign currency translation reserve.

## Employee benefits

The cost of all short-term employee benefits is recognised as an expense during the year in which the employee renders the related service.

Liabilities for employee entitlements to wages, salaries, annual and sick leave represent the amount which the Group has a present obligation to pay as a result of employee services provided to the balance sheet date to the extent that such obligation can be reliably estimated.

The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

### Share-based payment transactions

The share ownership programme allows Group employees to acquire shares in Pick n Pay Holdings Limited and Pick n Pay Stores Limited.

The fair value of options granted after 7 November 2002 is recognised as an employee expense with a corresponding increase in equity. This treatment is consistently applied throughout the Group for both Pick n Pay Stores Limited and Pick n Pay Holdings Limited shares. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an actuarial binomial option pricing model, taking into account the terms and conditions upon which the options are granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due to share prices not achieving the threshold for vesting.

A vested share option is "taken up" when the Group delivers the share to the employee on receipt of payment of the grant (strike) price.

### Retirement benefits

The Group operates several retirement schemes comprising a number of defined-contribution funds (one of which has a defined-benefit element), the assets of which are held in separate trustee-administered funds.

The retirement schemes are largely non-contributory and are funded by payments from the relevant Group companies.

### Defined-contribution plans

A defined-contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate legal entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined-contribution retirement plans are recognised as an expense in the statement of comprehensive income when they are due.

Where the Group is responsible for providing retirement benefits to employees with a retirement scheme outside the Group, contributions are made on behalf of the employee and the cost is accounted for in the year in which the payment is made.

### Defined-benefit plans

A defined-benefit plan is a post-employment benefit plan which is not a defined-contribution plan.

The Group's net obligation in respect of the defined-benefit is calculated separately by estimating the amount of future benefit that qualifying employees have earned in respect of their service to date; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The calculation is performed by an actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statement of comprehensive income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the statement of comprehensive income.

The Group has changed its accounting policy for recognition of actuarial gains and losses in accordance with IAS 19: Employee Benefits. Previously actuarial gains and losses were recognised immediately in profit for the period but are now recognised in other comprehensive income as incurred. The effects of this change in accounting policy are disclosed in note 31.1.

## Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### Capitalisation share awards and cash dividends

The full value of capitalisation share awards and cash dividends are recorded as a deduction from accumulated profits in the statement of changes in equity. Upon allotment of shares in terms of a capitalisation share award, the share election amounts are transferred to the share capital account and share premium account. Cash dividends and the related STC charge are accounted for in the year of declaration.

### Earnings per share

The Group presents basic and diluted earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

### Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

### Segmental reporting

The basis for reporting segmental financial information has been changed to accord with IFRS 8: Operating Segments.

Previously, segmental information was provided on a geographic basis, reflecting only the southern African operations and the Australian operation. With the adoption of IFRS 8, the Group has implemented the management approach to segment reporting. The Group now discloses segment financial information which is being used internally by the entity's Chief Operating Decision Maker (CODM) in order to assess performance and allocate resources.

Comparative amounts have been reclassified to conform with the current year's presentation. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Operating segments are individual components of an entity that engage in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the entity's CODM and for which discrete financial information is available.

Operating segments which display similar economic characteristics are aggregated for reporting purposes.

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | **2010 Rm** | 2009 Rm | **2010 Rm** | 2009 Rm* |
| **1.** | **Revenue** | | | | |
| | Revenue comprises: | | | | |
| | Turnover | **54 734.5** | 49 862.1 | **—** | — |
| | Interest received (note 2) | **75.9** | 71.9 | **0.3** | — |
| | Dividends received | **—** | — | **1 810.9** | 778.7 |
| | Other trading income | **186.5** | 201.8 | **—** | — |
| | Franchise fee income | **161.9** | 166.4 | **—** | — |
| | Property lease income | **24.6** | 35.4 | **—** | — |
| | | **54 996.9** | 50 135.8 | **1 811.2** | 778.7 |
| | *Restated – refer to note 31.2 | | | | |
| **2.** | **Operating profit/(loss)** | | | | |
| | Operating profit/(loss) is stated after taking into account the following expenses/(income): | | | | |
| | Auditors' remuneration | **7.8** | 8.4 | | |
| | Audit | **6.8** | 6.5 | | |
| | Other | **1.0** | 1.9 | | |
| | Amortisation of intangible assets (note 8) | **66.1** | 57.3 | | |
| | Depreciation (note 9) | **669.2** | 558.5 | | |
| | Property – owned | **24.5** | 20.8 | | |
| | Equipment and vehicles – owned | **608.1** | 502.1 | | |
| | Vehicles – leased | **30.5** | 29.6 | | |
| | Aircraft | **6.1** | 6.0 | | |
| | Employee costs (note 2.1) | **4 925.6** | 4 615.0 | | |
| | Interest received | **(75.9)** | (71.9) | **(0.3)** | — |
| | Bank | **(57.2)** | (64.2) | | |
| | Debtors | **(5.1)** | (4.5) | | |
| | Tax overpayments | **(10.4)** | (0.4) | **(0.3)** | — |
| | Staff loans | **(3.2)** | (2.8) | | |
| | Interest paid | **91.6** | 107.5 | | |
| | Finance leases | **18.7** | 17.4 | | |
| | Overdrafts | **17.9** | 34.6 | | |
| | Loans | **55.0** | 55.5 | | |
| | Inventory – movement in provision for impairment | **(17.1)** | (4.7) | | |
| | Operating lease charges | **881.3** | 819.1 | | |
| | Property – minimum lease payments | **852.5** | 791.9 | | |
| | – turnover clause payments | **28.8** | 27.2 | | |
| | Leases contained within service agreements | **116.5** | 59.9 | | |
| **2.1** | **Employee costs** | | | | |
| | Employee costs comprise: | | | | |
| | Directors' remuneration (note 3.1) | **13.8** | 18.7 | | |
| | Share-based payments expense (note 4.3) | **65.2** | 59.1 | | |
| | Salaries and wages | **4 239.8** | 3 901.1 | | |
| | Contributions to defined contribution plans (note 23.5) | **274.5** | 249.6 | | |
| | Net expense recognised on defined benefit plan (note 23.4) | **20.6** | 17.1 | | |
| | Leave pay | **19.0** | 7.1 | | |
| | Performance bonuses | **34.5** | 104.8 | | |
| | Staff benefits and training | **258.2** | 257.5 | | |
| | | **4 925.6** | 4 615.0 | | |

Financial statements

## 3. Directors' remuneration and interest in shares

### 3.1 Directors' remuneration

Directors' remuneration, as paid by a subsidiary company, is detailed below:

| | Fees for board meetings R'000 | Fees for committee and other work R'000 | Remuneration R'000 | Retirement and medical contributions R'000 | Performance bonus* R'000 | Fringe and other benefits R'000 | Cash total R'000 | IFRS 2: expense relating to share options granted R'000 |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| **Non-executive directors** | | | | | | | | |
| Gareth Ackerman** | **265.0** | **320.0** | | | | | **585.0** | |
| Hugh Herman** | **265.0** | **267.0** | | | | | **532.0** | |
| Constance Nkosi | **265.0** | **75.0** | | | | | **340.0** | |
| David Robins | **265.0** | **—** | | | | | **265.0** | |
| Ben van der Ross | **265.0** | **143.0** | | | | | **408.0** | |
| Richard van Rensburg | **265.0** | **88.0** | | | | | **353.0** | |
| Jeff van Rooyen | **265.0** | **220.0** | | | | | **485.0** | |
| | **1 855.0** | **1 113.0** | **—** | **—** | **—** | **—** | **2 968.0** | **—** |
| **Executive directors** | | | | | | | | |
| Raymond Ackerman**† | **1.5** | | **2 835.0** | **33.6** | **—** | **188.4** | **3 058.5** | **—** |
| Wendy Ackerman**† | **1.5** | | **648.0** | **—** | **55.0** | **93.9** | **798.4** | **—** |
| Nick Badminton | **1.5** | | **3 309.0** | **558.9** | **298.9** | **300.0** | **4 468.3** | **3 691.7** |
| Dennis Cope | **1.5** | | **1 788.0** | **347.1** | **161.7** | **207.3** | **2 505.6** | **585.3** |
| | **6.0** | **—** | **8 580.0** | **939.6** | **515.6** | **789.6** | **10 830.8** | **4 277.0** |
| **Total remuneration** | **1 861.0** | **1 113.0** | **8 580.0** | **939.6** | **515.6** | **789.6** | **13 798.8** | **4 277.0** |
| **Alternate directors** | | | | | | | | |
| Jonathan Ackerman# | | | **993.0** | **181.0** | **131.9** | **123.1** | **1 429.0** | **234.9** |
| Suzanne Ackerman-Berman# | | | **905.5** | **165.0** | **120.2** | **90.1** | **1 280.8** | **473.0** |
| | **—** | **—** | **1 898.5** | **346.0** | **252.1** | **213.2** | **2 709.8** | **707.9** |
| **2009** | | | | | | | | |
| **Non-executive directors** | | | | | | | | |
| Gareth Ackerman** | 240.0 | 270.0 | | | | | 510.0 | |
| René de Wet**^ | 50.0 | | | | | | 50.0 | |
| Hugh Herman** | 240.0 | 180.0 | | | | | 420.0 | |
| Constance Nkosi | 240.0 | 50.0 | | | | | 290.0 | |
| David Robins*** | — | — | 480.0 | 96.4 | — | 1 550.3 | 2 126.7 | (1 020.3) |
| Ben van der Ross | 240.0 | 80.0 | | | | | 320.0 | |
| Jeff van Rooyen | 240.0 | 200.0 | | | | | 440.0 | |
| | 1 250.0 | 780.0 | 480.0 | 96.4 | — | 1 550.3 | 4 156.7 | (1 020.3) |
| **Executive directors** | | | | | | | | |
| Raymond Ackerman** | 1.5 | — | 2 700.0 | 30.3 | — | 220.2 | 2 952.0 | — |
| Wendy Ackerman** | 1.5 | — | 600.8 | — | 200.0 | 103.6 | 905.9 | — |
| Nick Badminton | 1.5 | — | 3 030.0 | 537.8 | 3 000.0 | 253.1 | 6 822.4 | 3 949.2 |
| Dennis Cope | 1.5 | — | 1 647.0 | 319.5 | 1 600.0 | 248.3 | 3 816.3 | 704.3 |
| | 6.0 | — | 7 977.8 | 887.6 | 4 800.0 | 825.2 | 14 496.6 | 4 653.5 |
| **Total remuneration** | 1 256.0 | 780.0 | 8 457.8 | 984.0 | 4 800.0 | 2 375.5 | 18 653.3 | 3 633.2 |

* The performance bonus relates to the amount provided for in the current financial year.
** Also directors of Pick n Pay Holdings Limited.
† Retired from Pick n Pay Stores Limited board effective 1 March 2010.
# Remuneration disclosed from appointment as alternate directors on 30 June 2009. Appointed full directors on 1 March 2010.
*** David Robins retired as an executive director effective 11 June 2008. From 1 March 2008 to 11 June 2008 he received a salary in his capacity as an executive director. In 2009, fringe and other benefits include an amount of R1.5 million in respect of an early retirement settlement. The reversal of the IFRS 2 charge relates to the share options forfeited.
^ Retired from the Pick n Pay Stores Limited board effective 30 April 2008.

## 3. Directors' remuneration and interest in shares *(continued)*

### 3.2 Share options in the Company held by directors

**1997 Share Option Scheme**

| | Year granted | Option grant (strike) price R | Balance held at 1 March 2009 | Granted during the year | Taken up in year at grant price | Forfeited during the year | **Balance held at 28 February 2010** | Value of options exercised* R'000 | Available for take-up |
|---|---|---|---|---|---|---|---|---|---|
| Nick Badminton | 2002 | 10.00 | 200 000 | | | | **200 000** | | Now |
| | 2004 | 16.00 | 75 000 | | | | **75 000** | | Now |
| | 2005 | 20.70 | 120 773 | | | | **120 773** | | Now |
| | 2005 | 22.30 | 500 000** | | | | **500 000** | | June 2010 |
| | 2006 | 28.00 | 56 250 | | | | **56 250** | | Now |
| | 2006 | 28.00 | 24 107 | | | | **24 107** | | Now |
| | 2007 | 29.95 | 200 000 | | | | **200 000** | | Now |
| | 2007 | 29.95 | 150 000 | | | | **150 000** | | January 2012 |
| | 2007 | 29.95 | 150 000 | | | | **150 000** | | January 2014 |
| | 2007 | 29.95 | 500 000** | | | | **500 000** | | January 2012 |
| | 2007 | 31.15 | 32 103 | | | | **32 103** | | Now |
| | 2007 | 31.15 | 24 077 | | | | **24 077** | | Now |
| | 2007 | 31.15 | 24 077 | | | | **24 077** | | April 2011 |
| | 2008 | 26.56 | 4 519 | | | | **4 519** | | May 2010 |
| | 2008 | 26.56 | 3 389 | | | | **3 389** | | May 2011 |
| | 2008 | 26.56 | 3 388 | | | | **3 388** | | May 2012 |
| | 2008 | 26.84 | 250 000 | | | | **250 000** | | October 2011 |
| | 2008 | 26.84 | 250 000 | | | | **250 000** | | October 2013 |
| | 2008 | 26.84 | 250 000 | | | | **250 000** | | October 2015 |
| | 2009 | 28.20 | | 21 280 | | | **21 280** | | April 2011 |
| | 2009 | 28.20 | | 15 960 | | | **15 960** | | April 2012 |
| | 2009 | 28.20 | — | 15 960 | | | **15 960** | | April 2013 |
| | | | 2 817 683 | 53 200 | — | — | **2 870 883** | — | |
| Dennis Cope | 2003 | 12.00 | 100 000 | | | | **100 000** | | Now |
| | 2004 | 16.00 | 40 625 | | (40 625) | | **—** | 784.1 | |
| | 2005 | 20.70 | 48 309 | | | | **48 309** | | Now |
| | 2005 | 22.30 | 250 000** | | | | **250 000** | | June 2010 |
| | 2006 | 28.00 | 22 500 | | | | **22 500** | | Now |
| | 2006 | 28.00 | 9 643 | | | | **9 643** | | Now |
| | 2007 | 31.15 | 12 841 | | | | **12 841** | | Now |
| | 2007 | 31.15 | 9 631 | | | | **9 631** | | Now |
| | 2007 | 31.15 | 9 631 | | | | **9 631** | | April 2011 |
| | 2008 | 26.56 | 6 025 | | | | **6 025** | | May 2010 |
| | 2008 | 26.56 | 4 519 | | | | **4 519** | | May 2011 |
| | 2008 | 26.56 | 4 518 | | | | **4 518** | | May 2012 |
| | 2009 | 28.20 | | 11 349 | | | **11 349** | | April 2011 |
| | 2009 | 28.20 | | 8 512 | | | **8 512** | | April 2012 |
| | 2009 | 28.20 | | 8 512 | | | **8 512** | | May 2013 |
| | | | 518 242 | 28 373 | (40 625) | — | **505 990** | 784.1 | |
| David Robins*** | 2003 | 12.00 | 41 667 | | (41 667) | | **—** | 970.8 | |
| | 2004 | 16.00 | 25 000 | | (25 000) | | **—** | 482.5 | |
| | 2005 | 20.70 | 28 986 | | (28 986) | | **—** | 423.2 | |
| | 2006 | 28.00 | 7 857 | | (7 857) | | **—** | 57.4 | |
| | 2006 | 28.00 | 5 893 | | (5 893) | | **—** | 43.0 | |
| | 2007 | 31.15 | 7 705 | | (7 705) | | **—** | 32.0 | |
| | | | 117 108 | — | (117 108) | — | **—** | 2 008.9 | |

*The value of options exercised is equal to the market value of the shares on the date taken up less the purchase price of those options.
**The exercising of these options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option.
***All options were issued to David Robins while in his capacity as an executive director.

3. **Directors' remuneration and interest in shares** *(continued)*

3.2 **Share options in the Company held by directors** *(continued)*

**1997 Share Option Scheme** *(continued)*

| | Year granted | Option grant (strike) price R | Balance held at 1 March 2009 | Granted during the year | Taken up in year at grant price | Forfeited during the year | **Balance held at 28 February 2010** | Value of options exercised* R'000 | Available for take-up |
|---|---|---|---|---|---|---|---|---|---|
| Jonathan Ackerman | | | | | | | | | |
| (Alt) | 2003 | 12.00 | 25 000 | | | | **25 000** | | Now |
| | 2004 | 16.00 | 21 875 | | | | **21 875** | | Now |
| | 2005 | 20.70 | 19 324 | | | | **19 324** | | Now |
| | 2005 | 22.30 | 150 000** | | | | **150 000** | | June 2010 |
| | 2006 | 28.00 | 10 000 | | | | **10 000** | | Now |
| | 2006 | 28.00 | 4 286 | | | | **4 286** | | Now |
| | 2007 | 31.15 | 5 778 | | | | **5 778** | | Now |
| | 2007 | 31.15 | 4 334 | | | | **4 334** | | Now |
| | 2007 | 31.15 | 4 334 | | | | **4 334** | | April 2011 |
| | 2008 | 26.56 | 3 765 | | | | **3 765** | | May 2010 |
| | 2008 | 26.56 | 2 824 | | | | **2 824** | | May 2011 |
| | 2008 | 26.56 | 2 825 | | | | **2 825** | | May 2012 |
| | 2008 | 26.14 | 25 000 | | | | **25 000** | | August 2015 |
| | 2008 | 26.14 | 25 000 | | | | **25 000** | | August 2016 |
| | 2008 | 26.14 | 25 000 | | | | **25 000** | | August 2017 |
| | 2008 | 26.14 | 25 000 | | | | **25 000** | | August 2018 |
| | 2009 | 28.20 | | 3 547 | | | **3 547** | | April 2011 |
| | 2009 | 28.20 | | 2 660 | | | **2 660** | | April 2012 |
| | 2009 | 28.20 | | 2 660 | | | **2 660** | | April 2013 |
| | | | 354 345 | 8 867 | — | — | **363 212** | — | |
| Suzanne Ackerman- | | | | | | | | | |
| Berman (Alt) | 2004 | 16.00 | 3 750 | | | | **3 750** | | Now |
| | 2004 | 21.00 | 40 000 | | | | **40 000** | | Now |
| | 2004 | 21.00 | 10 000 | | | | **10 000** | | Nov 2011 |
| | 2005 | 20.70 | 7 245 | | | | **7 245** | | Now |
| | 2005 | 22.30 | 100 000** | | | | **100 000** | | June 2010 |
| | 2006 | 28.00 | 4 062 | | | | **4 062** | | Now |
| | 2006 | 28.00 | 1 742 | | | | **1 742** | | Now |
| | 2006 | 31.15 | 80 000 | | | | **80 000** | | Now |
| | 2006 | 31.15 | 60 000 | | | | **60 000** | | April 2012 |
| | 2006 | 31.15 | 60 000 | | | | **60 000** | | April 2014 |
| | 2007 | 31.15 | 3 210 | | | | **3 210** | | Now |
| | 2007 | 31.15 | 2 408 | | | | **2 408** | | Now |
| | 2007 | 31.15 | 2 408 | | | | **2 408** | | April 2011 |
| | 2008 | 26.56 | 3 012 | | | | **3 012** | | May 2010 |
| | 2008 | 26.56 | 2 259 | | | | **2 259** | | May 2011 |
| | 2008 | 26.56 | 2 260 | | | | **2 260** | | May 2012 |
| | 2008 | 26.14 | 25 000 | | | | **25 000** | | August 2015 |
| | 2008 | 26.14 | 25 000 | | | | **25 000** | | August 2016 |
| | 2008 | 26.14 | 25 000 | | | | **25 000** | | August 2017 |
| | 2008 | 26.14 | 25 000 | | | | **25 000** | | August 2018 |
| | 2009 | 28.20 | | 3 547 | | | **3 547** | | April 2011 |
| | 2009 | 28.20 | | 2 660 | | | **2 660** | | April 2012 |
| | 2009 | 28.20 | | 2 660 | | | **2 660** | | April 2013 |
| | | | 482 356 | 8 867 | — | — | **491 223** | — | |

*The value of options exercised is equal to the market value of the shares on the date taken up less the purchase price of those options.

**The exercising of these options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option.

For directors' share options in Pick n Pay Holdings Limited refer to page 96.

### 3. Directors' remuneration and interest in shares *(continued)*

### 3.3 Directors' interest in shares – all held beneficially

| | How held* | Balance held at 1 March 2009 | Additions during the year | Average purchase price per share R | **Balance held at 28 February 2010** |
|---|---|---|---|---|---|
| Gareth Ackerman | – direct | 43 | | | **43** |
| Jonathan Ackerman (Alt) | – direct | 43 | | | **43** |
| | – indirect | 389 204 | | | **389 204** |
| Suzanne Ackerman-Berman (Alt) | – direct | 2 500 | | | **2 500** |
| | – indirect | 121 449 | | | **121 449** |
| Raymond Ackerman | – direct | 43 | | | **43** |
| Wendy Ackerman | – direct | 43 | | | **43** |
| Nick Badminton | – direct | 528 408 | | | **528 408** |
| | – indirect | 350 000 | | | **350 000** |
| Dennis Cope | – direct | 71 | 40 625 | 16.00 | **40 696** |
| | – indirect | 978 480 | | | **978 480** |
| David Robins | – direct | — | 117 108 | 18.14 | **117 108** |
| | – indirect | 333 604 | | | **333 604** |

Except for the indirect interest in the shares of the Company through Pick n Pay Holdings Limited, no other directors have either a beneficial or non-beneficial interest in the shares of the Company.

*Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a family trust of which the director is a trustee.

### 4. Share-based payments

The Group operates the 1997 Employee Share Option Scheme ("the Scheme") in order to facilitate broad-based employee share ownership and to foster trust and loyalty amongst employees. The Scheme incentivises key management and staff by providing them with an opportunity to acquire shares in the Group thereby aligning their interests with shareholders and at the same time encouraging employee retention.

The Scheme is administered by the Employee Share Purchase Trust and its Board of Trustees. All options are granted in accordance with the rules of the Scheme, which have been approved by the shareholders and the JSE Limited.

All options are granted at a 5% discount to the volume-weighted average market price (VWAP) for the 20 trading days preceding the option grant date.

Following the AGM on 11 June 2008, the Share Trust implemented the "net-settling" of share options. All share options granted after 11 June 2008 will, at the time of exercise by the employee, be automatically net-settled by the Company. This means that at the time of the exercise of an option, the employee will only receive so many shares (at current value) as represents the gain in the value of the option. For all options granted prior to 11 June 2008, the employee can choose whether to net-settle the options, or whether to pay the purchase price in full to take up the total allotment of shares.

All vested share options have to be exercised, paid for (or net-settled) and taken up within 10 years of the grant date. The directors are authorised to utilise up to 13.3% of the issued share capital for the Scheme.

The Scheme grants the following options to employees:

**Service Share Options** – are granted to all permanent employees who have been with the Group for five years and further options are granted every five years thereafter.

Service share options may be taken up immediately on granting.

**Status Share Options** – are granted to employees who attain floor manager status and further options are granted at each promotion to higher levels of management.

Status share options may be taken up in three tranches as follows:

40% after 3 years
30% after 5 years
30% after 7 years

Further share allocations are also made for the retention of key executives, with longer vesting dates of up to 10 years.

**Executive Share Options** – are granted to senior executives. These five-year options may only be taken up when prescribed performance conditions linked to the growth of the Company's share price are met. If the conditions are not met, these options are automatically forfeited. Should further performance hurdles be achieved, discounted grant prices may apply.

| | | GROUP 2010 Number of options 000's | GROUP 2009 Number of options 000's |
|---|---|---|---|
| **4. Share-based payments** *(continued)* | | | |
| **4.1 Outstanding share options** | | | |
| **Movement in the total number of share options granted is as follows:** | | | |
| **At 1 March** | | **44 789.7** | 32 891.5 |
| New options granted* | | **8 366.8** | 15 969.8 |
| Options taken up** | | **(3 336.0)** | (2 891.0) |
| Options forfeited | | **(1 448.8)** | (1 180.6) |
| **At 28 February** | | **48 371.7** | 44 789.7 |
| **Outstanding options may be taken up during the following financial years:** | | | |
| **Year** | **Average grant price** | | |
| 2011 | R23.05 | **23 489.0** | |
| 2012 | R32.22 | **6 125.5** | |
| 2013 | R27.19 | **4 014.7** | |
| 2014 | R33.72 | **3 906.0** | |
| 2015 and thereafter | R28.28 | **10 836.5** | |
| | | **48 371.7** | |
| Percentage of issued shares | | **10.1%** | 8.8% |
| Options available for granting under current authorisation | | **15 521.1** | 22 526.1 |
| *Average grant price of options granted during the year | | **R34.89** | R26.44 |
| **Average grant price of options taken up during the year | | **R17.47** | R11.28 |

For the movement in the number of Pick n Pay Holdings Limited (PIKWIK) share options granted, please refer to note 7 of the Pick n Pay Holdings Limited financial statements.

For details of share options held by directors refer to note 3.2.

| | 2010 Number of shares 000's | 2009 Number of shares 000's |
|---|---|---|
| **The Employee Share Purchase Trust, which administers the 1997 Employee Share Option Scheme, holds the following number of ordinary shares:** | | |
| As a hedge against share options granted or to be granted by that Scheme, reflected as treasury shares | **6 780.5** | 7 614.6 |
| On behalf of share purchase scheme participants | **159.6** | 189.1 |
| | **6 940.1** | 7 803.7 |

## 4. Share-based payments *(continued)*

### 4.2 Fair value

The Group accounts for share option expenses in accordance with IFRS 2: Share-based Payments, which requires the fair value of share options granted to employees to be valued at the grant date and expensed through the statement of comprehensive income over the vesting period of the option.

The fair value of each option grant in Pick n Pay Stores Limited (PIK) and Pick n Pay Holdings Limited (PWK) has been estimated on the grant date using an actuarial binomial option-pricing model. The assumptions used in determining the fair value of the options granted in each financial year are as follows:

| Financial year of grant | Options granted | Number of options granted 000's | Expected life of options years | Share price at grant date | Grant price | Expected volatility[a] | Expected dividend yield[b] | Risk-free rate[c] |
|---|---|---|---|---|---|---|---|---|
| 2003 | PIK | 617.6 | 4 – 8 | R12.15 – R13.90 | R11.00 – R12.50 | 39.74 – 39.78 | 3.32 – 3.70 | 9.88 – 10.52 |
| 2004 | PWK | 862.4 | 1 – 8 | R5.43 – R5.85 | R5.10 – R5.25 | 19.34 – 41.65 | 3.24 – 5.66 | 9.67 – 10.96 |
| 2004 | PIK | 5 232.3 | 2 – 8 | R11.67 – R16.35 | R10.50 – R14.85 | 30.66 – 39.78 | 3.79 – 3.86 | 8.70 – 10.62 |
| 2005 | PIK | 4 381.5 | 2 – 8 | R17.16 – R23.10 | R16.00 – R21.00 | 28.48 – 39.33 | 3.76 – 4.32 | 7.58 – 9.95 |
| 2006 | PIK | 12 969.7 | 2 – 8 | R23.25 – R31.00 | R21.00 – R27.90 | 22.61 – 35.94 | 3.80 – 4.23 | 7.15 – 8.01 |
| 2007 | PWK | 860.8 | 1 | R14.84 | R13.25 | 18.94 | 3.98 | 8.37 |
| 2007 | PIK | 5 866.5 | 2 – 7 | R25.80 – R34.10 | R25.00 – R29.75 | 22.35 – 35.50 | 3.65 – 4.34 | 6.97 – 8.70 |
| 2008 | PWK | 708.8 | 1 | R14.84 | R13.25 | 19.41 | 3.98 | 8.37 |
| 2008 | PIK | 7 201.7 | 2 – 8 | R32.15 – R38.22 | R29.75 – R33.95 | 23.00 – 39.78 | 3.61 – 3.70 | 7.40 – 8.86 |
| 2009 | PWK | 787.0 | 1 | R12.90 | R11.33 | 20.56 | 4.31 | 9.94 |
| 2009 | PIK | 15 969.8 | 2 – 10 | R26.00 – R38.05 | R24.15 – R33.95 | 22.78 – 42.29 | 3.10 – 4.35 | 7.16 – 13.46 |
| **2010** | **PWK** | **655.8** | **1** | **R13.10** | **R12.20** | **30.81** | **5.07** | **6.52** |
| **2010** | **PIK** | **8 366.8** | **2 – 7** | **R29.50 – R41.60** | **R28.20 – R39.19** | **25.40 – 27.37** | **4.39 – 4.82** | **7.27 – 9.19** |

[a] The expected volatility is determined based on the rolling historical volatility over the expected option term that prevailed at the grant date.
[b] The expected dividend yield is the best estimate of the forward-looking dividend yield over the expected life of the option. This has been estimated by reference to the historical average dividend yield during the period preceding the grant, equal to the vesting period of the grant.
[c] The risk-free rate is the yield on zero-coupon South African Government bonds of a term consistent with the estimated option term.

| | GROUP 2010 Rm | 2009 Rm |
|---|---|---|
| **4.3 Share-based payment expense** | | |
| **Total expensed to date – 1 March** | **172.3** | 113.2 |
| Share options expense for the year | **66.0** | 59.1 |
| Continuing operations | **65.2** | 59.1 |
| Discontinued operation | **0.8** | — |
| **Total expensed to date – 28 February** | **238.3** | 172.3 |
| **At 28 February, the share options expense to be recognised in future financial years, in respect of all options granted since 2003, is:** | | |
| Within 1 year | **55.5** | 56.9 |
| Within 2 to 5 years | **102.7** | 94.1 |
| After 5 years | **13.9** | 18.2 |
| **Total expense still to be recognised** | **172.1** | 169.2 |
| **Total financial impact of share-based payments** | **410.4** | 341.5 |

| | | GROUP 2010 Rm | GROUP 2009 Rm | COMPANY 2010 Rm | COMPANY 2009 Rm |
|---|---|---|---|---|---|
| **5.** | **Tax** | | | | |
| **5.1** | **Tax recognised in statement of comprehensive income** | | | | |
| | South African normal tax | | | | |
| | – current year | **440.5** | 484.0 | **0.1** | — |
| | – prior year overprovision | **(1.7)** | (0.7) | | |
| | Deferred tax (note 14) | | | | |
| | – current year | **10.2** | 15.5 | | |
| | Secondary tax on companies | | | | |
| | – current year | **82.9** | 71.7 | | |
| | **Total tax charge** | **531.9** | 570.5 | **0.1** | — |
| **5.2** | **Tax recognised directly in equity** | | | | |
| | Tax effect of share incentive transactions recognised directly in equity | **(15.1)** | (54.1) | | |
| | **Total tax recognised directly in equity** | **(15.1)** | (54.1) | **—** | — |
| | | **%** | % | **%** | % |
| **5.3** | **Statutory tax rate reconciliation** | | | | |
| | **Statutory tax rate** | **28.0** | 28.0 | **28.0** | 28.0 |
| | Exempt income | **(3.8)** | (2.8) | **(28.0)** | (28.1) |
| | Secondary tax on companies | **4.5** | 4.1 | | |
| | Non-deductible share options expense | **1.0** | 1.0 | | |
| | Other non-deductible expenditure | **0.5** | 0.5 | **—** | 0.1 |
| | Net prior year under/(over) provisions | **1.1** | (0.1) | | |
| | Other | **(2.2)** | 2.0 | | |
| | **Effective tax rate** | **29.1** | 32.7 | **—** | — |
| | | **Rm** | Rm | **Rm** | Rm |
| **5.4** | **Tax paid/(received) comprises:** | | | | |
| | Owing to/(due from) – 1 March | **181.4** | 249.4 | **(1.9)** | (1.9) |
| | Movement through statement of comprehensive income | | | | |
| | Current tax charge – continuing operations | **438.8** | 483.3 | **0.1** | — |
| | Current tax charge – discontinued operation (note 18) | **1.5** | — | | |
| | Secondary tax on companies | **82.9** | 71.7 | | |
| | Movement through equity | **(15.1)** | (54.1) | | |
| | (Owing to)/due from – 28 February | **(230.5)** | (181.4) | **—** | 1.9 |
| | **Total tax paid/(received)** | **459.0** | 568.9 | **(1.8)** | — |
| | **Comprising:** | | | | |
| | Continuing operations | **457.5** | 567.7 | **(1.8)** | — |
| | Discontinued operation | **1.5** | 1.2 | **—** | — |

| | GROUP 2010 Cents per share | 2009 Cents per share* |
|---|---|---|
| **6. Basic, headline and diluted earnings/(losses) per share** | | |
| Basic (note 6.1) | **251.25** | 223.60 |
| Continuing operations | **273.97** | 248.72 |
| Discontinued operation | **(22.72)** | (25.12) |
| Headline (note 6.1) | **213.90** | 209.57 |
| Continuing operations | **236.33** | 233.86 |
| Discontinued operation | **(22.43)** | (24.29) |
| Diluted basic (note 6.2) | **247.40** | 221.81 |
| Continuing operations | **269.76** | 246.73 |
| Discontinued operation | **(22.36)** | (24.92) |
| Diluted headline (note 6.2) | **210.62** | 207.89 |
| Continuing operations | **232.71** | 231.98 |
| Discontinued operation | **(22.09)** | (24.09) |

| | 2010 | 2009 |
|---|---|---|
| **6.1 Basic and headline earnings per share** | **Rm** | Rm* |
| **The calculation of basic earnings (profit for the year) per share and headline earnings per share is based on:** | | |
| Basic earnings (profit for the year) | **1 188.9** | 1 054.8 |
| Headline earnings | **1 012.1** | 988.6 |
| **and:** | **Number of shares 000's** | Number of shares 000's |
| The weighted average number of ordinary shares in issue during the year | **473 199.8** | 471 728.2 |
| **Reconciliation between basic and headline earnings:** | **Rm** | Rm* |
| **Basic earnings (profit for the year)** | **1 188.9** | 1 054.8 |
| Adjustments: | **(184.0)** | (66.2) |
| Loss on sale of equipment and vehicles | **5.6** | 13.7 |
| Loss on sale of equipment and vehicles – discontinued operation | **1.3** | 3.9 |
| Profit on sale of property | **(190.9)** | (68.7) |
| Profit on sale of stores | **—** | (15.1) |
| Tax effect of adjustments | **7.2** | — |
| **Headline earnings** | **1 012.1** | 988.6 |
| | **Number of shares 000's** | Number of shares 000's |
| **Movement in the weighted average number of ordinary shares in issue comprises:** | | |
| **At 1 March** | **471 728.2** | 454 369.2 |
| Effect of share issue in December 2007 | **—** | 16 712.3 |
| Effect of current year share repurchases by the share trust | **(896.8)** | (288.5) |
| Effect of share sales on the take-up of share options | **1 313.8** | 1 343.0 |
| Prior year net share sales/(repurchases) now fully weighted | **1 054.6** | (407.8) |
| **At 28 February** | **473 199.8** | 471 728.2 |

*Restated – refer to note 31.1

| | | GROUP | |
|---|---|---|---|
| | | **2010 Rm** | 2009 Rm* |
| **6.** | **Basic, headline and diluted earnings/(losses) per share** *(continued)* | | |
| **6.2** | **Diluted basic and headline earnings per share** | | |
| | **The calculation of diluted basic earnings per share and diluted headline earnings per share is based on:** | | |
| | Diluted basic earnings | **1 188.9** | 1 054.8 |
| | Diluted headline earnings | **1 012.1** | 988.6 |
| | | **Number of shares 000's** | Number of shares 000's |
| | **and:** | | |
| | The diluted weighted average number of ordinary shares in issue during the year | **480 572.8** | 475 533.9 |
| | No reconciliation between basic and diluted earnings is presented as there are no dilutive effects on earnings. | | |
| | **Reconciliation of the weighted average number of ordinary shares in issue for diluted earnings per share:** | | |
| | Weighted average number of ordinary shares in issue (note 6.1) | **473 199.8** | 471 728.2 |
| | Dilutive effect of share options | **7 373.0** | 3 805.7 |
| | **Weighted average number of ordinary shares in issue for purposes of calculating diluted earnings per share** | **480 572.8** | 475 533.9 |
| | Refer to note 19.1 for the number of shares in issue. | | |
| | *Restated – refer to note 31.1 | | |

| | | GROUP AND COMPANY | |
|---|---|---|---|
| | | **2010 Cents per share** | 2009 Cents per share |
| **7.** | **Dividends** | | |
| | Number 82 – declared 21 April 2009 – paid 15 June 2009 | **134.25** | 118.00 |
| | Number 83 – declared 20 October 2009 – paid 14 December 2009 | **39.75** | 35.75 |
| | **Total dividends for the year – Company** | **174.00** | 153.75 |
| | | **Rm** | Rm |
| | **Total value of dividends paid by the Company** | **880.7** | 778.2 |
| | Dividends paid to Group entities | **(66.1)** | (60.4) |
| | **Total dividends paid outside the Group** | **814.6** | 717.8 |

| | | GROUP | |
|---|---|---|---|
| | | 2010 Rm | 2009 Rm |
| 8. | **Intangible assets** | | |
| 8.1 | **Goodwill** | | |
| | **At 1 March** | 791.8 | 857.5 |
| | Foreign currency translation effect | 45.7 | (65.7) |
| | **Carrying value at 28 February** | 837.5 | 791.8 |
| | Comprising: | | |
| | Boxer group | 137.1 | 137.1 |
| | Franklins group | 700.4 | 654.7 |

In accordance with the Group's accounting policies, an impairment test of goodwill has been performed. The cash-generating units to which goodwill has been allocated have been identified as subsidiaries.

The recoverable amount for both Boxer and Franklins was based on the value in use.

The results of a detailed five-year cash flow forecast, together with a terminal cash flow estimate, discounted at appropriate market rates after tax, did not identify any impairment in goodwill.

| | | GROUP 2010 Rm | GROUP 2009 Rm |
|---|---|---|---|
| 8.2 | **Software development** | | |
| | **Cost** | | |
| | **At 1 March** | 407.5 | 349.1 |
| | Additions | 51.5 | 66.1 |
| | Foreign currency translation effect | 3.7 | (7.7) |
| | **At 28 February** | 462.7 | 407.5 |
| | **Accumulated amortisation** | | |
| | **At 1 March** | 105.7 | 50.7 |
| | Amortisation charge for the year | 66.8 | 57.9 |
| | Continuing operations | 66.1 | 57.3 |
| | Discontinued operation | 0.7 | 0.6 |
| | Foreign currency translation effect | 1.0 | (2.9) |
| | **At 28 February** | 173.5 | 105.7 |
| | **Carrying value at 28 February** | 289.2 | 301.8 |
| | **Total intangible assets** | 1 126.7 | 1 093.6 |

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| | | GROUP | | | |
|---|---|---|---|---|---|
| | | Land and buildings Rm | Furniture, fittings, computer equipment and vehicles Rm | Aircraft Rm | **Total Rm** |
| **9.** | **Property, equipment and vehicles** | | | | |
| | **2010** | | | | |
| | **Cost** | | | | |
| | **At 1 March 2009** | 963.5 | 4 334.1 | 70.4 | **5 368.0** |
| | Additions | 146.2 | 992.4 | 0.7 | **1 139.3** |
| | Borrowing costs capitalised^ | 2.7 | — | — | **2.7** |
| | Disposals | (42.6) | (426.2) | — | **(468.8)** |
| | Foreign currency translation | 6.1 | 56.8 | — | **62.9** |
| | **At 28 February 2010** | 1 075.9 | 4 957.1 | 71.1 | **6 104.1** |
| | **Accumulated depreciation** | | | | |
| | **At 1 March 2009** | 99.6 | 2 302.2 | 29.2 | **2 431.0** |
| | Disposals | (26.0) | (418.7) | — | **(444.7)** |
| | Depreciation charge for the year | 24.5 | 642.9 | 6.1 | **673.5** |
| | Continuing operations | 24.5 | 638.6 | 6.1 | **669.2** |
| | Discontinued operation | — | 4.3 | — | **4.3** |
| | Foreign currency translation | — | 28.8 | — | **28.8** |
| | **At 28 February 2010** | 98.1 | 2 555.2 | 35.3 | **2 688.6** |
| | **Carrying value at 28 February 2010** | 977.8 | 2 401.9 | 35.8 | **3 415.5** |
| | Owned | 977.8 | 2 279.8 | 35.8 | **3 293.4** |
| | Leased* | — | 122.1 | — | **122.1** |
| | **Directors' valuation of property at 28 February 2010** | **1 303.5** | | | |
| | **2009** | | | | |
| | **Cost** | | | | |
| | **At 1 March 2008** | 938.0 | 4 385.6 | 70.4 | 5 394.0 |
| | Additions | 52.3 | 884.1 | — | 936.4 |
| | Transferred to held for sale | — | (539.5) | — | (539.5) |
| | Disposals | (19.9) | (330.7) | — | (350.6) |
| | Foreign currency translation | (6.9) | (65.4) | — | (72.3) |
| | **At 28 February 2009** | 963.5 | 4 334.1 | 70.4 | 5 368.0 |
| | **Accumulated depreciation** | | | | |
| | **At 1 March 2008** | 89.4 | 2 478.9 | 23.2 | 2 591.5 |
| | Transferred to held for sale | — | (476.9) | — | (476.9) |
| | Disposals | (10.6) | (237.5) | — | (248.1) |
| | Depreciation charge for the year | 20.8 | 573.4 | 6.0 | 600.2 |
| | Continuing operations | 20.8 | 531.7 | 6.0 | 558.5 |
| | Discontinued operation | — | 41.7 | — | 41.7 |
| | Foreign currency translation | — | (35.7) | — | (35.7) |
| | **At 28 February 2009** | 99.6 | 2 302.2 | 29.2 | 2 431.0 |
| | **Carrying value at 28 February 2009** | 863.9 | 2 031.9 | 41.2 | 2 937.0 |
| | Owned | 863.9 | 1 893.5 | 41.2 | 2 798.6 |
| | Leased* | — | 138.4 | — | 138.4 |
| | **Directors' valuation of property at 28 February 2009** | 1 318.1 | | | |

Property with a carrying value of R636.4 million (directors' valuation – R910.4 million) is provided as security for long-term borrowings (refer to note 22).

A register of all properties containing statutory information are available for inspection at the registered office of the Company.

*Leased vehicles secure lease liabilities disclosed in note 22.

^From 1 March 2010, borrowing costs have been capitalised on qualifying assets on the adoption of IAS 23. The weighted average expenditure incurred on qualifying assets was R106.7 million and the weighted average borrowing rate for the year was 9.3%.

| | GROUP AND COMPANY | |
|---|---|---|
| | **2010 Rm** | 2009 Rm |
| **10. Investments** | | |
| **Unlisted shares at fair value** | | |
| Business Partners Limited | **0.2** | 0.2 |
| **Total investments at 28 February** | **0.2** | 0.2 |
| **Directors' valuation of unlisted investments** | **2.5** | 2.5 |

| | | GROUP | |
|---|---|---|---|
| | | **2010** | 2009 |
| **11. Investment in associate** | **Country** | **Ownership** | Ownership |
| The Group has the following investment in an associate: | | | |
| TM Supermarkets (Pvt) Limited | Zimbabwe | **25%** | 25% |
| | | **Rm** | Rm |
| **At 1 March** | | **—** | — |
| Current share of profit | | **—** | — |
| Impairment recognised | | **—** | — |
| **At 28 February** | | **—** | — |
| Comprising: | | | |
| Cost of investment | | **5.0** | 5.0 |
| Share of post-acquisition profits | | **68.1** | 68.1 |
| Impairment recognised | | **(73.1)** | (73.1) |
| **Summary of financial information of TM Supermarkets (Pvt) Limited – presented in US dollars** | | **100%** | 100% |
| | | **US$m** | US$m |
| Assets | | **24.5** | 13.3 |
| Liabilities | | **20.6** | 6.2 |
| Equity – non-distributable reserves | | **9.2** | 7.7 |
| – distributable reserves | | **(5.3)** | (0.6) |
| Turnover | | **148.4** | 15.2 |
| (Loss)/profit for the year | | **(4.6)** | 1.4 |

An annual impairment review is performed on the Group's investment in TM Supermarkets (Pvt) Limited. In prior years this investment was fully impaired to a carrying value of Rnil, due to the uncertain economic, political and social climate in Zimbabwe and our inability to remit dividends from that country. There have been positive changes in Zimbabwe over the last year, with the coalition government bringing some stability, the dollarisation of the currency and the lowering of inflation. Our impairment review has taken into account these changes and we believe that the future prospects are certainly more positive. However, as the coalition government is still in its infancy and there is still much change to come in Zimbabwe and our associate is currently making operating losses, we believe it to be inappropriate to consider reversing any of the impairment. We therefore continue to carry the investment at a value of Rnil.

| | | GROUP | |
|---|---|---|---|
| | | **2010 Rm** | 2009 Rm |
| **12.** | **Loans** | | |
| | The following loans have been advanced by subsidiary companies: | | |
| | **Employees** | | |
| | **Executive directors** | | |
| | **At 1 March** | **0.8** | 1.2 |
| | Advanced | **—** | — |
| | Repaid | **—** | (0.4) |
| | **At 28 February** | **0.8** | 0.8 |
| | Other employees | **120.7** | 127.6 |
| | Amounts (owing to)/loans to participants of the share purchase scheme | **(0.4)** | 0.6 |
| | **Total employee loans** | **121.1** | 129.0 |
| | **Trading loan** | **4.0** | — |
| | **Holding company loan** | **(0.4)** | (0.4) |
| | **Total loans at 28 February** | **124.7** | 128.6 |

Loans to directors and employees are secured, bear interest at varying rates subject to a maximum rate of 8% (2009: 8%) per annum and have varying repayment terms. Loans to employees from the Employee Share Purchase Trust are payable within 10 years from the date of advance.

The trading loan is secured, bears interest at the prime bank rate and is repayable after one year.

**13. Participation in export partnerships**

A subsidiary company participated in various export partnerships, whose business was the purchase and export sale of marine containers. The partnerships bought and sold such containers in terms of long-term suspensive purchase and credit sale agreements respectively, with repayment terms usually over a 10 to 15-year period.

The last trade took place in the 1999 financial year. The current balance disclosed in respect of participation in export partnerships is the remaining long-term debtor.

| | 2010 Rm | 2009 Rm |
|---|---|---|
| **At 28 February** | **50.6** | 57.9 |

The participation in export partnerships is measured at amortised cost using the effective interest rate method. Amortised cost is the cost of the original participation less subsequent principal repayments received, plus the cumulative amortisation of the difference between the initial amount, and the maturity amount less any write down for impairment or uncollectability.

For fair value purposes, any impairment in the amounts due to the Group by virtue of its participation in export partnerships would result in a corresponding reduction in the carrying value of the related deferred tax liability. Consequently, such impairment would have no impact on the statement of comprehensive income of the Group.

| | | GROUP | |
|---|---|---|---|
| | | **2010 Rm** | 2009 Rm |
| **14.** | **Deferred tax** | | |
| | The movement in deferred tax is as follows: | | |
| | **At 1 March** | **99.8** | 105.8 |
| | **Recognised in the statement of comprehensive income** (note 5.1) | **(10.2)** | (15.5) |
| | Participation in export partnerships | **7.9** | 4.2 |
| | Property, equipment and vehicles | **(50.9)** | (27.4) |
| | Operating leases | **7.6** | 7.2 |
| | Retirement benefits | **(8.8)** | (13.9) |
| | Prepayments | **(0.1)** | 0.6 |
| | Allowance for impairment losses | **20.7** | 9.1 |
| | Income and expense accruals | **13.4** | 4.7 |
| | **Recognised in equity** | | |
| | Tax effect of foreign currency translations | **(4.9)** | 7.0 |
| | Tax effect of actuarial losses | **13.4** | 2.5 |
| | **At 28 February** | **98.1** | 99.8 |
| | Comprising: | | |
| | Participation in export partnerships | **(51.6)** | (59.5) |
| | Property, equipment and vehicles | **(99.1)** | (48.2) |
| | Operating leases | **164.4** | 156.8 |
| | Retirement benefits and actuarial losses | **6.9** | 2.3 |
| | Prepayments | **(4.3)** | (4.2) |
| | Allowance for impairment losses | **31.4** | 10.7 |
| | Income and expense accruals | **82.1** | 68.7 |
| | Foreign currency translation | **(31.7)** | (26.8) |
| | **Total deferred tax asset** | **98.1** | 99.8 |

In respect of Score Supermarkets Operating Limited Group and Interfrank Group Holdings Pty Limited (Franklins) in Australia, there are approximately R275.4 million and R400.5 million, respectively, of estimated tax losses available for set-off against future taxable income, for which no deferred tax assets have been raised.

| | | **2010 Rm** | 2009 Rm |
|---|---|---|---|
| **15.** | **Inventory** | | |
| | Inventory comprises: | | |
| | Merchandise for resale | **3 298.6** | 3 308.2 |
| | Consumables | **27.6** | 26.3 |
| | **At 28 February** | **3 326.2** | 3 334.5 |
| **16.** | **Trade and other receivables** | | |
| | Trade and other receivables comprise: | | |
| | Trade receivables | **1 978.1** | 1 610.1 |
| | Allowance for impairment losses (note 29.1) | **(149.5)** | (50.7) |
| | | **1 828.6** | 1 559.4 |
| | Outstanding deposits | **90.2** | 90.3 |
| | Prepayments | **49.2** | 119.8 |
| | **At 28 February** | **1 968.0** | 1 769.5 |

| | | GROUP 2010 Rm | GROUP 2009 Rm |
|---|---|---|---|
| **17.** | **Cash and cash equivalents** | | |
| | Cash and cash equivalents comprise: | | |
| | Cash balances | **1 428.1** | 1 221.9 |
| | Bank overdraft | **(372.8)** | (149.1) |
| | **At 28 February** | **1 055.3** | 1 072.8 |
| | The bank overdraft is secured by an unlimited suretyship given by the Company and certain subsidiary companies. Interest is earned on a daily basis on the net cash and cash equivalents balance through the Group's cash management system with the bank. | | |
| **18.** | **Discontinued operation** | | |
| | As previously reported, the Group committed to the closure of the operations of its subsidiary, Score Supermarkets Operating Limited, which results have been disclosed as a discontinued operation. At 28 February 2010 the closure of the Score store operations is complete. | | |
| | The salient financial information of Score is as follows: | | |
| | **Statement of comprehensive income** | | |
| | Revenue | **580.9** | 2 073.0 |
| | Turnover | **579.8** | 2 070.8 |
| | Trading expenses | **(238.1)** | (512.4) |
| | Loss on sale of equipment and vehicles | **(1.3)** | (3.9) |
| | Trading loss for the year | **(107.1)** | (123.0) |
| | Interest received | **1.1** | 4.5 |
| | Tax | **(1.5)** | — |
| | Loss for the year | **(107.5)** | (118.5) |
| | Loss from operations | **(104.5)** | (109.4) |
| | Losses recognised on the remeasurement of the carrying value of assets | **(3.0)** | (9.1) |
| | **Balance sheet** | | |
| | **Non-current assets** | **14.5** | 14.3 |
| | Intangible assets | **—** | 0.8 |
| | Loans | **—** | 2.4 |
| | Operating lease asset | **14.5** | 11.1 |
| | **Current assets** | **15.7** | 301.7 |
| | Inventory | **—** | 157.2 |
| | Trade and other receivables | **15.7** | 20.4 |
| | Cash and cash equivalents | **—** | 61.5 |
| | Assets held for sale* | **—** | 62.6 |
| | **Total assets** | **30.2** | 316.0 |
| | **Equity** | | |
| | Capital and deficit | **(119.8)** | (12.3) |
| | **Non-current liabilities** | | |
| | Operating lease liability | **45.9** | 55.8 |
| | **Current liabilities** | **104.1** | 272.5 |
| | Bank overdraft | **46.9** | — |
| | Trade and other payables | **57.9** | 271.9 |
| | Tax | **(0.7)** | 0.6 |
| | **Total equity and liabilities** | **30.2** | 316.0 |

*Assets held for sale included equipment and vehicles only. All other remaining assets and liabilities were received and paid in the ordinary course of business.

| | GROUP 2010 Rm | GROUP 2009 Rm |
|---|---|---|
| **18. Discontinued operation** *(continued)* | | |
| **Cash flow statement** | | |
| Net cash utilised in operating activities | **(212.7)** | (56.1) |
| Net cash from investing activities (net proceeds on closure) | **56.8** | 68.9 |
| Inter-company rental and interest eliminated on consolidation | **47.5** | 23.3 |
| Net (decrease)/increase in cash and cash equivalents | **(108.4)** | 36.1 |

| | GROUP AND COMPANY 2010 Rm | GROUP AND COMPANY 2009 Rm |
|---|---|---|
| **19. Share capital and share premium** | | |
| **19.1 Share capital** | | |
| **Authorised** | | |
| 800 000 000 ordinary shares of 1.25 cents each | **10.0** | 10.0 |
| **Issued** | | |
| **The movement in issued share capital during the year is as follows:** | | |
| At 1 March: 506 133 882 ordinary shares of 1.25 cents each | **6.3** | 6.3 |
| 25 736 561 ordinary shares repurchased and cancelled (note 19.3) | **(0.3)** | — |
| At 28 February: 480 397 321 ordinary shares of 1.25 cents each | **6.0** | 6.3 |
| | **Number of shares 000's** | Number of shares 000's |
| **The number of shares in issue at 28 February is made up as follows:** | | |
| Treasury shares held by the share trust (note 20.2) | **6 780.5** | 7 614.6 |
| Treasury shares held by a subsidiary company (note 20.2) | **—** | 25 736.6 |
| | **6 780.5** | 33 351.2 |
| Shares held outside the Group | **473 616.8** | 472 782.7 |
| **Total shares in issue at 28 February** | **480 397.3** | 506 133.9 |

92.6 million of the unissued shares remain under the control of the directors until the next annual general meeting.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.
Refer to note 4.1 for details of share options granted by the Group.
For directors' interests in shares, refer to note 3.3.

| | 2010 Rm | 2009 Rm |
|---|---|---|
| **19.2 Share premium** | | |
| The movement in the share premium during the year is as follows: | | |
| At 1 March | **121.7** | 121.7 |
| Share cancellation (note 19.3) | **(121.7)** | — |
| At 28 February | **—** | 121.7 |

**19.3 Share repurchase and cancellation**

On 25 February 2010, the Company repurchased 25 736 561 ordinary shares from a subsidiary company for a total consideration of R1 037.1 million. In accordance with section 85 of the Companies Act these shares were cancelled.
The cancellation was accounted for by a reduction in the nominal value of shares in issue (R0.3 million), utilisation of the share premium account (R121.7 million), and a reduction of the Company's total equity. As these shares were treasury shares already held by the Group, the only effect the transaction had on Group equity was a Securities Transfer Tax charge of R2.7 million.

| | GROUP 2010 Rm | 2009 Rm |
|---|---|---|
| **20. Treasury shares** | | |
| **20.1 Treasury shares comprise Pick n Pay Stores Limited and Pick n Pay Holdings Limited shares held by subsidiary companies and the share trust.** | | |
| **At 1 March** | **743.6** | 814.3 |
| Share repurchases | **80.1** | 21.6 |
| Take-up of share options by employees | **(92.6)** | (92.3) |
| Shares repurchased and cancelled by the Company* | **(469.9)** | — |
| **At 28 February** | **261.2** | 743.6 |
| Comprises: | | |
| Pick n Pay Stores Limited shares | **198.4** | 689.2 |
| Pick n Pay Holdings Limited shares | **62.8** | 54.4 |

| | Number of shares 000's (2010) | Number of shares 000's (2009) |
|---|---|---|
| **20.2 The movement in the number of treasury shares held is as follows:** | | |
| **Pick n Pay Stores Limited** | | |
| **At 1 March** | **33 351.2** | 35 460.3 |
| Shares purchased during the year | **1 793.6** | 576.9 |
| Shares sold during the year pursuant to the take-up of share options by employees | **(2 627.7)** | (2 686.0) |
| Shares repurchased and cancelled by the Company | **(25 736.6)** | — |
| **At 28 February** | **6 780.5** | 33 351.2 |
| Comprises: | | |
| Shares held by share trust | **6 780.5** | 7 614.6 |
| Shares held by a subsidiary company | **—** | 25 736.6 |
| Average purchase price of shares purchased during the year | **R37.74** | R33.45 |
| Average purchase price of shares held at year-end | **R29.26** | R20.66 |
| **Pick n Pay Holdings Limited** | | |
| **At 1 March** | **12 126.7** | 12 908.6 |
| Shares purchased during the year | **852.4** | 330.4 |
| Shares sold during the year pursuant to the take-up of share options by employees | **(1 117.2)** | (1 112.3) |
| **At 28 February** | **11 861.9** | 12 126.7 |
| Comprises: | | |
| Shares held by share trust | **10 077.6** | 10 418.5 |
| Shares held by a subsidiary company | **1 784.3** | 1 708.2 |
| Average purchase price of shares purchased during the year | **R15.84** | R13.92 |
| Average purchase price of shares held at year-end | **R5.29** | R4.49 |

*For details on the shares repurchased and cancelled refer to note 19.3.

| | COMPANY 2010 Rm | 2009 Rm* |
|---|---|---|
| **21. Interest in subsidiaries** | | |
| **21.1 Investment in subsidiaries** | | |
| **Shares at cost** | | |
| **Trading** | **37.5** | 37.5 |
| Guardrisk Insurance Company Limited "A122 ordinary shares" | | |
| Pick n Pay Retailers (Pty) Limited | | |
| Pick n Pay Franchise Financing (Pty) Limited | | |
| Pick n Pay Garages (Pty) Limited | | |
| The Pick n Pay Employee Share Purchase Trust | | |
| Raymond Ackerman Holdings Limited | | |
| **Property owning** | **0.5** | 0.5 |
| Pick n Pay (Newton Park) (Pty) Limited | | |
| Pick n Pay Wholesalers (Pty) Limited | | |
| Pick n Pay Wholesalers (Transvaal) (Pty) Limited | | |
| **Dormant companies** | **0.3** | 0.3 |
| **Total investment in subsidiaries** | **38.3** | 38.3 |
| **21.2 Amount owing by a subsidiary company** | | |
| **At 1 March** | **224.0** | 224.9 |
| Amounts received during the year | **(103.1)** | (0.9) |
| **At 28 February** | **120.9** | 224.0 |
| The loan is unsecured, bears interest at rates determined from time to time and is repayable on 13 months' notice. | | |
| **Total interest in subsidiaries** | **159.2** | 262.3 |
| **Investments held by other Group subsidiaries:** | | |
| Pick n Pay (Gabriel Road) (Pty) Limited | | |
| Pick n Pay Namibia (Pty) Limited (registered in Namibia) | | |
| Pick n Pay Zambia (Pty) Limited (registered in Zambia) | | |
| Boxer Holdings (Pty) Limited | | |
| Boxer Superstores (Pty) Limited | | |
| Boxer Fresh Meats (Pty) Limited | | |
| Mfolozi Properties (Pty) Limited | | |
| KwaZulu Cash & Carry (Pty) Limited | | |
| InterFrank Group Holdings Pty Limited (registered in Australia) | | |
| Franklins Pty Limited (registered in Australia) | | |
| Franklins Supermarkets Pty Limited (registered in Australia) | | |
| Fresco Supermarket Holdings Pty Limited (registered in Australia) | | |
| Score Supermarkets Operating Limited | | |
| Score Supermarkets (Trading) (Pty) Limited | | |
| Score Supermarkets (Botswana) (Pty) Limited (registered in Botswana) | | |
| Score Supermarkets (Southern Africa) (Pty) Limited (registered in Botswana) | | |
| Score Supermarkets (Swaziland) Limited (registered in Swaziland) | | |
| *All companies are 100% held and incorporated in South Africa except where indicated. A comprehensive list of Group subsidiaries is available on request at the registered office of the Company.* | | |
| The attributable earnings of subsidiaries, excluding intercompany dividends | **1 298.0** | 1 174.9 |
| The attributable losses of subsidiaries (note 18) | **(107.5)** | (118.5) |

*Restated – refer to note 31.2.

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| | GROUP 2010 Rm | GROUP 2009 Rm |
|---|---|---|
| **22. Long-term debt** | | |
| **Finance leases** | **133.1** | 135.1 |
| **Secured loans** in respect of leased vehicles with a carrying value of R122.1 million (2009: R130.5 million) (note 9) held under finance lease agreements bearing interest at prime bank rate less 2% and payable monthly in arrears over a 4-year period. At the end of the lease period the Group has the option to refinance the lease or settle the lease and take ownership of the asset. Lease agreements do not contain any escalation or penalty clauses. | **133.1** | 127.2 |
| **Secured loans** in respect of leased equipment with a carrying value of R7.9 million in 2009 (note 9) were held under finance lease agreements which bore interest at an average rate of 10.99% and were payable monthly in arrears over a five-year period. | **—** | 7.9 |
| **Other debt** | **576.4** | 581.3 |
| **Secured loan** in respect of property with a book value of R79.1 million (2009: R82.5 million) (note 9) bearing interest at a fixed rate of 11.4% and payable monthly in arrears over a 15-year period, ending on 28 October 2018. | **76.4** | 81.3 |
| **Secured loan** raised to fund property development. The loan is secured by property with a book value of R557.3 million (2009: R499.6 million) (note 9) bearing interest at a fixed rate of 8.8%. Interest is payable six months in arrears. The capital is repayable on 29 June 2012. | **250.0** | 250.0 |
| **Unsecured loan** raised to fund property development. The loan bears interest at a fixed rate of 9.6%. Interest is payable six months in arrears. The capital is repayable on 1 June 2012. | **250.0** | 250.0 |
| **Total debt at 28 February** | **709.5** | 716.4 |
| ***Less:* Short-term debt (repayable within one year)** | **(38.7)** | (38.3) |
| **Long-term debt (repayable after one year)** | **670.8** | 678.1 |
| **At 28 February 2010, finance lease rentals are payable as follows:** | | |
| **Within 1 year** | | |
| Capital repayments | **33.2** | 39.7 |
| Interest | **12.0** | 14.3 |
| **Cash flows** | **45.2** | 54.0 |
| **Within 2 to 5 years** | | |
| Capital repayments | **99.9** | 95.4 |
| Interest | **14.9** | 17.8 |
| **Cash flows** | **114.8** | 113.2 |
| **Total cash flows** | **160.0** | 167.2 |
| **Comprising:** | | |
| Capital | **133.1** | 135.1 |
| Interest | **26.9** | 32.1 |

## 23. Retirement benefits

**The Group has four retirement schemes, covering:**

**Score Supermarkets Trading (Pty) Limited**

**Boxer Superstores (Pty) Limited**

**InterFrank Group Holdings Pty Limited (Franklins)**

**Pick n Pay Retailers (Pty) Limited (Pick n Pay)**

### 23.1 Score Supermarkets Trading (Pty) Limited

Score Supermarkets has its own defined-contribution provident funds, one for Botswana employees and the South African fund for all other employees. Employees who are union members have the choice to join the SACCAWU National Provident Fund.

| | |
|---|---|
| Membership of Score provident funds | 104 |
| Membership of SACCAWU National Provident Fund | nil |

The Score provident funds are administered by Alexander Forbes Consultants and Actuaries, who also provide consulting and actuarial services. All the Score South African fund assets are managed by Investment Solutions and the Botswana assets by Investec Asset Management (Botswana).

All funds are defined-contribution funds.

All Score stores have been sold or converted into Pick n Pay franchise stores and members of the Score fund are being transferred into the appropriate fund of their new employer. The only members remaining on the fund are pensioners.

### 23.2 Boxer Superstores (Pty) Limited

Employees of Boxer are members of their own provident funds.

| | | |
|---|---|---|
| **A** | Name of fund | Boxer Superstores (Pty) Limited Provident Fund |
| | Number of members | 4 510 |
| | Administrator | Old Mutual |

This is the main Boxer retirement plan and is a defined-contribution contributory provident fund. There are 8 Trustees and 2 alternate Trustees. Members elect half the Trustees, with the Company appointing the other half. Trustee meetings are held quarterly. Benefits from the fund include Group Life and Disability cover. On 23 June 2009, the Fund was advised that it had fulfilled all the requirements of section 15B (9) of the Pension Funds Act of 1956, with regard to the apportionment of its surplus as at 30 June 2009.

| | | |
|---|---|---|
| **B** | Name of fund | SACCAWU National Provident Fund |
| | Number of members | 954 |
| | Administrator | Old Mutual |

This is a defined-contribution contributory provident fund. Union members may elect to join this fund on commencement of employment at Boxer. The Company does not play any role in the running or administration of this fund, or the election of Trustees.

| | | |
|---|---|---|
| **C** | Name of fund | Personal Provident Fund |
| | Number of members | 55 |
| | Administrator | Momentum Administration Services |

This is a defined-contribution contributory provident fund for senior management of the Company. This is an umbrella fund with independently appointed Trustees. An internal advisory committee made up of two members elected and two Company-appointed participants deal with matters pertaining to the Boxer members.

### 23.3 InterFrank Group Holdings Pty Limited (Franklins)

In terms of Australian legislation employers are required to contribute 9% of employees' gross salaries to a superannuation fund of each employee's choice. If employees do not specify a superannuation fund of choice, contributions must be made on behalf of the employee to a fund selected by the Company. Franklins provides its employees with a choice of two funds:

**A** The InterFrank Superannuation Fund

This fund is for all corporate, head office and other non-retail employees. It is underwritten by AMP Life Limited as part of their Custom Super Plan. Approximately 250 employees are members of this Scheme.

**B** The Retail Industry Superannuation Fund

This fund is for all employees covered by the Enterprise Bargaining Agreement. Approximately 4 343 employees are members of this fund.

Both funds are defined-contribution and non-contributory.

Seven employees have opted for their contributions to be made by Franklins on their behalf to complying superannuation funds of their choice.

Franklins has no other liability as regards retirement funding and there is no medical aid nor post-retirement medical aid liability. Medical aid is taken care of by the Federal Government Medicare Scheme and personal compulsory top-up arrangements.

**23. Retirement benefits** *(continued)*

**23.4 Pick n Pay Retailers (Pty) Limited (Pick n Pay)**

The Pick n Pay Retirement Scheme comprises two separate funds, the Pick n Pay Non-contributory Provident Fund and the Pick n Pay Paid-up Pension Fund.

The Pick n Pay Retirement Scheme is defined-contribution in nature. However, certain members were guaranteed that should their defined-contribution benefit be less than their previous defined-benefit guarantee (under the previous Pick n Pay Retirement Fund) they would retain the former. Due to this guarantee, and the fact that the pensioners are also paid by this scheme, the scheme's liabilities may be broken down between those which are defined-contribution in nature and those which are defined-benefit and for which the employer has an obligation to make additional contributions to ensure this element of the scheme is fully funded.

Pick n Pay contributes a total of 16.48% of salary towards the defined-contribution benefits offered to the members of the scheme. Out of this, 12.77% is allocated towards retirement savings and the balance, 3.71%, is allocated towards the reinsurance of death benefits, disability benefits and fund expenses. A further 0.86% of salary is contributed towards funding the guarantees outlined above.

There are 16 746 members of the Pick n Pay Retirement Scheme and 1 143 pensioners.

**Retirement defined-benefit**

Executive members of the previous Pick n Pay Retirement Fund are guaranteed that the capital value of their benefit at normal retirement date will not be less than that which they enjoyed under that fund. A defined-benefit obligation arises in this regard.

**Post-retirement medical benefits**

Members who joined the Pick n Pay Medical Scheme prior to 1 January 1997 will receive an additional pension on retirement to assist with post-retirement medical scheme contributions. Some of the members have already retired and are in receipt of a post-retirement medical pension. The full obligation for both active members and retirees is provided for in the financial statements. There is no subsidy for members who joined the Pick n Pay Medical Scheme after 1 January 1997.

**Benefit fund (Managed Income Disability Scheme)**

The provision of disability benefits, equal to 75% of the scheme salary on date of disability, has been fully insured with a registered insurer at a cost of 0.52% of total salary cost.

**Advisors**

The Pick n Pay Retirement Scheme is administered by NMG Consultants and Actuaries Administrators. The consultants and actuaries are NMG Consultants and Actuaries. The investment advisor is Fifth Quadrant Actuaries and Consultants.

**SACCAWU National Provident Fund**

The SACCAWU Fund is administered by Old Mutual and is currently under curatorship. Employees, who are union members, have a choice of joining this fund instead of the Pick n Pay Retirement Scheme when they commence employment. There are 21 751 employees who have elected to join this fund.

| | Pensioners' defined-benefit guarantee Rm | Retirement defined-benefit guarantee Rm | Post-retirement medical guarantee Rm | Benefit fund Rm | **Total obligation 2010 Rm** | Total obligation 2009 Rm |
|---|---|---|---|---|---|---|
| | | | | | GROUP | |
| **23. Retirement benefits** *(continued)* | | | | | | |
| **23.4 Pick n Pay Retailers (Pty) Limited (Pick n Pay)** *(continued)* | | | | | | |
| **The amount recognised in the balance sheet is as follows:** | | | | | | |
| Present value of funded obligations | 330.6 | 566.2 | 76.5 | — | **973.3** | 975.5 |
| Fair value of assets | (330.6) | (543.3) | (76.5) | 1.8 | **(948.6)** | (1 004.0) |
| Funded position | — | 22.9 | — | 1.8 | **24.7** | (28.5) |
| Unrecognised actuarial gains | — | — | — | — | **—** | 36.7 |
| | — | 22.9 | — | 1.8 | **24.7** | 8.2 |
| **Amounts recognised in the statement of comprehensive income are as follows:** | | | | | | |
| Current service cost* | — | 33.5 | 2.4 | 5.9 | **41.8** | 30.7 |
| Interest on the obligation* | 37.7 | 66.6 | 9.3 | 0.2 | **113.8** | 84.8 |
| Expected return on the plan assets* | (47.3) | (74.4) | (10.8) | (2.5) | **(135.0)** | (98.4) |
| **Total included in employee costs** | (9.6) | 25.7 | 0.9 | 3.6 | **20.6** | 17.1 |
| **Cumulative unrecognised gains/(losses):** | | | | | | |
| **Net cumulative unrecognised gains – 1 March** | 13.7 | — | — | 23.0 | **36.7** | 25.4 |
| Actuarial (losses)/gains – obligation | (23.3) | (10.3) | 4.2 | (21.2) | **(50.6)** | 25.2 |
| Actuarial losses – assets | (19.1) | (5.4) | (5.7) | (3.6) | **(33.8)** | (22.9) |
| Actuarial losses recognised# | 28.7 | 15.7 | 1.5 | 1.8 | **47.7** | 9.0 |
| **Net cumulative unrecognised gain – 28 February#** | — | — | — | — | **—** | 36.7 |
| **Movement in the liability recognised on the balance sheet is as follows:** | | | | | | |
| **Net liability – 1 March** | (19.1) | 27.3 | — | — | **8.2** | 49.0 |
| Total included in employee costs in statement of comprehensive income | (9.6) | 25.7 | 0.9 | 3.6 | **20.6** | 17.1 |
| Amount recognised in other comprehensive income | 28.7 | 15.7 | 1.5 | 1.8 | **47.7** | 9.0 |
| Contributions | — | (45.8) | (2.4) | (3.6) | **(51.8)** | (66.9) |
| **Net liability – 28 February** | — | 22.9 | — | 1.8 | **24.7** | 8.2 |

*The annual actuarial valuation date has been changed from 1 June to 1 November. The date was changed to align with the date benefit statements are sent to members of the funds. As a result these figures are based on a calculation of 17 months from the last valuation date of 1 June 2008 to 1 November 2009.

#All actuarial gains and losses have been recognised and consequently there are no unrecognised actuarial gains and losses. In the previous period actuarial gains were not fully recognised on the pensioners defined-benefit guarantee and benefit funds as a contingency against expected volatility in the investment markets.

| | Pensioners' defined-benefit guarantee Rm | Retirement defined-benefit guarantee Rm | Post-retirement medical guarantee Rm | Benefit fund Rm | **Total obligation 2010 Rm** | Total obligation 2009 Rm |
|---|---|---|---|---|---|---|
| | | | | | **GROUP** | |
| **23. Retirement benefits** *(continued)* | | | | | | |
| **23.4 Pick n Pay Retailers (Pty) Limited (Pick n Pay)** *(continued)* | | | | | | |
| **Movement in the fund's obligations and plan assets recognised on the balance sheet is as follows:** | | | | | | |
| **Change in liability** | | | | | | |
| **Liability – 1 March** | 302.8 | 570.2 | 75.6 | 26.9 | **975.5** | 968.9 |
| Service cost | — | 33.5 | 2.4 | 5.9 | **41.8** | 30.7 |
| Interest cost | 37.7 | 66.6 | 9.3 | 0.2 | **113.8** | 84.8 |
| Actuarial losses/(gains) | 23.3 | 10.3 | (4.2) | 21.2 | **50.6** | (25.2) |
| Benefits paid | (33.2) | (114.4) | (6.6) | (54.2) | **(208.4)** | (83.7) |
| **Liability – 28 February** | 330.6 | 566.2 | 76.5 | — | **973.3** | 975.5 |
| **Change in plan assets** | | | | | | |
| **Plan assets – 1 March** | 335.6 | 542.9 | 75.6 | 49.9 | **1 004.0** | 945.3 |
| Expected return | 47.3 | 74.4 | 10.8 | 2.5 | **135.0** | 98.4 |
| Actuarial losses | (19.1) | (5.4) | (5.7) | (3.6) | **(33.8)** | (22.9) |
| Contributions by employer | — | 45.8 | 2.4 | 3.6 | **51.8** | 66.9 |
| Benefits paid | (33.2) | (114.4) | (6.6) | (54.2) | **(208.4)** | (83.7) |
| **Plan assets – 28 February** | 330.6 | 543.3 | 76.5 | (1.8) | **948.6** | 1 004.0 |
| | % | % | % | % | **%** | % |
| **Actuarial return on plan assets** | 8.5 | 12.7 | 6.8 | (4.4) | **0.6** | 7.7 |
| **Asset mix** | | | | | | |
| Equity | 65.9 | 65.9 | 65.9 | n/a | **65.9** | 62.5 |
| Fixed interest | 28.2 | 28.2 | 28.2 | n/a | **28.2** | 32.9 |
| Property | 5.9 | 5.9 | 5.9 | n/a | **5.9** | 4.6 |
| | 100.0 | 100.0 | 100.0 | n/a | **100.0** | 100.0 |

| **The principal actuarial assumptions at the last valuation date are:** | **1 November 2009 % per annum** | 1 June 2008 % per annum |
|---|---|---|
| Discount rate | **9.00** | 9.00 |
| Future salary increases | **6.27** | 6.34 |
| Future pension increases | **5.00** | 5.00 |
| Annual increase in healthcare costs | **9.00** | 8.30 |
| Expected rate of return* | **10.50** | 10.50 |

At 28 February 2010, if the discount rate had been 1% higher or 1% lower (with all other variables held constant), the impact on the financial statements would have been as follows:

| | 8% Rm | As reported 9% Rm | 10% Rm |
|---|---|---|---|
| **Statement of comprehensive income** | | | |
| Expense included in employee costs | 32.1 | 20.6 | 9.4 |
| **Balance sheet** | | | |
| Obligation at 28 February 2010 | 36.1 | 24.7 | 13.4 |

*The expected rate of return on plan assets was determined by assuming that the fixed-interest assets would earn a return equal to the discount rate of 9.00%, with a further 2.25% risk premium applied to the equities and property, giving a weighted average return of 10.50% based on the current asset allocation.

| | GROUP Defined-contribution benefits 2010 Rm | Defined-contribution benefits 2009 Rm |
|---|---|---|
| **23. Retirement benefits** *(continued)* | | |
| **23.5 Current contributions** | | |
| Current contributions | **281.1** | 265.8 |
| Continuing operations | **274.5** | 249.6 |
| Discontinued operation | **6.6** | 16.2 |

## 24. Operating leases

The Group has entered into various operating lease agreements in respect of premises. Leases on premises are contracted for periods of between 10 and 20 years with renewal options for a further 10 to 20 years. Rentals comprise minimum monthly payments and additional payments based on turnover levels. Turnover rentals, where applicable, average 1.5% of turnover. Rental escalations vary but average 6.5% per annum.

In terms of IAS 17, operating leases with fixed rental escalations are charged to the statement of comprehensive income on a straight-line basis. This results in the raising of a liability for future lease expenses and an asset for future lease income on the balance sheet. This liability and asset is reversed during the latter part of each lease term when the actual cash flow exceeds the statement of comprehensive income amounts.

| | GROUP 2010 Rm | 2009 Rm |
|---|---|---|
| **24.1 Operating lease asset** | | |
| **At 1 March** | **19.3** | 10.9 |
| Accrual for future lease income | **14.2** | 8.4 |
| **At 28 February** | **33.5** | 19.3 |
| **At 28 February future minimum rentals receivable from non-cancellable sublease contracts amount to:** | | |
| Cash flow due in 2011 | **139.8** | 88.6 |
| Creation of lease asset | **13.2** | 12.7 |
| Income in statement of comprehensive income | **153.0** | 101.3 |
| Cash flow due in 2012 – 2015 | **423.6** | 285.1 |
| (Reversal)/creation of lease asset | **(14.1)** | 13.9 |
| Income in statement of comprehensive income | **409.5** | 299.0 |
| Cash flow due in 2015 | **153.9** | 297.2 |
| Reversal of lease asset | **(32.6)** | (45.9) |
| Income in statement of comprehensive income | **121.3** | 251.3 |
| **Total operating lease income receivable** | **683.8** | 651.6 |
| Comprising: | | |
| Total future cash flows | **717.3** | 670.9 |
| Operating lease asset | **(33.5)** | (19.3) |
| **24.2 Operating lease liability** | | |
| **At 1 March** | **658.5** | 626.9 |
| Accrual for future lease expenditure | **37.4** | 31.6 |
| **At 28 February** | **695.9** | 658.5 |
| **At 28 February future non-cancellable minimum lease rentals are payable during the following financial years:** | | |
| Cash flow due in 2011 | **790.7** | 709.5 |
| Creation of lease liability | **30.0** | 25.5 |
| Statement of comprehensive income expense | **820.7** | 735.0 |
| Cash flow due in 2012 – 2015 | **2 966.3** | 2 752.3 |
| Reversal of lease liability | **(120.3)** | (107.9) |
| Statement of comprehensive income expense | **2 846.0** | 2 644.4 |
| Cash flow due after 2015 | **3 238.8** | 3 413.1 |
| Reversal of lease liability | **(605.6)** | (576.1) |
| Statement of comprehensive income expense | **2 633.2** | 2 837.0 |
| **Total operating lease commitments** | **6 299.9** | 6 216.4 |
| Comprising: | | |
| Total future cash flows | **6 995.8** | 6 874.9 |
| Operating lease liability | **(695.9)** | (658.5) |

| | | GROUP 2010 Rm | GROUP 2009 Rm | COMPANY 2010 Rm | COMPANY 2009 Rm |
|---|---|---|---|---|---|
| **25.** | **Trade and other payables** | | | | |
| | Trade and other payables comprise: | | | | |
| | Leave pay obligations | **279.7** | 270.1 | **—** | — |
| | Trade and other payables | **7 055.5** | 6 991.3 | **5.5** | 1.9 |
| | VAT | **57.3** | 51.8 | **—** | — |
| | Non-derivative trade and other payables | **7 392.5** | 7 313.2 | **5.5** | 1.9 |
| | Fair value of outstanding forward exchange contracts | **1.1** | 2.6 | **—** | — |
| | **Total trade and other payables** | **7 393.6** | 7 315.8 | **5.5** | 1.9 |
| **26.** | **Commitments** | | | | |
| | All capital expenditure will be funded from internal cash flow and through non-specific borrowing facilities obtained from various financial institutions. | | | | |
| | **Authorised capital expenditure** | | | | |
| | **Contracted for** | | | | |
| | Property | **178.0** | — | | |
| | Equipment and vehicles | **138.0** | 105.7 | | |
| | Intangible assets | **51.2** | 40.2 | | |
| | **Not contracted for** | | | | |
| | Property | **44.0** | 120.0 | | |
| | Equipment and vehicles | **1 058.6** | 1 169.5 | | |
| | Intangible assets | **1.5** | 13.0 | | |
| | **Total commitments** | **1 471.3** | 1 448.4 | **—** | — |

In addition to the above, an amount of R427.8 million has been authorised, but not committed, for the expansion of distribution capabilities in the Western Cape and Eastern Cape. The funding for these facilities will be sourced separately from financial institutions and once the developments are complete, it is likely they will be sold to an external landlord and the funding repaid.

### 27. Segmental report

**Group**

The basis for reporting segmental financial information has been changed to accord with IFRS 8: Operating Segments. Previously, segmental information was provided on a geographic basis, reflecting only the southern African operations and the Australian operation. With the implementation of IFRS 8, operating segments were identified based on financial information regularly reviewed by the Pick n Pay Stores Limited Board (identified as the Chief Operating Decision Maker (CODM) of the Group for IFRS 8 reporting purposes) for performance assessments and resource allocations.

The Group has 5 operating segments, as described below, with no individual customer accounting for more than 10% of turnover.

**Pick n Pay** – all retail operations, retailing food, clothing, general merchandise, pharmaceuticals and liquor under the Pick n Pay brand throughout southern Africa.

**Boxer** – all retail operations, retailing food, general merchandise and liquor in southern Africa under the Boxer brand.

**Franklins** – our retail operation retailing food and general merchandise in New South Wales, Australia.

**Score** – all retail operations, retailing goods and services under the Score brand. Score Supermarkets retail operations have been closed down and the results of which are disclosed as a discontinued operation.

**Pick n Pay Insurance Cell Captive** – the insurance cell captive provides insurance services, from insurance cover to claims maintenance for Group entities.

The South African operating segments are mainly retail operations (with the exclusion of the insurance cell captive) which are reviewed independently of each other by the CODM, due to the individual operations being operated through separate subsidiary companies under the management and guidance of separate management boards. The Australian retail business operates in a different market from other Group operations and thus faces different risks and economic conditions while serving a different customer base. As the Pick n Pay and Boxer operating segments have demonstrated similar economic characteristics they have been aggregated in terms of IFRS 8. Information regarding the operations of each reportable segment is presented on page 79. Performance is measured based on the segment profit before tax, as management believes that such information is most relevant in evaluating the results of the segments against each other and other entities that operate within the retail industry.

## 27. Segmental report
*(continued)*

| | Pick n Pay and Boxer Rm | Franklins Rm | Insurance cell captive Rm | Unallocated head office costs and revenues Rm | Total continuing operations Rm | Discon-tinued operation Score Rm | Total operations Rm |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| External revenue | **49 320.4** | **5 673.3** | **3.2** | **—** | **54 996.9** | **580.9** | **55 577.8** |
| Inter-segment revenue | **(14.4)** | **—** | **14.4** | **—** | **—** | **—** | **—** |
| External turnover | **49 068.5** | **5 666.0** | **—** | **—** | **54 734.5** | **579.8** | **55 314.3** |
| – Australian dollars (millions) | | **861.1** | | | | | |
| Interest income | **65.5** | **7.2** | **3.2** | **—** | **75.9** | **1.1** | **77.0** |
| Interest expense | **(86.2)** | **(5.4)** | **—** | **—** | **(91.6)** | **—** | **(91.6)** |
| Depreciation and amortisation | **(622.9)** | **(112.4)** | **—** | **—** | **(735.3)** | **(5.0)** | **(740.3)** |
| Profit before tax* | **1 603.2** | **16.3** | **17.9** | **190.9** | **1 828.3** | **(106.0)** | **1 722.3** |
| – Australian dollars (millions) | | **2.5** | | | | | |
| Tax | **(519.7)** | **—** | **(5.0)** | **(7.2)** | **(531.9)** | **(1.5)** | **(533.4)** |
| Total assets | **9 065.4** | **2 055.5** | **47.7** | **—** | **11 168.6** | **30.2** | **11 198.8** |
| **2009** | | | | | | | |
| External revenue | 44 250.9 | 5 879.6 | 5.3 | — | 50 135.8 | 2 073.0 | 52 208.8 |
| Inter-segment revenue | (9.1) | — | 9.1 | — | — | — | — |
| External turnover | 43 991.1 | 5 871.0 | — | — | 49 862.1 | 2 070.8 | 51 932.9 |
| – Australian dollars (millions) | | 849.5 | | | | | |
| Interest income | 58.5 | 8.1 | 5.3 | — | 71.9 | 4.5 | 76.4 |
| Interest expense | (101.2) | (6.3) | — | — | (107.5) | — | (107.5) |
| Depreciation and amortisation | (518.4) | (97.4) | — | — | (615.8) | (42.3) | (658.1) |
| Profit before tax* | 1 637.6 | 23.3 | 14.5 | 68.4 | 1 743.8 | (118.5) | 1 625.3 |
| – Australian dollars (millions) | | 3.7 | | | | | |
| Tax | (566.4) | — | (4.1) | — | (570.5) | — | (570.5) |
| Total assets | 8 389.6 | 1 815.4 | 54.8 | — | 10 259.8 | 316.0 | 10 575.8 |

*Franklins includes a net loss on sale of assets of R5.6 million (2009: R1.4 million profit).

## 28. Related party transactions

### Transactions between Group subsidiaries

During the year, in the ordinary course of business, certain companies within the Group entered into transactions with each other. These intra-group transactions have been eliminated on consolidation.

### Directors

Two directors of the Company hold positions in related entities where they may have significant influence over the financial or operating policies of those entities. The following are considered to be such entities:

| Director | Entity | Position held in entity |
|---|---|---|
| Dennis Cope | Pick n Pay Retirement Scheme | Trustee |
| | Pick n Pay Medical Scheme | Trustee |
| Hugh Herman | Investec Limited | Non-executive chairman |

Except for certain administrative costs carried by a subsidiary company on behalf of the Pick n Pay Retirement Scheme and the Pick n Pay Medical Scheme, transactions between the Group and these entities have occurred under terms and conditions that are no more favourable than those entered into with third parties in arm's length transactions.

### Related party transactions include:

i) The Pick n Pay Retirement and Medical Schemes administer the Company's retirement and medical plans respectively.
ii) Subsidiary companies of Investec Limited manage cash resources and assets on behalf of Group companies, the Pick n Pay Retirement Scheme and the Pick n Pay Medical Scheme.

Certain non-executive directors of the Group are also non-executive directors of other public companies which may transact with the Group. Except as disclosed above, the relevant directors do not believe they have significant influence over the financial or operating policies of those companies. Those entities are not disclosed above.

### Shares held by directors

The percentage shares held by directors of the Company at the balance sheet date is disclosed in the directors' report on page 38. For further information refer to note 3.3.

### Loans to executive directors

Loans to directors amount to R0.8 million at 28 February 2010, are secured and bear interest at varying interest rates. For further information refer to note 12.

### Key management personnel

Key management personnel are directors and those executives having authority and responsibility for planning, directing and controlling the activities of the Group. No key management personnel had a material interest in any contract of any significance with any Group company during the year under review.

### Key management personnel remuneration comprises:

| | GROUP | |
|---|---|---|
| | **2010 R'000** | 2009 R'000 |
| Directors' fees | **2 974.0** | 1 986.0 |
| Remuneration for management services | **19 717.3** | 18 362.3 |
| Retirement and medical aid contributions | **2 513.6** | 2 525.2 |
| Performance bonus | **1 416.8** | 9 955.0 |
| Fringe and other benefits | **1 773.5** | 2 983.2* |
| | **28 395.2** | 35 811.7 |
| Expense relating to share options granted | **8 156.9** | 7 543.9 |
| **Total cost to Company** | **36 552.1** | 43 355.6 |

*Includes an amount of R1.5 million in respect of an early retirement settlement.

### The Company has the following related party transactions:

i) Dividends received from subsidiary companies and paid to its holding company.
ii) Interest received from a subsidiary company.
iii) Loan advanced to a subsidiary company.

## 29. Financial instruments

### Overview

The Company and Pick n Pay Holdings Limited have no significant exposure to risk in respect of financial instruments, as their only financial asset is a loan to a subsidiary company. There is minimal credit risk relating to this as it is payable by the main operating company within the Group. Liquidity risk is also minimalised as the only financial liability is an insignificant trade and other payable which will be funded by unlimited access to Group funds. Market risk is effectively negated as the financial asset and financial liability have no exposure to changes in exchange rates and very limited exposure to changes in interest rates.

The Group has exposure to the following risks arising from its financial instruments:

**Credit risk**
**Liquidity risk**
**Market risk**

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's objective is to effectively manage each of the above risks associated with its financial instruments, in order to limit the Group's exposure as far as possible to any financial loss associated with these risks.

The Board is ultimately responsible and accountable for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor key business risks. The Board has established the Audit, Risk and Compliance committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit, Risk and Compliance committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The committee is assisted in this regard by Group Risk and Assurance Services (internal audit). Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit, Risk and Compliance committee.

## 29.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of investments, loans, participation in export partnerships, trade receivables and cash balances.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 28 February was:

| | GROUP | |
|---|---|---|
| | **2010 Rm** | 2009 Rm |
| Investments (note 10) | **0.2** | 0.2 |
| Loans (note 12) | **124.7** | 128.6 |
| Participation in export partnerships (note 13) | **50.6** | 57.9 |
| Trade receivables (note 16) | **1 828.6** | 1 559.4 |
| Cash balances (note 17) | **1 428.1** | 1 221.9 |
| | **3 432.2** | 2 968.0 |

***Investments***

The Group has no material investments and therefore there is currently no significant credit risk from these instruments.

***Loans***

Loans to employees are granted and managed in accordance with strict regulations laid down by the Human Resources division, governing the size of the loan which may be granted and the associated interest rate and repayment terms. Before a loan is granted, it is first established that the employee is able to afford the monthly repayment terms. Where appropriate, the Group obtains suitable forms of security when granting loans. Repayments are deducted directly from the employee's monthly salary. There are no loan balances which exceed repayment terms. The Group considers all loan balances to be recoverable and therefore no impairment provision is required.

**29. Financial instruments** *(continued)*

**29.1 Credit risk** *(continued)*

***Participation in export partnerships***

A company listed on the JSE Limited has warranted certain important cash flow aspects of the Group's participation in export partnerships. The Group's directors have considered the credit risk relating to these aspects warranted and have satisfied themselves as to the creditworthiness of the warrantor company.

***Trade receivables***

Trade receivables are amounts owing by franchisees and are presented net of impairment losses.

The Group obtains various forms of security from its franchise debtors, including bank guarantees, notarial bonds over inventory and moveable assets and suretyships from shareholders. The total credit risk with respect to receivables from franchise debtors is further limited as a result of the dispersion amongst the individual franchisees and across different geographic areas. Accordingly, the Group has no significant concentration of credit risk.

| | GROUP | |
|---|---|---|
| | **2010 Rm** | 2009 Rm |
| **The ageing of trade receivables at 28 February was:** | | |
| **Trade receivables not impaired** | | |
| Within payment terms | **1 584.6** | 1 441.9 |
| Exceeding payment terms by less than 14 days | **64.9** | 25.1 |
| Exceeding payment terms by more than 14 days | **20.5** | 7.5 |
| | **1 670.0** | 1 474.5 |
| **Trade receivables with impairments** | | |
| Within payment terms | **150.5** | 72.2 |
| Exceeding payment terms by less than 14 days | **83.1** | 10.8 |
| Exceeding payment terms by more than 14 days | **74.5** | 52.6 |
| | **308.1** | 135.6 |
| **Total trade receivables** | **1 978.1** | 1 610.1 |
| **Allowance for impairment losses** | **(149.5)** | (50.7) |
| **Total trade receivables net of allowance for impairment losses** | **1 828.6** | 1 559.4 |
| The movement in the allowance for impairment of trade receivables during the year was as follows: | | |
| **At 1 March** | **50.7** | 7.6 |
| Irrecoverable debts written off | **—** | — |
| Additional impairment losses recognised | **106.8** | 45.1 |
| Prior allowances for impairment reversed | **(8.0)** | (2.0) |
| **At 28 February** | **149.5** | 50.7 |

The Group makes allowance for specific trade debtors which have clearly indicated financial difficulty and the likelihood of repayment has become impaired. More than 80% of the balance relates to customers that have an excellent credit history with the Group.

Impairment losses are recorded in the allowance account until the Group is satisfied that no recovery of the amount owing is possible, at which point the amount is considered irrecoverable and is written off against the financial asset directly.
There is currently no allowance for impairment against any other class of financial asset.

***Cash balances***

The Group's cash is placed with major South African and international financial institutions of high credit standing and within specific guidelines laid down by the Group's Treasury committee and approved by the Board. The Treasury committee is appointed by the Board and comprises executive directors and senior executives. Consequently, the Group does not consider there to be any significant exposure to credit risk.

**29. Financial instruments** *(continued)*

**29.2 Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

One of the core founding principles of the Group is to maintain strong cash balances, not only to meet current financial obligations, but in order to be able to buy inventory forward on a rising market.

Adequate liquidity is further managed through the use of cash flow forecasts and by the maintenance of adequate borrowing facilities. In terms of its articles of association, the Company's borrowing powers are unlimited. However, the Treasury committee maintains strict control over the acceptance and draw-down of any loan facility.

**At 28 February the Group's loan facilities comprised:**

| | GROUP | |
|---|---|---|
| | **2010 Rm** | 2009 Rm |
| Total borrowing facilities granted by financial institutions | **4 988.2** | 4 471.2 |
| Total actual borrowings and utilisation of facilities | **(1 386.1)** | (1 013.0) |
| **Unutilised borrowing facilities** | **3 602.1** | 3 458.2 |

On average, trade receivables and inventory are realised within 30 days and trade payables are settled within 60 days. To the extent that the Group requires short-term funds, it utilises available banking facilities.

**The following are the contractual maturities of financial liabilities, including estimated interest payments:**

| **GROUP – 2010** | Carrying amount Rm | Contractual cash flows Rm | Within 1 year Rm | 2 to 5 years Rm | Over 5 years Rm |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Secured bank loans (note 22) | **326.4** | **411.9** | **36.1** | **324.9** | **50.9** |
| Unsecured bank loans (note 22) | **250.0** | **310.4** | **24.2** | **286.2** | **—** |
| Finance lease liabilities (note 22) | **133.1** | **160.0** | **45.2** | **114.8** | **—** |
| Trade and other payables (note 25) | **7 392.5** | **7 392.5** | **7 392.5** | **—** | **—** |
| Bank overdraft (note 17) | **372.8** | **372.8** | **372.8** | **—** | **—** |
| **Derivative financial liabilities** | | | | | |
| Forward exchange contracts (note 25) | **1.1** | **1.1** | **1.1** | **—** | **—** |
| **Total financial liabilities** | **8 475.9** | **8 648.7** | **7 871.9** | **725.9** | **50.9** |
| **To be settled through the management of:** | | | | | |
| Inventory (note 15) | **3 298.6** | **3 298.6** | **3 298.6** | | |
| Trade receivables (note 16) | **1 978.1** | **1 978.1** | **1 978.1** | | |
| Cash balances (note 17) | **1 428.1** | **1 428.1** | **1 428.1** | | |
| **Net liabilities*** | **1 771.1** | **1 943.9** | **1 167.1** | **725.9** | **50.9** |
| **GROUP – 2009** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Secured bank loans (note 22) | 331.3 | 461.6 | 35.8 | 360.9 | 64.9 |
| Unsecured bank loans (note 22) | 250.0 | 334.5 | 24.0 | 310.5 | — |
| Finance lease liabilities (note 22) | 135.1 | 167.2 | 54.0 | 113.2 | — |
| Trade and other payables (note 25) | 7 313.2 | 7 313.2 | 7 313.2 | — | — |
| Bank overdraft (note 17) | 149.1 | 149.1 | 149.1 | — | — |
| **Derivative financial liabilities** | | | | | |
| Forward exchange contracts (note 25) | 2.6 | 2.6 | 2.6 | — | — |
| **Total financial liabilities** | 8 181.3 | 8 428.2 | 7 578.7 | 784.6 | 64.9 |
| **To be settled through the management of:** | | | | | |
| Inventory (note 15) | 3 308.2 | 3 308.2 | 3 308.2 | | |
| Trade receivables (note 16) | 1 610.1 | 1 610.1 | 1 610.1 | | |
| Cash balances (note 17) | 1 221.9 | 1 221.9 | 1 221.9 | | |
| **Net liabilities** | 2 041.1 | 2 288.0 | 1 438.5 | 784.6 | 64.9 |

*As disclosed above, the Group has adequate borrowing facilities to meet these current financial obligations.

## 29. Financial instruments *(continued)*

### 29.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the risk.

***Currency risk***

The Group is exposed to foreign currency risk through the importation of merchandise. This risk is covered by entering into forward exchange contracts (FECs). These contracts are matched with anticipated future cash outflows in foreign currencies. FECs are taken out when an order is placed with a foreign supplier. The Group does not use FECs for speculative purposes and does not apply cash flow hedge accounting.

The fair value of forward exchange derivative contracts was R1.1 million. This has been recognised as an expense in the statement of comprehensive income and is reflected as a part of trade and other payables.

As all foreign purchases are covered by FECs, fluctuations in foreign exchange rates will have no significant impact on the Group.

In relation to the participation in export partnerships, a fixed rate of exchange was set for the purposes of converting the foreign currency receipts in respect of the partnership's sales into SA rands. Any exchange differences are for the account of the managing partner of the partnerships and will have no impact on the earnings of the Group.

The exchange rate sensitivity below, reflects the sensitivity of the assets, liabilities and profit of foreign operations to changes in exchange rates. There is very little exchange rate risk with regard to the import of goods to South Africa as FECs are in place which hedge the risk. The Group uses a 1% change in foreign currency exchange rates as a measure of sensitivity. The financial effect of a change in exchange rates in the case of a foreign operation will affect the carrying value of the foreign currency translation reserve which is a component of equity.

**Exchange rate sensitivity**

| GROUP | **2010 1% increase Rm** | **2010 1% decrease Rm** | 2009 1% increase Rm | 2009 1% decrease Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| Inventory | **5.3** | **(5.3)** | 4.9 | (4.9) |
| Trade and other receivables | **0.5** | **(0.5)** | 0.6 | (0.6) |
| Cash and cash equivalents | **2.5** | **(2.5)** | 1.5 | (1.5) |
| Property, equipment and vehicles | **4.9** | **(4.9)** | 3.8 | (3.8) |
| Intangible assets | **0.4** | **(0.4)** | 0.4 | (0.4) |
| Goodwill | **6.8** | **(6.8)** | 6.7 | (6.7) |
| **Total effect on assets** | **20.4** | **(20.4)** | 17.9 | (17.9) |
| **Liabilities** | | | | |
| Trade and other payables | **(5.8 )** | **5.8** | (5.6) | 5.6 |
| Leave pay obligation | **(1.1)** | **1.1** | (1.0) | 1.0 |
| Long term debt | **(6.9)** | **6.9** | (6.4) | 6.4 |
| **Total effect on liabilities** | **(13.8)** | **13.8** | (13.0) | 13.0 |
| **Effect on foreign currency translation reserve** | **6.6** | **(6.6)** | 5.0 | (5.0) |

## 29. Financial instruments *(continued)*

### 29.3 Market risk *(continued)*

***Interest rate risk***

The Group manages the interest rate risk on long-term borrowings by fixing the interest rate with the relevant financial institution, wherever possible. We disclose below the information relating to variable interest financial instruments.

The effective rates on financial instruments at 28 February 2010 are:

| | | Maturity of interest-bearing assets/liabilities | | | |
|---|---|---|---|---|---|
| **GROUP – 2010** | **Weighted average interest rate %** | **1 year or less Rm** | **2 to 5 years Rm** | **Over 5 years Rm** | **Total Rm** |
| **Financial assets** | | | | | |
| Cash and cash equivalents (note 17) | **8.0** | **1 055.3** | **—** | **—** | **1 055.3** |
| Loans (note 12) | **2.6** | **17.3** | **69.0** | **38.4** | **124.7** |
| **Total financial assets** | | **1 072.6** | **69.0** | **38.4** | **1 180.0** |
| **Financial liabilities** | | | | | |
| Variable-rate interest-bearing debt | | | | | |
| Finance leases (note 22) | **9.2** | **33.2** | **99.9** | **—** | **133.1** |
| **Total financial liabilities** | | **33.2** | **99.9** | **—** | **133.1** |
| **GROUP – 2009** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents (note 17) | 9.0 | 1 072.8 | — | — | 1 072.8 |
| Loans (note 12) | 2.3 | 17.8 | 71.2 | 39.6 | 128.6 |
| **Total financial assets** | | 1 090.6 | 71.2 | 39.6 | 1 201.4 |
| **Financial liabilities** | | | | | |
| Variable-rate interest-bearing debt | | | | | |
| Finance leases (note 22) | 12.4 | 39.7 | 95.4 | — | 135.1 |
| **Total financial liabilities** | | 39.7 | 95.4 | — | 135.1 |

***Market price risk***

The Group has no investment in equity securities and therefore has no exposure to market price risk.

***Sensitivity analysis***

The analysis below reflects the sensitivity of profit for the year and headline earnings per share to variations in the interest rate. Such variations affect the carrying values of financial assets and liabilities as well as the profit for the year and headline earnings per share. The variation is reflected in rand terms and represents the increase or decrease in the value of the assets, liabilities and profit/equity. The Group uses a 1% change in interest rates as a measure of interest rate sensitivity.

| | Interest rate sensitivity | | | |
|---|---|---|---|---|
| **GROUP** | **2010 1% increase Rm** | **2010 1% decrease Rm** | 2009 1% increase Rm | 2009 1% decrease Rm |
| **Financial assets** | | | | |
| Cash and cash equivalents | **10.6** | **(10.6)** | 10.7 | (10.7) |
| Loans | **1.2** | **(1.2)** | 1.3 | (1.3) |
| **Total effect on financial assets** | **11.8** | **(11.8)** | 12.0 | (12.0) |
| **Financial liabilities** | | | | |
| Bank loans | **(3.7)** | **3.7** | (4.4) | 4.4 |
| Finance leases | **(1.3)** | **1.3** | (1.4) | 1.4 |
| **Total effect on financial liabilities** | **(5.0)** | **5.0** | (5.8) | 5.8 |
| **Effect on profit for the year, after tax** | **4.9** | **(4.9)** | 4.5 | (4.5) |
| **Effect on headline earnings per share** | **1.0c** | **(1.0c)** | 0.9c | (0.9c) |

**29. Financial instruments** *(continued)*

**29.3 Market risk** *continued)*

***Fair value***

At 28 February 2010 the carrying amounts of cash and cash equivalents, trade receivables and trade and other payables approximate their fair values due to their short-term maturities. Trade receivables and payables will mature within 30 to 60 days. The fair value of loans, investments and interest-bearing debt approximate their carrying value as disclosed on the balance sheet.

***Basis for determining fair values***

***Financial liabilities***

Fair value is determined by calculating the present value of future cash outflows discounted at a market interest rate at the reporting date. With regard to retirement benefit obligations, fair value is determined by a qualified actuary using actuarial assumptions.

***Trade and other receivables***

The fair value of trade and other receivables is estimated as the present value of future cash inflows discounted at a market-related interest rate.

***Other financial assets (including cash and cash equivalents and loans)***

Fair value is estimated as the present value of future cash inflows discounted at a market interest rate at the reporting date.

***Participation in export partnerships – refer to note 13.***

**29.4 Capital management**

The Board considers working capital management critical to the business and, in doing so, manages the balance between current assets and current liabilities. One of the core principles of the Group is to maintain strong cash balances in order to buy inventory forward on a rising market.

From time to time the Group purchases its own shares on the market. All share purchases are intended to cover the issue of shares under the Group's share option schemes.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**30. International Financial Reporting Standards (IFRS) and interpretations to be adopted in future years**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 28 February 2010, and have not been applied in preparing these consolidated financial statements. Those standards and interpretations which are applicable to the Group are presented below.

**IAS 24 amendment: Related Party Disclosures**

The definition of a related party per IAS 24 has been amended to include that if an entity is identified as a related party in another entity's financial statements then the other entity is also a related party in the aforementioned entity's financial statements. This standard becomes mandatory for the Group's 2012 financial statements, and may affect related party disclosure.

**IAS 27 amendment: Consolidated and Separate Financial Statements**

In accordance with the amendments to IAS 27, acquisitions of additional non-controlling equity interests in subsidiaries have to be accounted for as equity transactions. Disposals of equity interests while retaining control are also accounted for as equity transactions. When control of an investee is lost, the resulting gain or loss relating to the transaction will be recognised in profit and loss.

The amendments to IAS 27 also require that losses (including negative "other comprehensive income" as detailed in the revised IAS 1) have to be allocated to the non-controlling interest, even if doing so causes the non-controlling interest to be in a deficit position. The Group will in future change its accounting policies on the allocation of losses to non-controlling minority interests. In the past, losses would only have been allocated until the non-controlling interest had a zero balance (if applicable).

This standard becomes mandatory for the Group's 2011 financial statements. We do not foresee any material impact on the Group's annual financial statements from the implementation of this amendment.

**IFRS 2: Share-based Payments**

An entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction is required to account for the transaction in its separate financial statements. This applies even if another Group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment. The share-based payment transaction should be classified by each reporting entity as equity-settled or cash-settled from the respective entity.

The revised IFRS 2 becomes mandatory for the Group's 2011 financial statements and will have no effect on the Group annual financial statements.

**IFRS 3: Business Combinations**

IFRS 3 applies to all new business combinations that occur after 1 January 2010. For these future business combinations, the Group will change its accounting policies to be in line with the revised IFRS 3. In future all transaction costs will be expensed and any contingent purchase consideration will be recognised at fair value at acquisition date. For successive share purchases, any gain or loss for the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree will be recognised in the statement of comprehensive income.

The revised IFRS 3 becomes mandatory for the Group's 2011 financial statements. We do not foresee any material impact on the Group's annual financial statements from the implementation of this statement.

### 30. International Financial Reporting Standards (IFRS) and interpretations to be adopted in future years *(continued)*

**IFRS 9: Financial Instruments**

Under IFRS 9 there are two options in respect of the classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

The revised IFRS 9 becomes mandatory for the Group's 2014 financial statements. The impact cannot be determined at this stage.

### 31. Prior year adjustments

### 31.1 Change in accounting policy

The Group has revised its accounting policy in accounting for actuarial gains and losses recognised in terms of IAS 19: Employee Benefits. Previously all actuarial gains and losses on defined-benefit funds were recognised immediately in profit for the year. The Group's policy is to now recognise actuarial gains and losses in other comprehensive income as incurred in accordance with IAS 19. The effects of the prior year adjustment on the statement of comprehensive income and balance sheet are shown below.

IAS 1 requires a third balance sheet to be presented as at the beginning of the earliest comparative period following a change in accounting policy. No third balance sheet has been presented as this change did not affect any balance sheet disclosure.

| | GROUP | | |
|---|---|---|---|
| | February 2009 as previously stated Rm | Change in accounting policy Rm | February 2009 as restated Rm |
| **Statement of comprehensive income** | | | |
| Employee costs | (4 624.0) | 9.0 | (4 615.0) |
| **Profit before tax** | 1 734.8 | 9.0 | 1 743.8 |
| Tax | (568.0) | (2.5) | (570.5) |
| **Profit for the year from continuing operations** | 1 166.8 | 6.5 | 1 173.3 |
| **Profit for the year** | 1 048.3 | 6.5 | 1 054.8 |
| Other comprehensive income | (98.8) | (6.5) | (105.3) |
| **Total comprehensive income for the year** | 949.5 | — | 949.5 |

### 31.2 Prior period error

In the 2009 financial year, the Company did not recognise a dividend received from another entity within the Group in error. As intercompany dividends are eliminated on consolidation, the only effect of this error is in the Company. The effects of the prior period error on the statement of comprehensive income and balance sheet are shown below.

| | COMPANY | | |
|---|---|---|---|
| | February 2009 as previously stated Rm | Prior period error Rm | February 2009 as restated Rm |
| **Statement of comprehensive income** | | | |
| Dividends received | 774.2 | 4.5 | 778.7 |
| **Profit before tax** | 772.6 | 4.5 | 777.1 |
| Tax | — | — | — |
| **Profit for the year** | 772.6 | 4.5 | 777.1 |
| **Total comprehensive income for the year** | 772.6 | 4.5 | 777.1 |
| **Balance sheet** | | | |
| Interest in subsidiaries | 257.8 | 4.5 | 262.3 |
| Accumulated profits | 130.0 | 4.5 | 134.5 |

# Pick n Pay Holdings Limited and its subsidiaries

## Directors' responsibility for the Company and Group annual financial statements

The directors are responsible for the preparation and fair presentation of the Company and Group annual financial statements of Pick n Pay Holdings Limited and its subsidiaries comprising the directors' report, the statements of comprehensive income for the year ended 28 February 2010, balance sheets at 28 February 2010, and the statements of changes in equity and cash flow statements for the year then ended, a summary of significant accounting policies and the notes to the financial statements, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the Company's and Group's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

## Directors' approval

The directors acknowledge and accept full responsibility for the preparation and integrity of the information presented in the Company and Group annual financial statements for the year ended 28 February 2010.

The Company and Group annual financial statements of Pick n Pay Holdings Limited, which have been prepared in accordance with the Companies Act of South Africa and comply with International Financial Reporting Standards, were approved by the Board of directors on 10 May 2010 and are signed on their behalf by:

**Raymond Ackerman**
*Chairman*

**Gareth Ackerman**
*Director*

## Company Secretary's certificate

In terms of section 268G (d) of the Companies Act No. 61 of 1973, as amended, I certify that Pick n Pay Holdings Limited has lodged with the Registrar of Companies all such returns as are required by the Companies Act, and that all such returns are true, correct and up to date.

**Gary Lea**
*Company Secretary*

10 May 2010

# Independent auditor's report

### To the members of Pick n Pay Holdings Limited

We have audited the Company and Group annual financial statements of Pick n Pay Holdings Limited, which comprise the statements of comprehensive income for the year ended 28 February 2010, balance sheets at 28 February 2010, and the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 90 to 101.

### Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Pick n Pay Holdings Limited at 28 February 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

**KPMG Inc.**
*Registered Auditor*

Per **Patrick Farrand**
*Chartered Accountant (SA)*
Registered Auditor
Director

10 May 2010

MSC House
Mediterranean Street
Cape Town
8001

# Directors' report

**for the year ended 28 February 2010**

## Structure and function

The Company, which is domiciled and incorporated in the Republic of South Africa and listed on the JSE Limited (JSE), the recognised securities exchange in South Africa, was formed with the sole purpose of holding a controlling interest in Pick n Pay Stores Limited. The Company is entitled to redistribute any dividend received from Pick n Pay Stores Limited.

## General review

The Group statement of comprehensive income is presented on page 92 and reflects the Group's operational results.

The Group's headline earnings from continuing operations and dividends for the year is as follows:

| Per share – cents | 2010 | % increase | 2009 |
|---|---|---|---|
| Headline earnings | **117.93** | 0.9 | 116.92 |
| Dividends* | **84.94** | 2.4 | 82.97 |

*The dividend per share presented is the interim dividend paid in the current year and the final dividend declared after year-end, but in respect of current year profit.

## Relative share value

The directors consider that the ratio of the dividend paid per share for the year of Pick n Pay Holdings Limited (PIKWIK) of 84.94 cents, to that of Pick n Pay Stores Limited (PICKNPAY), 174.50 cents, determines the relative value of a Pick n Pay Holdings Limited share, which, based on these figures, is 48.7% (2009: 48.8%) of a Pick n Pay Stores Limited share.

## Audit committee

We draw your attention to the Company's corporate governance report on pages 30 and 31.

## Investment

The Company's sole asset is its 53.6% (2009: 50.8%) direct shareholding in its subsidiary, Pick n Pay Stores Limited, and its only source of income is the dividend received from Pick n Pay Stores Limited. After taking into account the Pick n Pay Stores Limited treasury shares held by the Group, the Company's effective holding in Pick n Pay Stores Limited at year-end is 54.3% (2009: 54.4%).

## Dividends paid and declared

A cash dividend (number 55) of 65.52 cents per share was paid to shareholders on 15 June 2009.

A cash dividend (number 56) of 19.31 cents per share was paid to shareholders on 14 December 2009.

For further details refer to note 5. The directors have declared a cash dividend (number 57) of 65.63 cents per share. The last day of trade in order to participate in the dividend (CUM dividend) will be Friday, 4 June 2010. Shares will trade EX dividend from the commencement of business on Monday, 7 June 2010 and the record date is Friday, 11 June 2010. The dividend will be paid on Monday, 14 June 2010. Share certificates may not be dematerialised or rematerialised between Monday, 7 June 2010 and Friday, 11 June 2010, both dates inclusive.

As dividend number 57 was declared on 20 April 2010 it will only be accounted for in the 2011 financial year. No liability for secondary tax on companies (STC) will be payable on this dividend as the Company will have sufficient STC credits to offset any liability.

## Share capital

There was no movement in the number of issued ordinary shares during the year, which remains at 527 249 082.

As at year-end, the Pick n Pay Employee Share Purchase Trust and a subsidiary company held 10 077 639 (2009: 10 418 493) and 1 784 303 (2009: 1 708 203) shares in the Company, respectively. These shares are reflected as treasury shares in the annual financial statements.

## Going concern

These annual financial statements have been prepared on the going concern basis.

The Board has performed a formal review of the Group's ability to continue trading as a going concern in the foreseeable future and, based on this review, consider that the presentation of the financial statements on this basis is appropriate.

There are no pending or threatened legal or arbitration proceedings, which have had or may have a material effect on the financial position of the Company or the Group.

## Special resolutions

On 12 June 2009 the Company's shareholders approved the following special resolution:

### General authority to repurchase Company shares

It was resolved that the Company or any of its subsidiaries may, in accordance with sections 85 and 89 of the Companies Act, acquire issued shares of the Company upon such terms and conditions and in such amounts as the directors of the Company may determine from time to time. Acquisition of such shares is subject to the articles of association of the Company, the provisions of the Companies Act and the Listings Requirements of the JSE Limited (JSE), and provided further that acquisitions by the Company and its subsidiaries of shares in the Company may not, in the aggregate, exceed in any one financial year 5% of the Company's issued share capital.

## Directors and Secretary

In terms of the Company's articles of association the directors listed on page 109 retire by rotation and they offer themselves for re-election. Information pertaining to the directors and the Company Secretary appear on page 13.

## Directors' interest in shares

| | 2010 % | 2009 % |
|---|---|---|
| Beneficial | **0.8** | 0.8 |
| Non-beneficial | **50.5** | 50.5 |
| **Total** | **51.3** | 51.3 |

The directors' interest in shares is their effective shareholding in the Company, excluding treasury shares.

## Borrowings

The Company's overall level of borrowings is unchanged from the prior year.

## Corporate governance

We refer you to pages 30 and 31 for a review of the Company's corporate governance processes.

## Subsequent events

There have been no facts or circumstances of a material nature that have arisen between the financial year-end and the date of this report.

# Statements of comprehensive income

**for the year ended 28 February 2010**

| | Notes | GROUP 2010 Rm | GROUP 2009 Rm* | COMPANY 2010 Rm | COMPANY 2009 Rm |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Revenue** | 1 | **54 996.9** | 50 135.8 | **447.8** | 395.7 |
| **Turnover** | | **54 734.5** | 49 862.1 | **—** | — |
| Cost of merchandise sold | | **(44 576.4)** | (40 404.7) | **—** | — |
| **Gross profit** | | **10 158.1** | 9 457.4 | **—** | — |
| Other trading income | 1 | **186.5** | 201.8 | **—** | — |
| Trading expenses | | **(8 686.5)** | (7 949.9) | **(0.6)** | — |
| Employee costs | | **(4 925.6)** | (4 615.0) | **—** | — |
| Occupancy | | **(1 225.9)** | (1 071.2) | **—** | — |
| Operations | | **(1 651.1)** | (1 414.1) | **—** | — |
| Merchandising and administration | | **(883.9)** | (849.6) | **(0.6)** | — |
| Loss on sale of equipment and vehicles | | **(5.6)** | (13.7) | | — |
| **Trading profit/(loss)** | | **1 652.5** | 1 695.6 | **(0.6)** | — |
| Interest received | | **75.9** | 71.9 | **—** | — |
| Interest paid | | **(91.6)** | (107.5) | **—** | — |
| Profit on sale of property | | **190.9** | 68.7 | **—** | — |
| Profit on sale of stores | | **—** | 15.1 | **—** | — |
| **Operating profit/(loss)** | | **1 827.7** | 1 743.8 | **(0.6)** | — |
| Dividends received | 1 | **—** | — | **447.8** | 395.7 |
| **Profit before tax** | | **1 827.7** | 1 743.8 | **447.2** | 395.7 |
| Tax | 3 | **(531.9)** | (570.5) | **—** | — |
| **Profit for the year from continuing operations** | | **1 295.8** | 1 173.3 | **447.2** | 395.7 |
| Loss for the year from discontinued operation | | **(107.5)** | (118.5) | **—** | — |
| **Profit for the year** | | **1 188.3** | 1 054.8 | **447.2** | 395.7 |
| **Other comprehensive income** | | | | | |
| Exchange rate differences on translating foreign operations | | **73.8** | (98.8) | **—** | — |
| Retirement benefit actuarial losses | | **(34.3)** | (6.5) | **—** | — |
| **Total comprehensive income for the year** | | **1 227.8** | 949.5 | **447.2** | 395.7 |
| **Comprehensive income for the year attributable to:** | | | | | |
| Equity holders of the Company | | **667.4** | 518.0 | **447.2** | 395.7 |
| Minority shareholders | | **560.4** | 431.5 | **—** | — |
| | | **1 227.8** | 949.5 | **447.2** | 395.7 |
| **Earnings/(losses) per share – cents** | | | | | |
| Basic | 4 | **125.38** | 111.79 | | |
| Continuing operations | | **136.73** | 124.34 | | |
| Discontinued operation | | **(11.35)** | (12.55) | | |
| Diluted | 4 | **121.99** | 109.45 | | |
| Continuing operations | | **133.21** | 121.87 | | |
| Discontinued operation | | **(11.22)** | (12.42) | | |

*Restated – refer note 31.1 of the Pick n Pay Stores Limited's financial statements.

# Balance sheets

**as at 28 February 2010**

| | Notes | GROUP 2010 Rm | GROUP 2009 Rm | COMPANY 2010 Rm | COMPANY 2009 Rm |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | | **1 126.7** | 1 093.6 | **—** | — |
| Interest in subsidiary | 6 | **—** | — | **128.0** | 128.0 |
| Property, equipment and vehicles | | **3 415.5** | 2 937.0 | **—** | — |
| Operating lease asset | | **33.5** | 19.3 | **—** | — |
| Participation in export partnerships | | **50.6** | 57.9 | **—** | — |
| Deferred tax | | **98.1** | 99.8 | **—** | — |
| Loans | | **125.1** | 129.0 | **0.4** | 0.4 |
| Investments | | **0.2** | 0.2 | **—** | — |
| | | **4 849.7** | 4 336.8 | **128.4** | 128.4 |
| **Current assets** | | | | | |
| Assets held for sale – discontinued operation | | **—** | 62.6 | **—** | — |
| Inventory | | **3 326.2** | 3 334.5 | **—** | — |
| Trade and other receivables | | **1 968.0** | 1 769.5 | **1.6** | 0.8 |
| Cash and cash equivalents | | **1 055.3** | 1 072.8 | **—** | — |
| | | **6 349.5** | 6 239.4 | **1.6** | 0.8 |
| **Total assets** | | **11 199.2** | 10 576.2 | **130.0** | 129.2 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | 7 | **6.6** | 6.6 | **6.6** | 6.6 |
| Share premium | | **120.8** | 120.8 | **120.8** | 120.8 |
| Treasury shares | 8 | **(62.8)** | (54.4) | **—** | — |
| Accumulated profits | | **881.9** | 675.3 | **(0.1)** | — |
| Foreign currency translation reserve | | **189.9** | 150.0 | **—** | — |
| **Attributable to equity holders of the Company** | | **1 136.4** | 898.3 | **127.3** | 127.4 |
| **Minority interest** | | **1 007.9** | 797.5 | **—** | — |
| **Total shareholders' interest** | | **2 144.3** | 1 695.8 | **127.3** | 127.4 |
| **Non-current liabilities** | | | | | |
| Long-term debt | | **670.8** | 678.1 | **—** | — |
| Retirement scheme obligations | | **24.7** | 8.2 | **—** | — |
| Operating lease liability | | **695.9** | 658.5 | **—** | — |
| | | **1 391.4** | 1 344.8 | **—** | — |
| **Current liabilities** | | | | | |
| Short-term debt | | **38.7** | 38.3 | **—** | — |
| Tax | | **230.5** | 181.4 | **—** | — |
| Trade and other payables | | **7 394.3** | 7 315.9 | **2.7** | 1.8 |
| | | **7 663.5** | 7 535.6 | **2.7** | 1.8 |
| **Total equity and liabilities** | | **11 199.2** | 10 576.2 | **130.0** | 129.2 |

# Statements of changes in equity

**for the year ended 28 February 2010**

| | Notes | Share capital Rm | Share premium Rm | Treasury shares Rm | Accu-mulated profits Rm | Foreign currency trans-lation reserve Rm | Minority interest Rm | Total Rm |
|---|---|---|---|---|---|---|---|---|
| **GROUP** | | | | | | | | |
| **At 1 March 2008** | | 6.6 | 120.8 | (54.4) | 431.2 | 204.7 | 632.3 | 1 341.2 |
| **Total comprehensive income for the year** | | — | — | — | 571.9 | (53.9) | 431.5 | 949.5 |
| Profit for the year* | | | | | 575.4 | | 479.4 | 1 054.8 |
| Foreign currency translation differences | | | | | | (53.9) | (44.9) | (98.8) |
| Change in accounting policy* | | | | | (3.5) | | (3.0) | (6.5) |
| **Transactions with owners** | | — | — | — | (327.8) | (0.8) | (266.3) | (594.9) |
| Dividends paid | 5 | | | | (395.9) | | | (395.9) |
| Dividends paid by subsidiary to minorities | 5 | | | | | | (321.9) | (321.9) |
| Share repurchases | 8 | | | (4.6) | | | | (4.6) |
| Subsidiary's share repurchases | | | | | (9.3) | | (7.7) | (17.0) |
| Net effect of settlement of employee share options | 8 | | | 4.6 | | | | 4.6 |
| Net effect of settlement of subsidiary's share options | | | | | 44.1 | | 36.7 | 80.8 |
| Share options expense | | | | | 32.2 | | 26.9 | 59.1 |
| Impact of movement in treasury shares | | | | | 1.1 | (0.8) | (0.3) | — |
| **At 28 February 2009** | | **6.6** | **120.8** | **(54.4)** | **675.3** | **150.0** | **797.5** | **1 695.8** |
| **Total comprehensive income for the year** | | **—** | **—** | **—** | **627.3** | **40.1** | **560.4** | **1 227.8** |
| Profit for the year | | | | | **646.0** | | **542.3** | **1 188.3** |
| Actuarial losses | | | | | **(18.7)** | | **(15.6)** | **(34.3)** |
| Foreign currency translation differences | | | | | | **40.1** | **33.7** | **73.8** |
| **Transactions with owners** | | **—** | **—** | **(8.4)** | **(420.7)** | **(0.2)** | **(350.0)** | **(779.3)** |
| Dividends paid | 5 | | | | **(447.3)** | | | **(447.3)** |
| Dividends paid by subsidiary to minorities | 5 | | | | | | **(367.3)** | **(367.3)** |
| Share repurchases | 8 | | | **(13.5)** | | | | **(13.5)** |
| Subsidiary's share repurchases | | | | | **(36.2)** | | **(30.4)** | **(66.6)** |
| Net effect of settlement of employee share options | 8 | | | **5.1** | | | | **5.1** |
| Net effect of settlement of subsidiary's share options | | | | | **25.6** | | **21.4** | **47.0** |
| Share options expense | | | | | **35.9** | | **30.1** | **66.0** |
| Cancellation of treasury shares in subsidiary | | | | | **(1.5)** | | **(1.2)** | **(2.7)** |
| Impact of movement in treasury shares | | | | | **2.8** | **(0.2)** | **(2.6)** | **—** |
| **At 28 February 2010** | | **6.6** | **120.8** | **(62.8)** | **881.9** | **189.9** | **1 007.9** | **2 144.3** |
| **COMPANY** | | | | | | | | |
| **At 1 March 2008** | | 6.6 | 120.8 | — | 0.2 | — | — | 127.6 |
| **Total comprehensive income for the year** | | — | — | — | 395.7 | — | — | 395.7 |
| Profit for the year | | | | | 395.7 | | | 395.7 |
| **Transactions with owners** | | — | — | — | (395.9) | — | — | (395.9) |
| Dividends paid | 5 | | | | (395.9) | | — | (395.9) |
| **At 28 February 2009** | | **6.6** | **120.8** | **—** | **—** | **—** | **—** | **127.4** |
| **Total comprehensive income for the year** | | **—** | **—** | **—** | **447.2** | **—** | **—** | **447.2** |
| Profit for the year | | | | | **447.2** | | | **447.2** |
| **Transactions with owners** | | **—** | **—** | **—** | **(447.3)** | **—** | **—** | **(447.3)** |
| Dividends paid | 5 | | | | **(447.3)** | | **—** | **(447.3)** |
| **At 28 February 2010** | | **6.6** | **120.8** | **—** | **(0.1)** | **—** | **—** | **127.3** |

*Restated – refer note 31.1 of the Pick n Pay Stores Limited's financial statements.

# Cash flow statements

**for the year ended 28 February 2010**

| | Notes | GROUP 2010 Rm | GROUP 2009 Rm* | COMPANY 2010 Rm | COMPANY 2009 Rm |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Trading profit/(loss) | | **1 652.5** | 1 695.6 | **(0.6)** | — |
| Loss on sale of equipment and vehicles | | **5.6** | 13.7 | **—** | — |
| Depreciation and amortisation | | **735.3** | 615.8 | **—** | — |
| Share options expense | | **65.2** | 59.1 | **—** | — |
| Net operating lease obligations | | **36.5** | 33.4 | | |
| **Cash generated/(utilised) before movements in working capital** | | **2 495.1** | 2 417.6 | **(0.6)** | — |
| **Movements in working capital:** | | **(46.4)** | 211.8 | **0.1** | (0.2) |
| Increase in trade and other payables | | **269.9** | 1 149.4 | **0.9** | 0.6 |
| Increase in inventory | | **(148.9)** | (415.2) | **—** | — |
| Increase in trade and other receivables | | **(167.4)** | (522.4) | **(0.8)** | (0.8) |
| **Cash generated by/(utilised in) trading activities** | | **2 448.7** | 2 629.4 | **(0.5)** | (0.2) |
| Interest received | | **75.9** | 71.9 | **—** | — |
| Interest paid | | **(91.6)** | (107.5) | **—** | — |
| **Cash generated by/(utilised in) operations** | | **2 433.0** | 2 593.8 | **(0.5)** | (0.2) |
| Dividends received | 1 | **—** | — | **447.8** | 395.7 |
| Dividends paid | 5 | **(814.6)** | (717.8) | **(447.3)** | (395.9) |
| Tax paid | | **(457.5)** | (567.8) | **—** | (0.1) |
| **Net cash from/(utilised in) operating activities – continuing operations** | | **1 160.9** | 1 308.2 | **—** | (0.5) |
| Net cash utilised in operating activities – discontinued operation | | **(212.7)** | (56.1) | **—** | — |
| **Total net cash from/(utilised in) operating activities** | | **948.2** | 1 252.1 | **—** | (0.5) |
| **Cash flows from investing activities** | | | | | |
| **Investment in property, equipment and vehicles to expand operations** | | **(367.3)** | (386.0) | **—** | — |
| Intangible asset additions | | **(50.3)** | (52.9) | **—** | — |
| Property additions | | **(140.3)** | (46.7) | **—** | — |
| Equipment and vehicle additions | | **(176.7)** | (286.4) | **—** | — |
| **Investment in property, equipment and vehicles to maintain operations** | | **(826.2)** | (616.5) | **—** | — |
| Intangible asset additions | | **(1.2)** | (13.2) | **—** | — |
| Property additions | | **(8.6)** | (5.6) | **—** | — |
| Aircraft additions | | **(0.7)** | — | | |
| Equipment and vehicle additions | | **(815.7)** | (597.7) | **—** | — |
| Proceeds on disposal of property | | **207.5** | 78.0 | **—** | — |
| Proceeds on disposal of equipment and vehicles | | **1.9** | 21.8 | **—** | |
| Loans repaid/(advanced) | | **3.9** | (7.6) | **—** | 0.5 |
| **Net cash (utilised in)/from investing activities – continuing operations** | | **(980.2)** | (910.3) | **—** | 0.5 |
| Net cash from investing activities – discontinued operation (net proceeds on closure) | | **56.8** | 68.9 | **—** | — |
| **Total net cash (utilised in)/from investing activities** | | **(923.4)** | (841.4) | **—** | 0.5 |
| **Cash flows from financing activities** | | | | | |
| Debt repaid | | **(6.9)** | (1.3) | **—** | — |
| Share repurchases | | **(80.1)** | (21.6) | **—** | — |
| Proceeds from employees on settlement of share options | | **36.4** | 31.3 | **—** | — |
| **Net cash (utilised in)/from financing activities – continuing operations** | | **(50.6)** | 8.4 | **—** | — |
| **Net (decrease)/increase in cash and cash equivalents** | | **(25.8)** | 419.1 | **—** | — |
| Cash and cash equivalents at 1 March | | **1 072.8** | 663.2 | **—** | — |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **8.3** | (9.5) | **—** | — |
| **Cash and cash equivalents at 28 February** | | **1 055.3** | 1 072.8 | **—** | — |

*Restated – refer note 31.1 of the Pick n Pay Stores Limited's financial statements.

Except as presented below, the accounting policies and notes to the annual financial statements and consolidated annual financial statements for Pick n Pay Holdings Limited are identical to those disclosed for Pick n Pay Stores Limited on pages 43 to 87.

| | GROUP 2010 Rm | GROUP 2009 Rm | COMPANY 2010 Rm | COMPANY 2009 Rm |
|---|---|---|---|---|
| **1. Revenue** | | | | |
| Revenue comprises: | | | | |
| Turnover | **54 734.5** | 49 862.1 | **—** | — |
| Interest received | **75.9** | 71.9 | **—** | — |
| Dividends received | **—** | — | **447.8** | 395.7 |
| Other trading income | **186.5** | 201.8 | **—** | — |
| Franchise fee income | **161.9** | 166.4 | **—** | — |
| Property lease income | **24.6** | 35.4 | **—** | — |
| | **54 996.9** | 50 135.8 | **447.8** | 395.7 |

## 2. Directors' emoluments and directors' interest in shares

### 2.1 Directors' emoluments

Directors' remuneration paid by the Company, is detailed below. Note that directors of the Company who are also directors of Pick n Pay Stores Limited do not receive directors' remuneration for services rendered as a director of this Company.

| 2010 | Fees for board meetings R'000 | **Cash total R'000** |
|---|---|---|
| **Non-executive directors** | | |
| René de Wet | 50.0 | **50.0** |

**No share options are held by directors. The following share options in the Company are held by directors of Pick n Pay Stores Limited:**

**1997 Share Option Scheme**

| | Year granted | Option grant price R | Balance held at 1 March 2009 | Granted during the year | Taken up during the year | **Balance held at 28 February 2010** | Value of options exercised* R'000 | Available for take-up |
|---|---|---|---|---|---|---|---|---|
| **Directors – Pick n Pay Stores Limited** | | | | | | | | |
| Nick Badminton | 2002 | 3.80 | 800 | — | | **800** | | Now |
| | | | 800 | — | | **800** | — | |
| Dennis Cope | 2008 | 11.33 | 800 | — | | **800** | | Now |
| | | | 800 | — | | **800** | — | |
| David Robins | 2003 | 5.10 | 180 000 | — | (180 000) | **—** | 1 800.0 | |
| | 2005 | 8.30 | 400 | — | (400) | **—** | 2.7 | |
| | | | 180 400 | — | (180 400) | **—** | 1 802.7 | |
| Jonathan Ackerman (Alt) | 2000 | 2.00 | 30 000 | — | — | **30 000** | | Now |
| | 2002 | 4.50 | 38 900 | — | — | **38 900** | | Now |
| | | | 68 900 | — | — | **68 900** | — | |
| Suzanne Ackerman-Berman (Alt) | 2001 | 3.90 | 14 000 | — | — | **14 000** | | Now |
| | 2002 | 4.50 | 110 000 | — | — | **110 000** | | Now |
| | | | 124 000 | — | — | **124 000** | — | |

*The value of options exercised is equal to the market value of the shares on date of take-up less the purchase price of those shares.

2. **Directors' emoluments and directors' interest in shares** *(continued)*

2.2 **Directors' direct interest in shares**

The following shares are held by directors of the Company and of Pick n Pay Stores Limited:

| | How held* | Balance held at 1 March 2009 000's | Additions during the year 000's | Average purchase price per share R | Disposals during the year 000's | Average selling price per share R | **Balance held at 28 February 2010 000's** | Beneficial/ non-beneficial interest |
|---|---|---|---|---|---|---|---|---|
| **Directors – Pick n Pay Holdings Limited** | | | | | | | | |
| Raymond Ackerman** | – direct | 1 098.0 | | | (20.4) | — | **1 077.6** | Beneficial |
| Gareth Ackerman | – direct | 0.5 | | | | | **0.5** | Beneficial |
| | – indirect | 3 000.0 | 7.2 | 16.80 | | | **3 007.2** | Beneficial |
| Raymond Ackerman/ Wendy Ackerman/ Gareth Ackerman/ Jonathan Ackerman (Alt)/ Suzanne Ackerman-Berman (Alt)*** | – indirect | 260 097.5 | | | | | **260 097.5** | Non-beneficial |
| Hugh Herman | – direct | 62.5 | | | | | **62.5** | Beneficial |
| | – indirect | 65.0 | | | | | **65.0** | Beneficial |
| Jonathan Ackerman (Alt) | – direct | 252.0 | | | | | **252.0** | Beneficial |
| Suzanne Ackerman-Berman (Alt) | – direct | 239.3 | 2.8 | 17.25 | | | **242.1** | Beneficial |
| | – indirect | — | 2.8 | 17.44 | | | **2.8** | Beneficial |
| David Robins (Alt) | – direct | 706.3 | 180.4 | 5.11 | | | **886.7** | Beneficial |
| **Directors – Pick n Pay Stores Limited** | | | | | | | | |
| Nick Badminton | – direct | 880.6 | | | | | **880.6** | Beneficial |
| Dennis Cope | – direct | 200.0 | | | | | **200.0** | Beneficial |

*Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a family Trust of which the director is a trustee.

**The disposal for the year was a donation for no consideration.

***The non-beneficial interest represents the holding by the Ackerman Family Trust of 254.9 million shares and 5.2 million shares held by the Mistral Trust, of which these directors are trustees.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2010 %** | 2009 % | **2010 %** | 2009 % |
| **3. Tax** | | | | |
| **Statutory tax rate reconciliation** | | | | |
| **Statutory tax rate** | **28.0** | 28.0 | **28.0** | 28.0 |
| Exempt income | **(3.8)** | (2.8) | **(28.0)** | (28.0) |
| Secondary tax on companies | **4.5** | 4.1 | | |
| Non-deductible share options expense | **1.0** | 1.0 | | |
| Other non-deductible expenditure | **0.5** | 0.5 | | |
| Net prior year under/(over) provisions | **1.1** | (0.1) | | |
| Other | **(2.2)** | 2.0 | | |
| **Effective tax rate** | **29.1** | 32.7 | **—** | — |

Financial statements

| | | GROUP | |
|---|---|---|---|
| | | **2010 Cents per share** | 2009 Cents per share* |
| **4.** | **Basic, headline and diluted earnings/(losses) per share** | | |
| | Basic (note 4.1) | **125.38** | 111.79 |
| | Continuing operations | **136.73** | 124.34 |
| | Discontinued operation | **(11.35)** | (12.55) |
| | Headline (note 4.1) | **106.72** | 104.78 |
| | Continuing operations | **117.93** | 116.92 |
| | Discontinued operation | **(11.21)** | (12.14) |
| | Diluted basic (note 4.2) | **121.99** | 109.45 |
| | Continuing operations | **133.21** | 121.87 |
| | Discontinued operation | **(11.22)** | (12.42) |
| | Diluted headline (note 4.2) | **103.84** | 102.58 |
| | Continuing operations | **114.92** | 114.59 |
| | Discontinued operation | **(11.08)** | (12.01) |

| | | **Rm** | Rm* |
|---|---|---|---|
| **4.1** | **Basic and headline earnings per share** | | |
| | **The calculation of basic earnings (profit for the year) per share and headline earnings per share is based on:** | | |
| | Basic earnings | **646.0** | 575.4 |
| | Headline earnings | **549.9** | 539.3 |
| | | **Number of shares 000's** | Number of shares 000's |
| | **and:** | | |
| | The weighted average number of ordinary shares in issue during the year | **515 255.4** | 514 732.0 |
| | | **Rm** | Rm* |
| | **Reconciliation between basic and headline earnings:** | | |
| | **Basic earnings (profit for the year)** | **646.0** | 575.4 |
| | Adjustments: | **(100.0)** | (36.1) |
| | Loss on sale of equipment and vehicles | **3.1** | 7.5 |
| | Loss on sale of equipment and vehicles – discontinued operation | **0.7** | 2.1 |
| | Profit on sale of property | **(103.8)** | (37.5) |
| | Profit on sale of stores | **—** | (8.2) |
| | Tax effect of the adjustments | **3.9** | — |
| | **Headline earnings** | **549.9** | 539.3 |
| | | **Number of shares 000's** | Number of shares 000's |
| | **Movement in the weighted average number of ordinary shares in issue comprises:** | | |
| | **At 1 March** | **514 732.0** | 512 644.5 |
| | Net sale of treasury shares by the share trust, pursuant to the take-up of share options | **523.4** | 2 087.5 |
| | **At 28 February** | **515 255.4** | 514 732.0 |

*Restated – refer note 31 of Pick n Pay Stores Limited's financial statements.

| | GROUP 2010 Rm | GROUP 2009 Rm* |
|---|---|---|
| **4. Basic, headline and diluted earnings/(losses) per share** *(continued)* | | |
| **4.2 Diluted basic and headline earnings per share** | | |
| **The calculation of diluted basic earnings per share and diluted headline earnings per share is based on:** | | |
| Diluted basic earnings | **635.5** | 569.6 |
| Diluted headline earnings | **541.0** | 533.8 |
| **and:** | | |
| | **Number of shares 000's** | Number of shares 000's |
| The diluted weighted average number of ordinary shares in issue during the year | **520 977.6** | 520 391.5 |
| | **Rm** | Rm* |
| **Reconciliation between basic and diluted basic earnings:** | | |
| **Basic earnings (profit for the year)** | **646.0** | 575.4 |
| Pick n Pay Stores Limited's dilution effect | **(10.5)** | (5.8) |
| **Diluted basic earnings** | **635.5** | 569.6 |
| Headline earnings adjustments, after tax (note 4.1) | **(96.1)** | (36.1) |
| Pick n Pay Stores Limited's dilution effect | **1.6** | 0.3 |
| **Diluted headline earnings** | **541.0** | 533.8 |
| | **Number of shares 000's** | Number of shares 000's |
| **Reconciliation of the weighted average number of ordinary shares in issue for diluted earnings per share:** | | |
| Weighted average number of ordinary shares in issue (note 4.1) | **515 255.4** | 514 732.0 |
| Outstanding options | **5 722.2** | 5 659.5 |
| **Weighted average number of ordinary shares in issue for purposes of calculating diluted earnings per share** | **520 977.6** | 520 391.5 |
| Refer to note 7 for the number of shares in issue. | | |

*Restated – refer note 31.1 of Pick n Pay Stores Limited's financial statements.

| | GROUP AND COMPANY 2010 Cents per share | GROUP AND COMPANY 2009 Cents per share |
|---|---|---|
| **5. Dividends** | | |
| Number 55 – declared 21 April 2009 – paid 15 June 2009 | **65.52** | 57.65 |
| Number 56 – declared 20 October 2009 – paid 14 December 2009 | **19.31** | 17.45 |
| **Total dividends paid for the year – Company** | **84.83** | 75.10 |
| | **Rm** | Rm |
| **Total value of dividends paid by the Company** | **447.3** | 395.9 |
| Dividends paid by a subsidiary to minorities | **367.3** | 321.9 |
| Total dividends paid by the Group | **814.6** | 717.8 |
| For further details, including dividends declared after 28 February 2010, refer to the directors' report (page 90) and shareholders' information (page 32). | | |

| | | COMPANY 2010 Rm | COMPANY 2009 Rm |
|---|---|---|---|
| **6.** | **Investment in subsidiary** | | |
| | **Pick n Pay Stores Limited** | | |
| | 257 345 334 (2009: 257 345 334) ordinary shares | | |
| | Comprising: | | |
| | Initial investment | **24.7** | 24.7 |
| | Capitalisation share awards received | **103.3** | 103.3 |
| | **Total investment at cost** | **128.0** | 128.0 |
| | **Market value** | **10 396.8** | 7 977.7 |

| | | GROUP AND COMPANY 2010 Rm | GROUP AND COMPANY 2009 Rm |
|---|---|---|---|
| **7.** | **Share capital** | | |
| | **Authorised** | | |
| | 800 000 000 ordinary shares of 1.25 cents each | **10.0** | 10.0 |
| | **Issued** | | |
| | 527 249 082 ordinary shares of 1.25 cents each | **6.6** | 6.6 |
| | | **000's** | 000's |
| | **Number of shares in issue at 28 February is made up as follows:** | | |
| | Treasury shares held by the share trust (note 8) | **10 077.6** | 10 418.5 |
| | Treasury shares held by a subsidiary company (note 8) | **1 784.3** | 1 708.2 |
| | | **11 861.9** | 12 126.7 |
| | Shares held outside the Holdings Group | **515 387.2** | 515 122.4 |
| | **Total shares in issue at 28 February** | **527 249.1** | 527 249.1 |
| | 118.7 million of the unissued shares remain under the control of the directors until the next annual general meeting. | | |
| | **1997 Employee Share Option Scheme** | | |
| | The directors are authorised to utilise up to 17.5% of the issued share capital for the scheme. | | |
| | | **Number of options 000's** | Number of options 000's |
| | **Movement in the number of options granted but not taken up are as follows:** | | |
| | **At 1 March** | **11 479.1** | 11 803.4 |
| | New options granted* | **655.8** | 787.0 |
| | Options taken up** | **(1 164.1)** | (1 111.3) |
| | **At 28 February** | **10 970.8** | 11 479.1 |
| | **Options granted may be taken up during the following financial years:** | | |
| | Year — Average grant price | | |
| | 2011 — R6.78 | **10 970.8** | |
| | Percentage of issued shares | **2.1%** | 2.2% |
| | Options available for granting under current authorisation | **81 297.8** | 80 789.5 |
| | *Average price of options granted during the year | **R12.20** | R11.32 |
| | **Average price of options taken up during the year | **R4.92** | R3.45 |
| | **The Employee Share Purchase Trust, which administers the 1997 Share Option Scheme, holds the following number of ordinary shares:** | | |
| | As a hedge against shares granted or to be granted by that scheme reflected as treasury shares | **10 077.6** | 10 418.5 |
| | On behalf of share purchase scheme participants | **500.0** | 525.2 |
| | | **10 577.6** | 10 943.7 |

| | GROUP 2010 Rm | 2009 Rm |
|---|---|---|
| **8. Treasury shares** | | |
| **Treasury shares comprise Pick n Pay Holdings Limited shares held by a subsidiary company and the share trust** | | |
| **At 1 March** | **54.4** | 54.4 |
| Shares repurchased during the year | **13.5** | 4.6 |
| Shares sold during the year pursuant to the take-up of share options by employees | **(5.1)** | (4.6) |
| **At 28 February** | **62.8** | 54.4 |
| | **Number of shares 000's** | Number of shares 000's |
| **The movement in the number of treasury shares is as follows:** | | |
| **At 1 March** | **12 126.7** | 12 908.6 |
| Shares purchased during the year | **852.4** | 330.4 |
| Shares sold during the year pursuant to the take-up of share options by employees | **(1 117.2)** | (1 112.3) |
| **At 28 February** | **11 861.9** | 12 126.7 |
| Comprises: | | |
| Shares held by share trust | **10 077.6** | 10 418.5 |
| Shares held by a subsidiary company | **1 784.3** | 1 708.2 |
| Average purchase price of shares purchased during the year | **R15.84** | R13.92 |
| Average purchase price of shares held at year-end | **R5.29** | R4.49 |

# Divisional directors

## The following executives are divisional directors of our main operating companies:

### Pick n Pay Retailers

### Chairman's Executive Committee (EXCO)

**Gareth Ackerman**

**Nick Badminton**

**Suzanne Ackerman-Berman**

**Dennis Cope**

**Dallas Langman**

**Isaac Motaung**

### Retail Division management board

**Nick Badminton** (48)
CEO
**Years of service** 31

**Jonathan Ackerman** (43)
Marketing
**Years of service** 19

**Suzanne Ackerman-Berman** (47)
Transformation
**Years of service** 15

**Dennis Cope** (59)
CFO
**Years of service** 32

**Bakar Jakoet** (54)
Group Finance Controller
**Years of service** 25

**Izak Joubert** (40)
Property
**Years of service** 17

**Kevin Korb** (50)
Merchandise
**Years of service** 28

**Dallas Langman** (40)
On secondment to Group Enterprises
**Years of service** 20

**Isaac Motaung** (55)
Human Resources
**Years of service** 34

**Neal Quirk** (54)
Operations
**Years of service** 28

**Chris Reed** (49)
Franchise
**Years of service** 25

**Bronwen Rohland** (46)
Strategy, IS, Supply Chain and Sustainability
**Years of service** 24

**Linda Saacks** (54)
Employee Training & Development
**Years of service** 30

### Group Enterprises management board

**Nick Badminton** (48)
CEO
**Years of service** 31

**Dennis Cope** (59)
CFO
**Years of service** 32

**Dallas Langman** (40)
Director of GE
**Years of service** 20

**Eugene Stoop** (55)
Boxer
**Years of service** 18

**Frans van der Colff** (51)
Africa
**Years of service** 22

### Franklins Australia management board

**Raymond Ackerman** (79)
Chairman
**Retired:** 1 March 2010

**Gareth Ackerman** (52)
Non-Executive Chairman
**Appointed** 1 March 2010

**Dennis Cope** (59)
Group CFO
**Years of service** 32

**Aubrey Zelinsky** (60)
Managing Director
**Years of service** 40

**Roni Perlov** (47)
Finance
**Years of service** 11

### Hypermarket general managers

**Mark Bishop** (47)
Wonderpark
**Years of service** 27

**Henry Bord** (47)
Norwood
**Years of service** 19

**Imraan Cassim** (48)
Bedworth Park
**Years of service** 27

**Dharmalingum Dass** (52)
Head of Hypermarkets
**Years of service** 32

**Jan de Beer** (37)
Steeledale
**Years of service** 12

**Hoosain Hansrod** (57)
Princess Crossing
**Years of service** 30

**Eddie Langa** (47)
Soweto
**Years of service** 4

**Piet Lubbe** (47)
Faerie Glen
**Years of service** 25

**Nigel Money** (39)
Woodmead
**Years of service** 15

**Ravi Naidoo** (41)
Durban
**Years of service** 22

**Luis Nunes** (43)
Ottery
**Years of service** 21

**Folkers Oosthuizen** (44)
Bloemfontein
**Years of service** 22

**Gevase Pottier** (37)
KwaZulu-Natal South Coast
**Years of service** 17

**Jeff Ramoroto** (45)
Northgate
**Years of service** 20

**Abdullah Regal** (41)
Brackenfell
**Years of service** 18

**Devin Richter** (36)
Boksburg
**Years of service** 17

**Colin Sylvester** (50)
Moffett Park
**Years of service** 36

**Gamieda Tim** (44)
Centurion
**Years of service** 21

**Warren van der Vlies** (40)
Greenstone
**Years of service** 15

**Michael van Niekerk** (40)
Klerksdorp
**Years of service** 20

**Jacques van Rooyen** (50)
Montana
**Years of service** 23

### Supermarket general managers

**Anil Gopichund** (41)
Gauteng – Corporate
**Years of service** 23

**Abdurahman Hamdulay** (38)
Western Cape
**Years of service** 17

**Ian Hughes** (43)
Eastern Cape
**Years of service** 23

**Patrick Kgengwenyane** (38)
KwaZulu-Natal – Corporate
**Years of service** 12

**Luke Louw** (52)
Northern Region
**Years of service** 28

**Adrian Naude** (39)
Gauteng
**Years of service** 12

**Wim Theron** (42)
KwaZulu-Natal
**Years of service** 12

**Jarett van Vuuren** (36)
Western Cape – Corporate
**Years of service** 17

**Johan van Zyl** (39)
Northern Region – Corporate
**Years of service** 18

**Dirk Venter** (56)
Free State
**Years of service** 29

### Corporate general managers

**Rowan Armstrong** (46)
General Merchandise
**Years of service** 25

**Michael Anderson** (44)
Supply Chain
**Years of service** 7

**Peter Arnold** (48)
Fresh Foods
**Years of service** 26

**Cobus Barnard** (45)
Supply Chain
**Years of service** 3

**George Barry** (52)
Franchise – KZN
**Years of service** 19

**Solly Bendrau** (54)
General Merchandise
**Years of service** 32

**Gigi Bisogno** (54)
National Perishables Buyer
**Years of service** 33

**Anthony Brown** (41)
Corporate Foods – Gauteng
**Years of service** 16

**Michael Coles** (55)
Clothing
**Years of service** 15

**Charl Cowley** (38)
Group Risk and Assurance Services
**Years of service** 10

**David Crewe** (46)
Fresh Foods – Hypers
**Years of service** 22

**Harold Dawson** (51)
Technology
**Years of service** 20

**Louis de Beer** (53)
Bakeries
**Years of service** 31

**Helen de Light** (54)
Industrial Relations
**Years of service** 23

**Stuart Duffield** (52)
Express Stores
**Years of service** 32

**Brian Gregson** (50)
Operations – Western Cape
**Years of service** 22

**Steven Hoban** (41)
Goods Not For Resale (GNFR)
**Years of service** 2

**Cindy Jenks** (40)
Corporate Brands
**Years of service** 19

**Kobus Kuyler** (51)
Safety & Security
**Years of service** 7

**Gary Lea** (44)
Group Finance
Company Secretary
**Years of service** 13

**Johannes Letswalo** (50)
Franchise
**Years of service** 26

**Pearly Ling** (45)
National Operations
**Years of service** 13

**Ralene Livingstone** (41)
Finance – Inland
**Years of service** 8

**Craig Lodge** (37)
Strategic Marketing
**Years of service** 2

**John Lucas** (56)
Group Receiving
**Years of service** 31

**Warren Lupke** (37)
Produce
**Years of service** 17

**Warren Marsden** (55)
Audio
**Years of service** 32

**Rodney Mundell** (53)
Procurement Manager, GNFR
**Years of service** 28

**Malcolm Mycroft** (53)
Marketing
**Years of service** 32

**Simone Parry** (42)
Health & Beauty
**Years of service** 4

**Kader Patel** (49)
Marketing and Advertising – Inland
**Years of service** 27

**Ponumbalan Rajah** (43)
Store Planning
**Years of service** 2

**David Ramsden** (50)
General Merchandise
**Years of service** 28

**Hennie Roets** (40)
General Merchandise
**Years of service** 20

**Cedric Ross** (49)
Hypermarkets – Foods
**Years of service** 27

**Dave Rappoport** (59)
Auto Centres
**Years of service** 39

**Andre Siebrits** (53)
Merchandise, floor and space planning
**Years of service** 32

**Anton Smith** (43)
Franchise
**Years of service** 13

**David Smith** (55)
Supermarkets – National Foods
**Years of service** 35
**Retired:** 5 February 2010

**Andrew Sutherland** (39)
General Merchandise
**Years of service** 18

**Dalene van Aswegen** (59)
Property
**Years of service** 29

**Alan van den Berg** (43)
Inland Buying/National Foods
**Years of service** 23

**Ursula Warner** (45)
Business Applications
**Years of service** 9

**Lyndsay Webster-Rozon** (39)
e-Tailing
**Years of service** 10

**Kevin Wynne** (51)
Human Resources
**Years of service** 29

## Buyers

**Brian Austin** (38)
Senior Buyer Inland
**Years of service** 15

**Grant Barkhuizen** (52)
Senior Buyer – Eastern Cape
**Years of service** 28

**Roy Campbell** (54)
General Merchandise
**Years of service** 33

**Neil Cooke** (52)
Corporate Brands
**Years of service** 30

**Llywellyn Dyer** (46)
Fresh Foods – Western Cape
**Years of service** 24

**Shane Green** (43)
Senior Buyer – Western Cape
**Years of service** 27

**Des Moodley** (55)
Senior Buyer – KwaZulu-Natal
**Years of service** 35

**Naas van Poucke** (52)
Western Cape – Distribution
**Years of service** 27

## Administration

**Julian Adriaans** (48)
Information Services
**Years of service** 10

**Jacque du Toit** (37)
Corporate Finance
**Years of service** 13

**Graeme Gathmann** (39)
Finance – Hypermarkets
**Years of service** 14

**Scholtz Herbst** (45)
Franchise – Northern Region
**Years of service** 17

**Cindy Hoffmann** (50)
Human Resources – Gauteng
**Years of service** 21

**Mike Horney** (42)
Human Resources – Hypermarkets
**Years of service** 7

**Christine Janse van Rensburg** (51)
National Human Resources
**Years of service** 21

**Louw Janse van Vuuren** (47)
Franchise
**Years of service** 28

**Loretta Kelly** (55)
Corporate Finance
**Years of service** 39

**Bob Keevers** (53)
Business Process and Innovation
**Years of service** 14

**Liza Labuschagne** (37)
Finance – Northern Region
**Years of service** 14

**Karyn Leibbrandt** (50)
Finance – KwaZulu-Natal
**Years of service** 25

**Vaughn Linden** (50)
Franchise
**Years of service** 18

**Jacque Lombard** (40)
Franchise – Western Cape
**Years of service** 16

**Jonathan MacMillan** (40)
Finance – Western Cape
**Years of service** 18

**Morag Magnussen** (60)
Employee Benefits
**Years of service** 15

**Beverley Marks** (53)
SAP
**Years of service** 22

**Chris Mawhinney** (36)
Franchise – Gauteng
**Years of service** 10

**Yacoob Mola** (55)
Human Resources
**Years of service** 21

**Winnie Smit** (34)
Property
**Years of service** 7

**Petrus Steyn** (40)
Finance – Gauteng
**Years of service** 15

**Brian Strydom** (55)
Finance – Eastern Cape
**Years of service** 26
**Retired** December 2009

**Richard Taylor** (43)
Operations – Gauteng
**Years of service** 10

**Nkare Thelejane** (49)
Property and Store Development
**Years of service** 10

**Mohammed Vally** (56)
Finance – Inland
**Years of service** 37

**Vaughan Veale** (56)
Franchise
**Years of service** 28

## Butcheries operational directors

**Ian Crook** (52)
General Manager
**Years of service** 28

**Tracey Wellington** (43)
Finance
**Years of service** 17

## Butcheries general managers

**Peter Elliot** (55)
Northern Region
**Years of service** 34

**Zoran Endekovski** (44)
Gauteng
**Years of service** 15

**Donavan Hayes** (47)
Western Cape
**Years of service** 27

**Peter Jacobs** (52)
Eastern Cape
**Years of service** 29

**George van Diggelen** (45)
KwaZulu-Natal
**Years of service** 10

**Mandy van Zyl** (37)
Fish service areas
**Years of service** 19

## Boxer Superstores

## Non-executive directors

**Dallas Langman** (40)
Director of GE
**Years of service** 20

**Isaac Motaung** (55)
**Years of service** 34

## Executive directors

**Eugene Stoop** (55)
Managing Director
**Years of service** 18

**Ian Bamber** (42)
Human Resources
**Years of service** 14

**Rod Bell** (57)
Operations
**Years of service** 27

**Iain Bromage** (38)
Merchandise
**Years of service** 5

**Marek Masojada** (44)
Finance
**Years of service** 16

**Andrew Mills** (36)
Marketing
**Years of service** 14

**Humphrey Tshabalala** (56)
Corporate and Consumer Communications
**Years of service** 12

## Franklins Australia general managers

**Graham Gardener** (54)
Property
**Years of service** 8

**Stan Srage** (45)
Merchandise
**Years of service** 20

## TM Supermarkets executive directors

**Bisset Chimhini** (48)
Managing Director
**Years of service** 8

**Vongai Chiwaridzo** (49)
Finance
**Years of service** 6 months (October 2009)

# Notice of annual general meeting
# Pick n Pay Stores Limited

**The 42nd annual general meeting (AGM) of shareholders of Pick n Pay Stores Limited (the Company) for the year ended 28 February 2010 will be held at 09h30 on Friday, 18 June 2010. To ensure that registration procedures are completed by 09h30, please register for the AGM from 09h00.**

**The venue will be the conference centre at the registered office, Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town, 7708.**

**The following business will be transacted and resolutions proposed, with or without amendment:**

## 1. ORDINARY RESOLUTION NUMBER 1

### Approval of annual financial statements

"Resolved that the annual financial statements of the Company and its subsidiaries, for the year ended 28 February 2010, are hereby adopted."

## 2. ORDINARY RESOLUTION NUMBER 2

### Appointment of auditors

"To reappoint KPMG Inc. as independent auditors of the Company and to appoint Mr P Farrand as the designated auditor to hold office for the ensuing year."

Note that the Audit, Risk and Compliance committee recommend the reappointment of KPMG Inc. as auditors of the Company with Mr P Farrand as designated auditor.

## 3. ORDINARY RESOLUTION NUMBER 3

### Reappointment of directors

SD Ackerman-Berman, JG Ackerman, NP Badminton, J van Rooyen, and RSJ van Rensburg retire in accordance with the Company's articles of association and, being eligible, offer themselves for re-election. Curricula vitae of those directors standing for re-election are presented on pages 12 to 13.

Accordingly, to consider and, if deemed fit, to re-elect those directors by way of passing the separate ordinary resolutions set out below:

### Ordinary resolution number 3.1

***Appointment of Suzanne Ackerman-Berman as director***

"Resolved that SD Ackerman-Berman be and is hereby elected as a director of the Company."

### Ordinary resolution number 3.2

***Appointment of Jonathan Ackerman as director***

"Resolved that JG Ackerman be and is hereby elected as a director of the Company."

### Ordinary resolution number 3.3

***Appointment of Nicholas Badminton as director***

"Resolved that NP Badminton be and is hereby elected as a director of the Company."

### Ordinary resolution number 3.4

***Appointment of Jeff van Rooyen as director***

"Resolved that J van Rooyen be and is hereby elected as a director of the Company."

### Ordinary resolution number 3.5

***Appointment of Richard van Rensburg as director***

"Resolved that RSJ van Rensburg be and is hereby elected as a director of the Company."

## 4. ORDINARY RESOLUTION NUMBER 4

### Appointment of Audit, Risk and Compliance committee members for the ensuing year

"As recommended by the Board, it is resolved that J van Rooyen (Chairman), BJ van der Ross and RSJ van Rensburg be appointed as the Company's Audit, Risk and Compliance committee members for the ensuing year."

## 5. ORDINARY RESOLUTION NUMBER 5

### Directors' housing loans for the year ended 28 February 2010

"Resolved that housing loans granted to the Company's directors as at 28 February 2010, as set out in the financial statements accompanying this notice of annual general meeting, are hereby approved and ratified insofar as may be necessary."

## 6. ORDINARY RESOLUTION NUMBER 6

### Remuneration report for the year ended 28 February 2010

The directors' table the remuneration report for the year ended 28 February 2010, as set out in the financial statements accompanying this notice of annual general meeting.

As a non-binding advisory vote, "it is hereby resolved that the remuneration report is approved."

## 7. ORDINARY RESOLUTION NUMBER 7

### Directors' fees for the year ending 28 February 2011

"Resolved that the directors' fees for the year ending 28 February 2011 be as follows:

- Executive directors, unchanged at R1 500.
- Chairman, R3 000 000.
- Lead non-executive director, increased by R7 000 to R95 000.
- Non-executive directors, increased by R15 000 to R280 000.
- Chairman of the Audit, Risk and Compliance committee, increased by R15 000 to R235 000.
- Chairman of the Remuneration committee, increased by R10 000 to R120 000.
- Member of the Audit, Risk and Compliance committee, increased by R7 000 to R95 000.
- Member of the Remuneration committee, increased by R5 000 to R60 000.
- Member of the Nominations committee, increased by R3 000 to R53 000."

## 8. SPECIAL RESOLUTION NUMBER 1

### General approval to repurchase Company shares

"Resolved that the Company hereby approves, as a general approval contemplated in sections 85 and 89 of the Companies Act No. 61 of 1973 (as amended) (the Companies Act), the acquisition by the Company or any of its subsidiaries from time to time of the issued shares of the Company or its holding company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the articles of association of the Company, the provisions of the Companies Act and the JSE Limited (JSE) Listings Requirements (JSE Listings Requirements) as presently constituted and which may be amended from time to time, and provided that acquisitions by the Company and its subsidiaries of shares in the capital of the Company or its holding company may not, in the aggregate, exceed in any one financial year 5% (five percent) of the Company's issued share capital of the class of repurchased shares from the date of the grant of this general approval."

### Additional requirements imposed by the JSE Listings Requirements

It is recorded that the Company or its subsidiaries may only make a general acquisition of shares if the following JSE Listings Requirements are met:

**a.** any such acquisition of shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company or its subsidiaries and the counterparty or in any other manner approved by the JSE;

**b.** the general approval shall only be valid until the Company's next annual general meeting, or for 15 (fifteen) months from the date of passing of this special resolution, whichever period is shorter;

**c.** a paid press announcement will be published as soon as the Company and/or its subsidiaries has/have acquired shares in terms of this authority constituting, on a cumulative basis, 3% (three percent) of the number of shares of the class of shares acquired in issue at the time of granting of this general approval and for each 3% (three percent) in aggregate of the initial number of that class of shares acquired thereafter, which announcement shall contain full details of such acquisitions as required by rule 11.27 of the JSE Listings Requirements;

**d.** in determining the price at which shares are acquired by the Company or its subsidiaries in terms of this general approval, the maximum price at which such shares may be acquired may not be greater than 10% (ten percent) above the weighted average of the market value at which such shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date of the acquisition of such shares by the Company or its subsidiaries;

**e.** in the case of a derivative (as contemplated in the JSE Listings Requirements), the price of the derivative shall be subject to the limitations set out in section 5.84(a) of the JSE Listings Requirements; and

**f.** the Company and/or its subsidiaries may not repurchase any shares in terms of this authority during a prohibited period, as defined in the JSE Listings Requirements, unless there is in place a repurchase programme where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period.

### Statement by the Board of directors of the Company

Pursuant to, and in terms of, the JSE Listings Requirements the Board of directors of the Company hereby state that:

**a.** the intention of the directors of the Company is to utilise the general approval to repurchase shares in the capital of the Company or its holding company if at some future date the cash resources of the Company are in excess of its requirements or there are other good grounds for doing so. In this regard the directors will take account of, inter alia, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company and the interests of the Company;

**b.** in determining the method by which the Company intends to repurchase its securities or the securities of its holding company, the maximum number of securities to be repurchased and the date on which such repurchase will take place, the directors of the Company will only make repurchases if at the time of the repurchase they are of the opinion that:

**b.1** the Company and its subsidiaries will, after the repurchase, be able to pay their debts as they become due in the ordinary course of business for the 12- (twelve) month period following the date of this notice of the annual general meeting;

**b.2** the consolidated assets of the Company and its subsidiaries, fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the repurchase, be in excess of the consolidated liabilities of the Company and its subsidiaries for the 12- (twelve) month period following the date of this notice of the annual general meeting;

**b.3** the issued share capital and reserves of the Company and its subsidiaries will, after the repurchase, be adequate for the ordinary business purposes of the Company and its subsidiaries for the 12- (twelve) month period following the date of this notice of the annual general meeting; and

**b.4** the working capital available to the Company and its subsidiaries will, after the repurchase, be adequate for the ordinary business purpose of the Company and its subsidiaries for the 12- (twelve) month period following the date of this notice of the annual general meeting.

### Reason for and effect of special resolution number 1

The reason for special resolution number 1 is to grant the Company a general authority in terms of the Companies Act and the JSE Listings Requirements for the acquisition by the Company or any of its subsidiaries of shares issued by the Company or its holding company, which authority shall be valid until the earlier of the next annual general meeting of the Company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company, provided that the general authority shall only be valid until the Company's next annual general meeting, or for 15 (fifteen) months from the date of passing of this special resolution, whichever period is shorter. The passing and registration of this special resolution will have the effect of authorising the Company or any of its subsidiaries to acquire shares issued by the Company or its holding company.

## 9. ORDINARY RESOLUTION NUMBER 8

### General authority over unissued shares

"Resolved that 24 million (5% of issued share capital) of the unissued authorised ordinary shares in the Company (which for the purposes of the JSE Listings Requirements and these resolutions shall include treasury shares) be and are hereby placed under the control of the directors until the next annual general meeting, subject to the provisions of the Companies Act and the JSE Listings Requirements and the condition that no issue of these shares will be made if it could have the effect of changing control of the Company."

No issue of these shares is contemplated at the present time and no issue will be made that could effectively change the control of the Company without the prior approval of shareholders in a general meeting.

## 10. ORDINARY RESOLUTION NUMBER 9

### Specific authority over unissued shares for purposes of the Pick n Pay 1997 Share Option Scheme, as amended

"Resolved that so many unissued ordinary shares of R0.0125 each in the capital of the Company as are necessary, from time to time, to implement the terms and provisions of the Pick n Pay 1997 Share Option Scheme, as amended (the Share Scheme), be and they are hereby placed under the control of the directors of the Company, who are specifically authorised in terms of section 221(2) and for purposes of section 222 of the Companies Act, subject to the limits contained in the rules of the Share Scheme, to allot and issue from time to time all or any of such shares in accordance with the terms and conditions of the Share Scheme."

The terms and conditions of the Share Scheme (including all amendments thereto) have already been approved by the shareholders of the Company in general meeting and the purpose of this resolution is to grant the directors of the Company the specific authority to allot and issue so many of the unissued ordinary shares of R0.0125 as are necessary to implement the terms and provisions of the Share Scheme from time to time in the future, without having to again obtain authority from the shareholders of the Company each year in order to do so.

## 11. ORDINARY RESOLUTION NUMBER 10

### General authority to issue shares or other equities for cash

"Resolved that, subject to not less than 75% (seventy-five percent) of the votes cast by those shareholders of the Company present in person or represented by proxy to vote at this annual general meeting voting in favour of this ordinary resolution, the directors of the Company be and are hereby authorised by way of a general authority to issue (which shall for the purposes of the JSE Listings Requirements include the sale of treasury shares) for cash (as contemplated in the JSE Listings Requirements) all or any of the authorised but unissued shares in the capital of the Company, including options, as and when they in their discretion deem fit, subject to the Companies Act, the articles of association of the Company and the JSE Listings Requirements as presently constituted and which may be amended from time to time and, provided that such issues for cash may not, in the aggregate, in any 1 (one) financial year, exceed 5% (five percent) of the number of shares of the relevant class of shares issued prior to such issue."

#### Additional requirements imposed by the JSE Listings Requirements

It is recorded that the Company may only make an issue of shares (as defined in the JSE Listings Requirements) for cash under the above general authority if the following JSE Listings Requirements are met:

**a.** the shares, which are the subject of the issue for cash, must be of a class already in issue, or where this is not the case, must be limited to such equity securities or rights that are convertible into a class already in issue;

**b.** the general authority shall only be valid until the Company's next annual general meeting, or for 15 (fifteen) months from the date of passing of this ordinary resolution, whichever period is shorter;

**c.** a paid press announcement will be published giving full details, including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 (thirty) days prior to the date that the price of the issue was agreed in writing between the Company and party/ies subscribing for such shares and the expected effect on the net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) of the number of shares in issue prior to that issue;

**d.** that issues in the aggregate in any 1 (one) financial year may not exceed 5% (five percent) of the number of the shares of the Company in issue of that class of shares before such issue, taking into account the dilution effect of convertible equity securities and options in accordance with the JSE Listings Requirements;

**e.** in determining the price at which an issue of shares may be made in terms of this general authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed to between the Company and the party/ies subscribing for the shares; and

**f.** any issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to "related parties."

### 12. ORDINARY RESOLUTION NUMBER 11

#### Directors' authority to implement Company resolutions

"Resolved that each and every director of the Company be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting."

### 13. TO TRANSACT SUCH OTHER BUSINESS THAT MAY BE TRANSACTED AT AN ANNUAL GENERAL MEETING

#### General instructions and information

The annual report to which this notice of annual general meeting is attached provides details of:

> the directors of the Company on pages 12 to 13;
> the major shareholders of the Company on page 32;
> the directors' shareholding in the Company on page 57;
> the share capital of the Company in note 19 on page 69; and
> an analysis of the shareholders on page 32.

There are no material changes to the Group's financial or trading position, nor are there any material, legal or arbitration proceedings (pending or threatened) that may affect the financial position of the Group between 28 February 2010 and the reporting date.

The directors, whose names are given on pages 12 to 13 of the annual report, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the annual report and this notice contains all information required by law and the JSE Listings Requirements.

All shareholders are encouraged to attend, speak and vote at the annual general meeting.

If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant (CSDP) to hold your shares in your own name in the Company subregister) then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint a proxy to represent you at the annual general meeting by completing the attached form of proxy and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, the details of which are set out on page 33 of the annual report, by no later than 09h30 on Thursday, 17 June 2010, being 24 hours prior to the time appointed for the holding of the annual general meeting.

If you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic (STRATE)) held through a CSDP or broker (or their nominee) and are not registered as an "own name dematerialised shareholder" then you are not a registered shareholder of the Company, but your CSDP or broker (or their nominee) would be.

Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:

- if you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively
- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting and/or request it to appoint a proxy. You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the Company's subregister as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, the details of which are set out on page 33 of the annual report, by no later than 09h30 on Thursday, 17 June 2010, being 24 hours prior to the time appointed for the holding of the annual general meeting.

By order of the Board

**G F Lea**
*Company Secretary*

Cape Town
10 May 2010

# Notice of annual general meeting
# Pick n Pay Holdings Limited

**The 29th annual general meeting (AGM) of shareholders of Pick n Pay Holdings Limited (the Company) for the year ended 28 February 2010 will be held at 10h00, or as soon as the annual general meeting for Pick n Pay Stores Limited is completed, on Friday, 18 June 2010. Registration for attendance at the AGM will commence at 09h00.**

**The venue will be the conference centre at the registered office, Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town, 7708.**

**The following business will be transacted and resolutions proposed, with or without amendment:**

## 1. ORDINARY RESOLUTION NUMBER 1

### Approval of annual financial statements

"Resolved that the annual financial statements of the Company and its subsidiaries, for the year ended 28 February 2010, are hereby adopted."

## 2. ORDINARY RESOLUTION NUMBER 2

### Appointment of auditors

"To reappoint KPMG Inc. as independent auditors of the Company and to appoint Mr P Farrand as the designated auditor to hold office for the ensuing year."

Note that the Audit committee recommend the reappointment of KPMG Inc. as auditors of the Company with Mr P Farrand as designated auditor.

## 3. ORDINARY RESOLUTION NUMBER 3

### Reappointment of directors

RD Ackerman and RP de Wet retire in accordance with the Company's articles of association, and, being eligible, offer themselves for re-election. Curricula vitae of those directors standing for re-election are presented on page 12 and 13.

Accordingly, to consider and, if deemed fit, to re-elect those directors by way of passing the separate ordinary resolutions set out below:

### Ordinary resolution number 3.1

***Appointment of Raymond Ackerman as director***

"Resolved that RD Ackerman be and is hereby elected as a director of the Company."

### Ordinary resolution number 3.2

***Appointment of René de Wet as director***

"Resolved that RP de Wet be and is hereby elected as a director of the Company."

## 4. ORDINARY RESOLUTION NUMBER 4

### Appointment of Audit committee members for the ensuing year

"As recommended by the Board, it is resolved that RP de Wet (Chairman) and HS Herman be appointed as the Company's Audit committee members for the ensuing year."

## 5. ORDINARY RESOLUTION NUMBER 5

### Directors' fees for the year ending 28 February 2011

"Resolved that the directors' fees for the year ending 28 February 2011 be as follows:

> Non-executive directors not serving on the Pick n Pay Stores Limited board, if any, be increased by R3 000, to R53 000 per annum."

## 6. SPECIAL RESOLUTION NUMBER 1

### General approval to repurchase Company shares

"Resolved that the Company hereby approves, as a general approval contemplated in sections 85 and 89 of the Companies Act No. 61 of 1973 (as amended) (Companies Act), the acquisition by the Company or any of its subsidiaries from time to time of the issued shares of the Company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the articles of association of the Company, the provisions of the Companies Act and the JSE Limited (JSE) Listings Requirements (JSE Listings Requirements) as presently constituted and which may be amended from time to time, and provided that acquisitions by the Company and its subsidiaries of shares in the capital of the Company may not, in the aggregate, exceed in any one financial year 5% (five percent) of the Company's issued share capital of the class of shares acquired from the date of the grant of this general approval."

### Additional requirements imposed by the JSE Listings Requirements

It is recorded that the Company or its subsidiaries may only make a general acquisition of shares if the following JSE Listings Requirements are met:

**a.** any such acquisition of shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company or its subsidiaries and the counterparty or other manner approved by the JSE;

**b.** the general approval shall only be valid until the Company's next annual general meeting, or for 15 (fifteen) months from the date of passing of this special resolution, whichever period is shorter;

**c.** a paid press announcement will be published as soon as the Company and/or its subsidiaries has/have acquired shares in terms of this authority constituting, on a cumulative basis, 3% (three percent) of the number of shares of the class of shares acquired in issue at the time of granting of this general approval and for each 3% (three percent) in aggregate of the initial number of that class of shares acquired thereafter, which announcement shall contain full details of such acquisitions as required by rule 11.27 of the JSE Listings Requirements;

**d.** in determining the price at which the Company's shares are acquired by the Company or its subsidiaries in terms of this general approval, the maximum price at which such shares may be acquired may not be greater than 10% (ten percent) above the weighted average of the market value at which such shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date of the acquisition of such shares by the Company or its subsidiaries;

**e.** in the case of a derivative (as contemplated in the JSE Listings Requirements), the price of the derivative shall be subject to the limitations set out in section 5.84(a) of the JSE Listings Requirements; and

**f.** the Company and/or its subsidiaries may not repurchase any shares in terms of this authority during a prohibited period, as defined in the JSE Listings Requirements, unless the Company and/or its subsidiaries has in place a repurchase programme, where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period.

### Statement by the Board of directors of the Company

Pursuant to, and in terms of, the JSE Listings Requirements, the Board of directors of the Company hereby state that:

**a.** the intention of the directors of the Company is to utilise the general authority to acquire shares in the capital of the Company if at some future date the cash resources of the Company are in excess of its requirements or there are other good grounds for doing so. In this regard the directors will take account of, inter alia, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company and the interests of the Company;

**b.** in determining the method by which the Company intends to repurchase its securities, the maximum number of securities to be repurchased and the date on which such repurchase will take place, the directors of the Company will only make repurchases if at the time of the repurchase they are of the opinion that:

**b.1** the Company and its subsidiaries will, after the repurchase, be able to pay their debts as they become due in the ordinary course of business for the 12- (twelve) month period following the date of this notice of the annual general meeting;

**b.2** the consolidated assets of the Company and its subsidiaries, fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the repurchase, be in excess of the consolidated liabilities of the Company and its subsidiaries for the 12- (twelve) month period following the date of this notice of the annual general meeting;

**b.3** the issued share capital and reserves of the Company and its subsidiaries will, after the repurchase, be adequate for the ordinary business purposes of the Company and its subsidiaries for the 12- (twelve) month period following the date of this notice of the annual general meeting; and

**b.4** the working capital available to the Company and its subsidiaries will, after the repurchase, be adequate for the ordinary business requirements of the Company and its subsidiaries for the 12- (twelve) month period following the date of this notice of the annual general meeting.

### Reason and effect of special resolution number 1

The reason for special resolution number 1 is to grant the Company a general authority in terms of the Companies Act and the JSE Listings Requirements for the acquisition by the Company or any of its subsidiaries of shares issued by the Company, which authority shall be valid until the earlier of the next annual general meeting of the Company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company, provided that the general authority shall only be valid until the Company's next annual general meeting, or for 15 (fifteen) months from the date of passing of this special resolution, whichever period is shorter. The passing and registration of this special resolution will have the effect of authorising the Company and/or any of its subsidiaries to acquire shares issued by the Company.

## 7. ORDINARY RESOLUTION NUMBER 6

### General authority over unissued shares

"Resolved that 26.4 million (5% of issued share capital) of the unissued authorised ordinary shares in the Company (which for the purposes of the JSE Listings Requirements and these resolutions shall include treasury shares) be and are hereby placed under the control of the directors until the next annual general meeting, subject to the provisions of the Companies Act and the JSE Listings Requirements and the condition that no issue of these shares will be made if it could have the effect of changing control of the Company."

No issue of these shares is contemplated at the present time and no issue will be made that could effectively change the control of the Company without the prior approval of shareholders in a general meeting.

## 8. ORDINARY RESOLUTION NUMBER 7

### Specific authority over unissued shares for purposes of the Pick n Pay 1997 Share Option Scheme , as amended

"Resolved that so many unissued ordinary shares of R0.0125 each in the capital of the Company as are necessary, from time to time, to implement the terms and provisions of the Pick n Pay 1997 Share Option Scheme, as amended (the Share Scheme), be and they are hereby placed under the control of the directors of the Company, who are specifically authorised in terms of section 221(2) and for purposes of section 222 of the Companies Act, subject to the limits contained in the rules of the Share Scheme, to allot and issue from time to time all or any of such shares in accordance with the terms and conditions of the Share Scheme."

The terms and conditions of the Share Scheme (including all amendments thereto) have already been approved by the shareholders of the Company in general meeting and the purpose of this resolution is to grant the directors of the Company the specific authority to allot and issue so many of the unissued ordinary shares of R0.0125 as are necessary to implement the terms and provisions of the Share Scheme from time to time in the future, without having to again obtain authority from the shareholders of the Company each year in order to do so.

## 9. ORDINARY RESOLUTION NUMBER 8

### General authority to issue shares or other equities for cash

"Resolved that, subject to not less than 75% (seventy-five percent) of the votes cast by those shareholders of the Company present in person or represented by proxy to vote at this annual general meeting voting in favour of this ordinary resolution, the directors of the Company be and are hereby authorised by way of a general authority to issue (which shall for the purpose of the JSE Listings Requirements include the sale of treasury shares) for cash (as contemplated in the JSE Listings Requirements) all or any of the authorised but unissued shares in the capital of the Company, including options and convertible securities, as and when they in their discretion deem fit, subject to the Companies Act, the articles of association of the Company and the JSE Listings Requirements as presently constituted and which may be amended from time to time, and provided that such issues for cash may not, in the aggregate, in any 1 (one) financial year, exceed 5% (five percent) of the number of the shares of the relevant class of shares issued prior to such issue."

### Additional requirements imposed by the JSE Listings Requirements

It is recorded that the Company may only make an issue of shares for cash if the following JSE Listings Requirements are met:

- **a.** the shares, which are the subject of the issue for cash, must be of a class already in issue, or where this is not the case, must be limited to such shares or rights that are convertible into a class already in issue;
- **b.** the general authority shall only be valid until the Company's next annual general meeting or for 15 (fifteen) months from the date of passing of this ordinary resolution, whichever period is shorter;
- **c.** a paid press announcement will be published giving full details, including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 days prior to the date that the price of the issue was agreed in writing between the Company and party/ies subscribing for such shares and the effect on the net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share, at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of shares in issue prior to that issue in accordance with the JSE Listings Requirements;
- **d.** that issues in the aggregate in any 1 (one) financial year may not exceed 5% (five percent) of the number of the shares of the Company in issue of that class of equity securities before such issue, taking into account the dilution effect of convertible equity securities and options in accordance with the JSE Listings Requirements;
- **e.** in determining the price at which an issue of shares may be made in terms of this general authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed to between the Company and the party/ies subscribing for the shares; and
- **f.** any issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to "related parties".

## 10. ORDINARY RESOLUTION NUMBER 9

### Directors' authority to implement Company resolutions

"Resolved that each and every director of the Company be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting."

### 11. TO TRANSACT SUCH OTHER BUSINESS THAT MAY BE TRANSACTED AT AN ANNUAL GENERAL MEETING

#### General instructions and information

The annual report to which this notice of annual general meeting is attached provides details of:

> the directors and managers of the Company on page 13;
> the major shareholders of the Company on page 32;
> the directors' shareholding in the Company on page 97;
> the share capital of the Company in note 7 on page 100; and
> an analysis of the shareholders on page 32.

There are no material changes to the Group's financial or trading position, nor are there any material, legal or arbitration proceedings (pending or threatened) that may affect the financial position of the Group between 28 February 2010 and the reporting date.

The directors, whose names are given on page 13 of the annual report, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the annual report and this notice contains all information required by law and the JSE Listings Requirements.

All shareholders are encouraged to attend, speak and vote at the annual general meeting.

If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant (CSDP) to hold your shares in your own name on the Company's subregister) then:

> you may attend and vote at the annual general meeting; alternatively
> you may appoint a proxy to represent you at the annual general meeting by completing the attached form of proxy and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, the details of which are set out on page 33 of the annual report, by no later than 10h00 on Wednesday, 16 June 2010, being 48 hours prior to the time appointed for the holding of the annual general meeting.

If you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic (STRATE)) held through a CSDP or broker and are not registered as an "own name dematerialised shareholder", then you are not a registered shareholder of the Company, but your CSDP or broker (or their nominee) would be.

Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker (or their nominee), as the case may be:

> if you wish to attend the annual general meeting you must contact your CSDP or broker (or their nominee), as the case may be, and obtain the relevant letter of representation from it; alternatively
> if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker (or their nominee), as the case may be, and furnish it with your voting instructions in respect of the annual general meeting and/or request it to appoint a proxy. You should not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the Company's subregister as holders of dematerialised shares held on behalf of an investor/ beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, the details of which are set out on page 33 of the annual report, by no later than 10h00 on Wednesday, 16 June 2010, being 48 hours prior to the time appointed for the holding of the annual general meeting.

By order of the Board

**G F Lea**
*Company Secretary*

Cape Town
10 May 2010

# Form of proxy
# Pick n Pay Stores Limited

For use at the annual general meeting of Pick n Pay Stores Limited (the Company) to be held at the registered office of the Company, Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town in the conference centre at 09h30 on Friday, 18 June 2010 (the annual general meeting).

This form of proxy is not to be used by beneficial owners of shares who have dematerialised their shares (dematerialised shares) through a Central Securities Depository Participant (CSDP) or broker, as the case may be, unless you are recorded on the subregister as an own name dematerialised shareholder. Generally, you will not be an own name dematerialised shareholder unless you have specifically requested your CSDP to record you as the holder of the shares in your own name in the Company's subregister.

This form of proxy is only for use by certificated, own name dematerialised shareholders and CSDPs or brokers (or their nominees) registered in the Company's subregister as the holder of dematerialised ordinary shares.

**Each shareholder entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies (none of whom need be a shareholder of the Company) to attend, speak and vote in place of that member at the annual general meeting, and at any adjournment thereafter.**

**Note that voting will be performed by way of a poll so each member present or represented by way of proxy will be entitled to vote.**

I/We (block letters) ______________________________

of ______________________________

Telephone: Work ( ) ______________ Telephone: Home ( ) ______________

being the holder/s of ______________ ordinary shares in the Company, hereby appoint (refer to note 1)

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. the Chairman of the annual general meeting,

as my/our proxy to attend, speak, vote and act for me/us on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without amendment, the resolutions to be proposed thereat and at any adjournment thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name/s, in accordance with the following instructions (refer to note 2).

| | | Number of votes (one vote per ordinary share) | | |
|---|---|---|---|---|
| | | **For** | **Against** | **Abstain** |
| Ordinary resolution number 1: | Approval of annual financial statements | | | |
| Ordinary resolution number 2: | Appointment of the auditors | | | |
| Ordinary resolution number 3.1: | Election of Mrs SD Ackerman-Berman as director | | | |
| Ordinary resolution number 3.2: | Election of Mr JG Ackerman as director | | | |
| Ordinary resolution number 3.3: | Election of Mr NP Badminton as director | | | |
| Ordinary resolution number 3.4: | Election of Mr J van Rooyen as director | | | |
| Ordinary resolution number 3.5: | Election of Mr RSJ van Rensburg as director | | | |
| Ordinary resolution number 4: | Appointment of Audit, Risk and Compliance committee members for the ensuing year | | | |
| Ordinary resolution number 5: | Approval of directors' housing loans | | | |
| Ordinary resolution number 6: | Approval of remuneration report | | | |
| Ordinary resolution number 7: | Approval of directors' fees for the 2011 financial year | | | |
| Special resolution number 1: | General approval to repurchase Company shares | | | |
| Ordinary resolution number 8: | General authority over unissued shares | | | |
| Ordinary resolution number 9: | Specific authority over unissued shares for purposes of Pick n Pay 1997 Share Option Scheme, as amended | | | |
| Ordinary resolution number 10: | General authority to issue shares for cash | | | |
| Ordinary resolution number 11: | Directors' authority to implement Company resolutions | | | |

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you desire to vote (see note 2).

Signed at ______________ on ______________ 2010

Signature ______________________________

(Authority of signatory to be attached if applicable – see note 4)

Assisted by me (where applicable – see note 6) ______________ Telephone number ______________

**Please read the notes overleaf.**

# Notes

1. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as a proxy to the exclusion of those whose names which follow thereafter.

   If no proxy is inserted in the spaces provided, then the Chairperson shall be deemed to be appointed as the proxy to vote or abstain as the Chairperson deems fit.

2. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. If there is no clear indication as to the voting instructions to the proxy, the proxy form will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat.

   A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

3. Proxy forms must be lodged at the registered office of the Company, Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town, 7708 or posted to the Company Secretary at PO Box 23087, Claremont, 7735, or lodged with or posted to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107, South Africa).

   Forms of proxy must be received or lodged by no later than 09h30 on Thursday, 17 June 2010, being 24 hours before the annual general meeting to be held at 09h30 on Friday, 18 June 2010.

4. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company Secretary or waived by the Chairperson of the annual general meeting. CSDPs or brokers registered in the Company's subregister voting on instructions from beneficial owners of shares registered in the Company's subregister, are requested that they identify the beneficial owner in the subregister on whose behalf they are voting and return a copy of the instruction from such owner to the Company Secretary or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107, South Africa), together with this form of proxy.

5. Any alteration or correction made to this proxy form must be initialled by the signatory/ies, but may not be accepted by the Chairperson.

6. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Company Secretary.

# Form of proxy
# Pick n Pay Holdings Limited

For use at the annual general meeting of Pick n Pay Holdings Limited (the Company) to be held at the registered office of the Company, Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town in the conference centre at 10h00 or as soon as the annual general meeting for Pick n Pay Stores Limited is completed, on Friday, 18 June 2010 (the annual general meeting).

This form of proxy is not to be used by beneficial owners of shares who have dematerialised their shares (dematerialised shares) through a Central Securities Depository Participant (CSDP) or broker, as the case may be, unless you are recorded on the subregister as an own name dematerialised shareholder. Generally, you will not be an own name dematerialised shareholder unless you have specifically requested your CSDP to record you as the holder of the shares in your own name in the Company's subregister.

This form of proxy is only for use by certificated, own name dematerialised shareholders and CSDPs or brokers (or their nominees) registered in the Company's subregister as the holder of dematerialised ordinary shares.

**Each shareholder entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies (none of whom need be a shareholder of the Company) to attend, speak and vote in place of that member at the annual general meeting, and at any adjournment thereafter.**

**Note that voting will be performed by way of a poll so each member present or represented by way of proxy will be entitled to vote.**

I/We (block letters) ______________________________

of ______________________________

Telephone: Work (          ) ______________ Telephone: Home (          ) ______________

being the holder/s of ______________ ordinary shares in the Company, hereby appoint (refer to note 1)

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. the Chairman of the annual general meeting,

as my/our proxy to attend, speak, vote and act for me/us on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without amendment, the resolutions to be proposed thereat and at any adjournment thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name/s, in accordance with the following instructions (refer to note 2).

| | | **Number of votes (one vote per ordinary share)** | | |
|---|---|---|---|---|
| | | **For** | **Against** | **Abstain** |
| Ordinary resolution number 1: | Approval of annual financial statements | | | |
| Ordinary resolution number 2: | Appointment of the auditors | | | |
| Ordinary resolution number 3.1: | Election of Mr RD Ackerman as director | | | |
| Ordinary resolution number 3.2: | Election of Mr RP de Wet as director | | | |
| Ordinary resolution number 4: | Appointment of Audit committee members for the ensuing year | | | |
| Ordinary resolution number 5: | Approval of directors' fees for 2011 financial year | | | |
| Special resolution number 1: | General authority to repurchase Company shares | | | |
| Ordinary resolution number 6: | General authority over unissued shares | | | |
| Ordinary resolution number 7: | Specific authority over unissued shares for purposes of Pick n Pay 1997 Share Option Scheme, as amended | | | |
| Ordinary resolution number 8: | General authority to issue shares for cash | | | |
| Ordinary resolution number 9: | Directors' authority to implement Company resolutions | | | |

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you desire to vote (see note 2).

Signed at ______________ on ______________ 2010

Signature ______________________________
(Authority of signatory to be attached if applicable – see note 4)

Assisted by me (where applicable – see note 6) ______________ Telephone number ______________

**Please read the notes overleaf.**

# Notes

1. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as a proxy to the exclusion of those whose names follow thereafter.

   If no proxy is inserted in the spaces provided, then the Chairperson shall be deemed to be appointed as the proxy to vote or abstain as the Chairperson deems fit.

2. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. If there is no clear indication as to the voting instructions to the proxy, the proxy form will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat.

   A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy. A proxy shall be entitled to demand that voting take place on a poll.

3. Proxy forms must be lodged at the registered office of the Company, Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town, 7708 or posted to the Company Secretary at PO Box 23087, Claremont, 7735, or lodged with or posted to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107, South Africa).

   Forms of proxy must be received or lodged by no later than 10h00 on Wednesday, 16 June 2010, being no later than 48 hours before the annual general meeting to be held at 10h00 on Friday, 18 June 2010.

4. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company Secretary or waived by the Chairperson of the annual general meeting. CSDPs or brokers registered in the Company's subregister voting on instructions from beneficial owners of shares registered in the Company's subregister, are requested that they identify the beneficial owner in the subregister on whose behalf they are voting and return a copy of the instruction from such owner to the Company Secretary or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107, South Africa), together with this form of proxy.

5. Any alteration or correction made to this proxy form must be initialled by the signatory/ies, but may not be accepted by the Chairperson.

6. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Company Secretary.

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BASTION GRAPHICS


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