Pick n Pay

INTEGRATED ANNUAL REPORT 2017


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NAVIGATING OUR REPORTING SUITE

THE SIX CAPITALS

The Group's ability to create long-term sustainable value for stakeholders is dependent on the utilisation of a number of capitals within its business. The International Integrated Reporting <IR> Framework supports integrated financial reporting, and in particular, the reporting of the Group's business model, across these six forms of capital. Refer to "Our business model" and "The value we create" sections, on pages 18 to 21.

- FINANCIAL CAPITAL
- MANUFACTURED CAPITAL
- INTELLECTUAL CAPITAL
- HUMAN CAPITAL
- SOCIAL AND RELATIONSHIP CAPITAL
- NATURAL CAPITAL

OUR KEY STAKEHOLDERS

The Group's key stakeholders are those parties that can affect, or be affected by, our activities, objectives and policies. The Group is committed to open and constructive engagement with all our stakeholders. Our business model and strategic long-term plan are designed to consider and address the issues and concerns most relevant to our key stakeholders. Refer to our "Engaging with our Stakeholders" section on page 28 for further information.

- CUSTOMERS
- COMMUNITY
- EMPLOYEES
- SUPPLIERS
- FRANCHISEES
- SHAREHOLDERS

OUR BUSINESS ACCELERATION PILLARS

The second stage of the Group's strategic long-term plan is organised around seven business acceleration pillars. These pillars represent the seven material growth opportunities that can substantially affect the Group's ability to create value over the short, medium and long term. Refer to our "Strategic Focus" section on page 42 for further information.

1 BETTER FOR CUSTOMERS

2 A FLEXIBLE AND WINNING ESTATE

3 EFFICIENT AND EFFECTIVE OPERATIONS

4 EVERY PRODUCT, EVERY DAY

5 A WINNING TEAM

6 BOXER – A NATIONAL BRAND

7 REST OF AFRICA – SECOND ENGINE OF GROWTH

To best serve the needs of our various stakeholders, we produce a suite of publications. The following reports are tailored to meet our readers' specific information requirements.

PUBLICATIONS

REPORTING FRAMEWORK

INTEGRATED ANNUAL REPORT 2017

A review of the Group's strategy, material issues, risks and opportunities, and our operational and financial performance for the period. The report includes relevant extracts of the 2017 audited Group annual financial statements, integrated disclosure on our work in the area of environmental and social sustainability, our governance structures and our remuneration philosophy.

- The King Report on Governance for South Africa, and the King Code of Governance Principles (King III code)
- The Global Reporting Initiative's G4 guidelines on reporting of non-financial information
- The Companies Act, No 71 of 2008, as amended (Companies Act)
- The JSE Listings Requirements
- International Financial Reporting Standards (IFRS)
- The International Integrated Reporting <IR> Framework

ANNUAL FINANCIAL STATEMENTS 2017

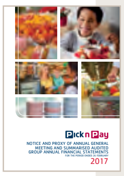
The audited Group and Company annual financial statements for Pick n Pay Stores Limited for the 2017 financial period. The report includes our audit, risk and compliance committee and directors' reports.

- Companies Act
- The JSE Listings Requirements
- IFRS

CORPORATE GOVERNANCE REPORT 2017

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

- King III code
- Companies Act
- The JSE Listings Requirements



SUMMARISED RESULTS AND 2017 AGM NOTICES

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

- Companies Act
- The JSE Listings Requirements
- IFRS

SUSTAINABLE LIVING REPORT 2017

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

- King III Code
- The Global Reporting Initiative's G4 guidelines on reporting of non-financial information

Print version available

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

ABOUT OUR REPORT

We are pleased to provide our 2017 integrated annual report.

The integrated annual report is our primary report to stakeholders. It is principally aimed at the providers of financial capital, being our shareholders and debt providers, however, it considers the information needs of our broad and diverse range of stakeholders, including customers, suppliers, franchise partners, employees and wider community groups. We believe this report provides our stakeholders with an improved understanding of our business, including how the Group creates value, and insight into how our strategy is focused on sustainable value creation in the short, medium and long term.

SCOPE AND BOUNDARY OF THE REPORT

We have adopted the International Integrated Reporting <IR> Framework (the framework) of the International Integrated Reporting Council (IIRC) which provides an international standard for integrated reporting that enables companies globally to demonstrate, in a comparable manner, how they create value. We have also applied the principles outlined in the King Code of Governance Principles (King III) in South Africa. The group is in full support of the voluntary principles and leading practices of King IV, which become effective for the Group during the 2019 financial period.

This report covers the integrated financial and non-financial performance of Pick n Pay Stores Limited and its subsidiaries and associate (the Group) for the 52 weeks ended 26 February 2017, with relevant comparisons to previous periods, and is consistent with information and performance indicators included in internal management reporting. The report has been compiled and presented in line with the requirements and principles of all the applicable reporting frameworks. Refer to page 3 for further information.

Our objective is to provide our stakeholders with a concise review of the Group's operations, its strategic objectives and its performance. This includes an insight into the financial and operational highlights of the Group, the opportunities and related risks faced by the Group, and how these underpin our business model, strategic objectives, governance structures and our remuneration philosophy.

Presented in this report is a range of financial and non-financial disclosures and performance measures to assist our stakeholders in making an informed and objective assessment of the Group's overall performance in 2017. Non-financial disclosures provided in this report are specific to our Pick n Pay-branded, company-owned business in South Africa.

It is our intention to expand these disclosures in future in order to provide a comprehensive view of the social, human and environmental impacts of the Group as a whole.

FORWARD-LOOKING INFORMATION

The report contains certain forward-looking statements which relate to the possible future performance and financial position of the Group. All forward-looking statements are solely based on the views and considerations of the directors. These statements involve risk and uncertainty as they relate to events and depend on circumstances that may or may not occur in the future. The Group does not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information, future events or otherwise. These forward-looking statements have not been reviewed or reported on by the Group's external auditors.

MATERIALITY

Materiality has been applied in determining the scope and content of the integrated annual report, to ensure the report focuses on information which the directors believe is material to its stakeholders' understanding of the business and its ability to create sustainable value over the short, medium and long term.

Material issues are identified with reference to the Group's underlying capitals, which impact its ability to create value over time. Materiality is determined, reviewed and approved annually by the Board and supported by senior management. The Board considers those matters that could substantially affect the Group's ability to create value over time and which could have a material impact on the current and projected revenue and profitability of the Group. These include transactions, balances and information that are significant in rand value, are significant to the Group's risk profile or strategic objectives, or are likely to influence stakeholder decisions, particularly the decision to invest in the Group or provide funding to the Group. These material issues are presented in more detail in our report to stakeholders on the "Material issues, risks and opportunities" facing our business. Please refer to pages 32 to 37.

The Group has not disclosed any information that is considered competitor-sensitive or price-sensitive.

ASSURANCE

The Board, assisted by the audit, risk and compliance committee, is ultimately responsible for overseeing the integrity of the integrated annual report. This has been achieved by establishing skilled and experienced teams and accountability structures to undertake the reporting process and by performing a thorough review of the report. The content of the integrated annual report has been reviewed by the directors and management, but has not been externally assured. The annual financial statements have been audited by Ernst & Young Inc. (EY) who expressed an unmodified audit opinion thereon. Accredited service providers and agencies have verified selected non-financial performance metrics contained in the report, including our carbon footprint and the BBBEE rating, while management has verified the processes for measuring all other non-financial information.

REPORT STRUCTURE AND FEEDBACK

We are committed to achieving the highest standards of global best practice in reporting, and continue on our journey to implement these standards within the Group. In our ongoing effort to improve our reporting, we have made some changes to the structure and presentation of information, particularly in respect of the presentation of our business model, the additional insight provided into how we create value and our remuneration reporting. We will continue to engage with all stakeholders to ensure that we improve year-on-year.

It has become best reporting practice for an integrated annual report to include summarised financial statements, with a complete set of audited financial statements, prepared in terms of IFRS, published separately. This report therefore does not contain the full audited Group annual financial statements, which have been made available on our website at www.picknpayinvestor.co.za.

We trust that the 2017 integrated annual report has achieved our objective of providing you with a deeper understanding of Pick n Pay – of who we are, how we do business and where we hope to be in the future. We are committed to building on and improving this report next year and would value your feedback. Any comments or requests for additional information can be emailed to our Company Secretary at demuller@pnp.co.za.

ONLINE REPORTING

To align with the increasing trend towards online reporting and electronic access to information, we do not distribute printed copies of our integrated annual report, but rather make it available online on the Group's website at www.picknpayinvestor.co.za.

Printed copies of the integrated annual report are available on request from our Company Secretary, Debra Muller, at demuller@pnp.co.za or by fax at +27 21 797 0314.

APPROVAL OF THE INTEGRATED ANNUAL REPORT

The audit, risk and compliance committee has reviewed the 2017 integrated annual report and recommended it for approval to the Board of directors.

The Board acknowledges its responsibility to ensure the integrity of the integrated annual report. The directors confirm that they have collectively reviewed the content of this report and agree that it addresses the material issues faced by the Group. They further agree that this report provides a fair presentation of the financial position of the Group as at 26 February 2017 and its performance for the related 52-week financial period. The directors consider the report to be presented in accordance with the <IR> framework.

The Board approved the integrated annual report for release to shareholders on 23 June 2017.

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

THIS IS PICK N PAY

Pick n Pay is a retail business in the fast moving consumer goods industry on the African continent – that believes doing good, is good business.

We procure quality products at the best available prices. By operating a lean and efficient business, supported by a strong and talented team, we are able to provide our customers with a tailored range of high quality food, grocery and general merchandise products at competitive prices.

Through our ongoing investment in the customer offer, we are able to drive sales and grow value for all our stakeholders.

five DECADES

seven COUNTRIES

two BRANDS

Multiple store formats and a growing online platform

MORE THAN **80 000** PEOPLE

TURNOVER OF **R77.5 billion**

1 560 STORES
OWNED AND FRANCHISED

Our long-term strategic plan has delivered compound annual growth in earnings of 24% over the last four years

This year we celebrate a proud 50-year history

It was 1967 when consumer champion Raymond Ackerman purchased the first four Pick n Pay stores in Cape Town. Since then the Group's vision has grown and expanded to encompass stores in South Africa, Namibia, Botswana, Zambia, Swaziland and Lesotho. In addition, Pick n Pay owns a 49% share of a Zimbabwean supermarket chain, TM Supermarkets.

WHAT SETS US APART

Our commitment to consumer sovereignty

We keep customers at the very heart of our business. This philosophy informs everything we do, from how we treat our customers, the product range we offer, to how we design our stores. Every customer is different and their needs are constantly changing. Putting the customer first means we work hard to understand them and how we can serve them better. Through our Pick n Pay and Boxer brands, the Group serves customers across the diverse spectrum of South African society, and is expanding its reach into the African continent. More than half of all South Africans shop regularly in our stores and we have some of the most loyal customers in the country.

Our leading customer offer

Our offer to customers focuses on food, non-edible groceries, health and beauty products, clothing, liquor, pharmaceuticals, building and hardware and general merchandise. The offer also includes value-added services such as third-party bill payments, financial transactions at till point, ticketing services, air time sales and the sale of gift cards. In addition to manufacturer-branded products, we have a growing private label range, in both Pick n Pay and Boxer, to suit every customer's budget. We are focused on delivering good quality at great prices; improving the shopping experience and serving our customers in a variety of store formats that are appropriate to their shopping needs. We appeal broadly across all sectors of society, and seek to move hand-in-hand with the changing needs and aspirations of our customers.

Outstanding stores and flexible formats

The Group operates on both an owned and franchise basis and has 1 560 stores across all formats, including its investment in TM Supermarkets in Zimbabwe. Our stores range from large hypermarkets where customers can buy everything under one roof through to small convenience stores where customers can shop quickly for their immediate needs.
In addition, we operate the largest online grocery business in Africa, giving customers the opportunity to shop from their homes and have their order delivered to their door in one-hour time slots.

Our winning team

We employ 54 000 people in our company-owned stores and operations.
Our franchise stores extend this to over 80 000 people working under the Pick n Pay and Boxer banners in seven countries.
Working at Pick n Pay is more than a job; it is an opportunity to learn, develop new skills and benefit through teamwork.
We are committed to training, developing and empowering our people.

WHAT SETS US APART continued

Our focus on business efficiency

We work in partnership with more than 10 000 suppliers and service providers to provide value and convenience for our customers. We transport, store and display our products as efficiently as possible to keep costs to a minimum. Our focus on centralisation across all areas of the business has increased our business efficiency. The scale of our business allows us to give our suppliers sufficient volume so that they can plan and manage their operations to reduce costs. Our scale also allows us to spread our fixed costs over substantial volumes, reducing our unit costs. By becoming more efficient we are able to reinvest in improving the customer experience, thereby increasing turnover and in turn enabling us to run an even more efficient business.

World-class technology

The Group benefits from an outstanding information technology infrastructure, with an end-to-end SAP system, which allows for automated and centralised processing, including the forecast replenishment of inventory. Our point of sale system ably supports our Brand Match campaign and has contributed to our Smart Shopper loyalty programme being voted South Africa's favourite loyalty programme for the past five years.

Our vision to be a truly African retailer

The Rest of Africa gives us the opportunity to grow into new markets, representing a second engine of growth for the Group. Today we have 140 stores outside South Africa, which generated segmental revenue of R4.3 billion this year and contributed meaningfully to our profits.

We tailor our ownership model in each country to what is appropriate for the local market, whether establishing owned stores, franchised stores or a part-investment in an independent operation. Having established operations in Botswana, Lesotho, Namibia, Swaziland, Zambia and Zimbabwe, the Group is working on plans to bring Pick n Pay to Ghana and Nigeria over the next few years.

A growing centralised supply chain

The Group operates 10 distribution centres across the country catering for groceries, fresh and perishable produce, and clothing. Our two largest distribution centres are Longmeadow in Gauteng and Philippi in the Western Cape, both distributing fresh produce, perishables and groceries. The volume of supply that goes through our central supply chain now stands at 60%. The centralisation of supply remains a strategic focus area for the Group, and following the development of Boxer's distribution centre in KwaZulu-Natal last year and the opening of the new Pick n Pay Fresh Distribution centre in the Western Cape this year, the Group plans to open a new Pick n Pay facility in KwaZulu-Natal this year and look for additional capacity in the inland region of South Africa.

Our belief that doing good is good business

Customers reward those businesses that they believe are at the heart of society and who give back to the communities they serve. As customers reward us with their loyalty, we are able to grow, serve more customers, generate more jobs, and help more communities – whether by supporting local groups during times of crisis, helping to develop local suppliers and small businesses or tackling societal challenges such as obesity and climate change.

Our enduring values

Pick n Pay is a much loved brand, valued within society, built on a genuine desire to make life better for our customers and to make a positive contribution to the communities in which we live and work. Our strong and unique family values have guided the business over the past 50 years, providing a solid foundation for growth, innovation, service excellence and generosity.

We are passionate about our customers and will fight to meet their needs

We embrace change and encourage innovation and leadership

We support and participate in our communities

We care for and respect each other

We take individual responsibility

We are all accountable

Our capitals

The Group's ability to create long-term sustainable value for stakeholders is dependent on the utilisation of a number of capitals

FINANCIAL CAPITAL

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

MANUFACTURED CAPITAL

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

INTELLECTUAL CAPITAL

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

HUMAN CAPITAL

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

SOCIAL AND RELATIONSHIP CAPITAL

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

NATURAL CAPITAL

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

The value we create

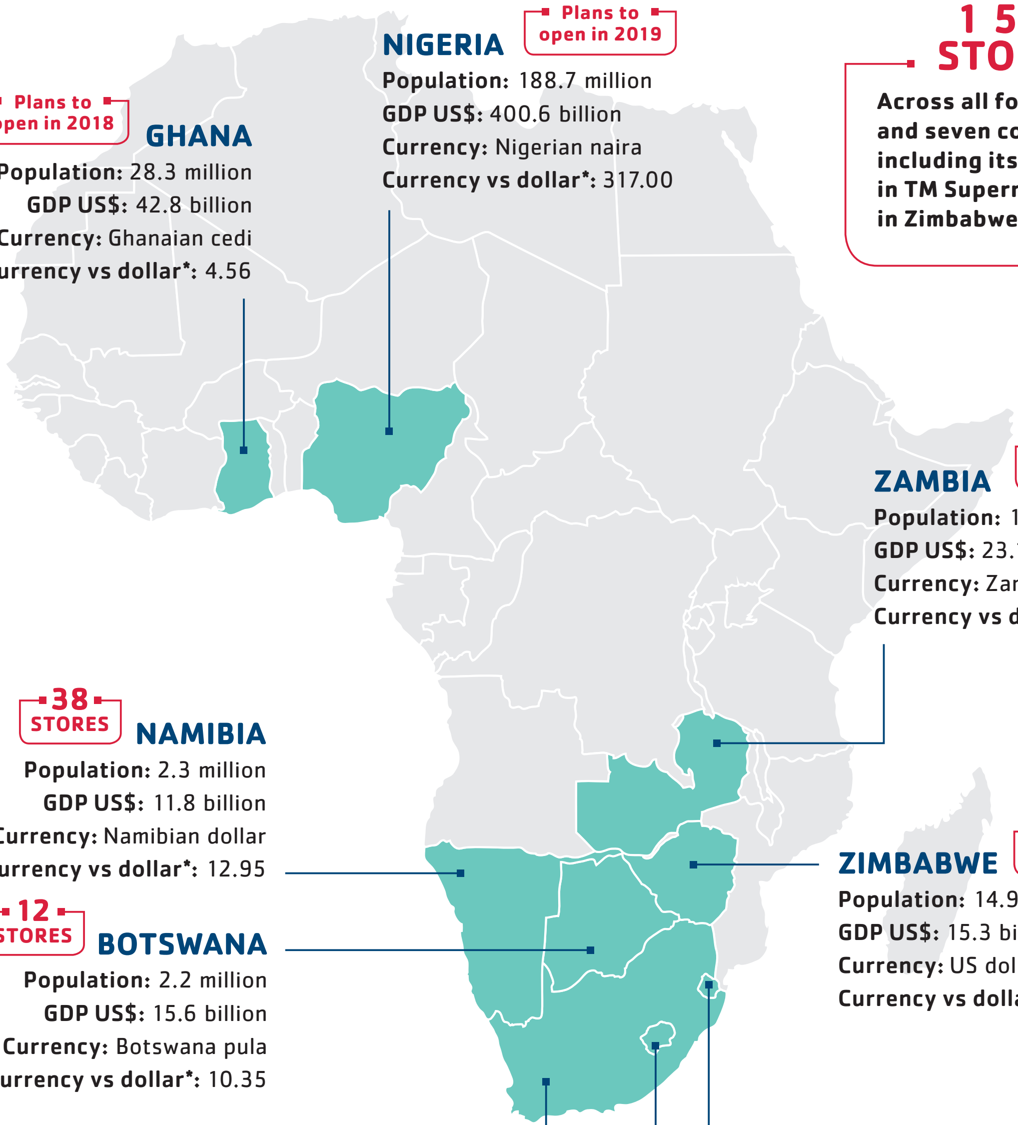
Our belief that doing good is good business ensures that we are focused not only on creating value for our shareholders, but for all our stakeholders. For five decades Pick n Pay has played a valuable role in the economic and social development of southern Africa. We make a positive direct contribution to the communities we serve through the supply of high-quality, affordable food and merchandise, and provide significant employment and economic opportunity across our value chain. We add to this value through our comprehensive sustainability strategy and our work on environmental responsibility, employee opportunity and diversity, promoting healthy living and always doing good in our local communities. For more detail on our business model and the value we have created, please refer to pages 18 to 21.

WHERE WE OPERATE

Geographic footprint

The Group is intent on being the retailer of choice for all the communities it serves.

Our expansion programme is focused on growing the business by opening stores which reflect the changing habits and needs of our customers and which will bring new customers and communities into the Pick n Pay family.



1 560 STORES

Across all formats and seven countries, including its investment in TM Supermarkets in Zimbabwe

Plans to open in 2018

GHANA

Population: 28.3 million
GDP US$: 42.8 billion
Currency: Ghanaian cedi
Currency vs dollar*: 4.56

Plans to open in 2019

NIGERIA

Population: 188.7 million
GDP US$: 400.6 billion
Currency: Nigerian naira
Currency vs dollar*: 317.00

17 STORES

ZAMBIA

Population: 17.2 million
GDP US$: 23.1 billion
Currency: Zambian kwacha
Currency vs dollar*: 9.53

38 STORES

NAMIBIA

Population: 2.3 million
GDP US$: 11.8 billion
Currency: Namibian dollar
Currency vs dollar*: 12.95

12 STORES

BOTSWANA

Population: 2.2 million
GDP US$: 15.6 billion
Currency: Botswana pula
Currency vs dollar*: 10.35

56 STORES

ZIMBABWE

Population: 14.9 million
GDP US$: 15.3 billion
Currency: US dollar
Currency vs dollar*: 1.00

1 420 STORES

SOUTH AFRICA

Population: 56.8 million
GDP US$: 317.6 billion
Currency: South African rand
Currency vs dollar*: 12.95

3 STORES

LESOTHO

Population: 1.9 million
GDP US$: 2.4 billion
Currency: Lesotho loti
Currency vs dollar*: 12.95

14 STORES

SWAZILAND

Population: 1.2 million
GDP US$: 3.9 billion
Currency: Swaziland lilangeni
Currency vs dollar*: 12.95

Source: International Monetary Fund, World Economic Outlook Database, April 2017

* *Exchange rates as at 26 February 2017*

NUMBER OF STORES

COMPANY-OWNED

	28 Feb 2016	Opened	Closed	26 Feb 2017
Pick n Pay	**596**	**68**	**(3)**	**661**
Hypermarkets	20	–	–	20
Supermarkets	226	11	–	237
Local	17	14	–	31
Clothing – standalone	134	24	(2)	156
Liquor	196	19	(1)	214
Pharmacy – standalone	3	–	–	3
Boxer	**208**	**25**	**(4)**	**229**
Superstores	136	11	(3)	144
Build	24	7	–	31
Liquor	27	7	–	34
Punch	21	–	(1)	20
Total company-owned	**804**	**93**	**(7)**	**890**

FRANCHISE

	28 Feb 2016	Opened	Closed	26 Feb 2017
Pick n Pay				
Supermarkets	289	13	(3)	299
Family	269	13	(3)	279
Mini-markets	19	–	–	19
Daily	1	–	–	1
Spaza	1	5	–	6
Express	79	32	–	111
Clothing – standalone	17	–	–	17
Liquor	163	20	(2)	181
Total franchise	**549**	**70**	**(5)**	**614**

GROUP

Total Group stores	**1 353**	**163**	**(12)**	**1 504**
TM Supermarkets	57	1	(2)	56
Total with TM Supermarkets	**1 410**	**164**	**(14)**	**1 560**

REST OF AFRICA FOOTPRINT

	28 Feb 2016	Opened	Closed	26 Feb 2017
– included in total stores above	**130**	**12**	**(2)**	**140**
Pick n Pay company-owned	11	6	–	17
Boxer company-owned	5	–	–	5
Pick n Pay franchise	57	5	–	62
TM Supermarkets	57	1	(2)	56
– by country	**130**	**12**	**(2)**	**140**
Botswana	10	2	–	12
Lesotho	3	–	–	3
Namibia	35	3	–	38
Swaziland	14	–	–	14
Zambia	11	6	–	17
Zimbabwe	57	1	(2)	56

OUR STORE FORMATS

Pick n Pay

Pick n Pay is a multi-format, multi-channel retailer with a strong and diverse portfolio of stores.

Pick n Pay is an inclusive brand, not aimed at serving a single customer demographic but focused on being the retailer for all, from the most affluent in society to those who are less fortunate and for whom price is of the utmost importance. The middle-income South African consumer, however, makes up the largest portion of our customer base. Pick n Pay operates on both an owned and franchise basis, providing a wide range of products and value-added services, and includes an online offering. Pick n Pay is focused on delivering an exceptional customer offer, including range, quality, price, availability and service. Pick n Pay has a strong growth plan, benefiting from the flexibility of its formats and its leaner operating model, and will focus on bringing its offer to communities where we are not yet well represented, including through small convenience stores.

7 countries

9 store formats, including online

1 275 stores

Pick n Pay 50 YEARS YOUNG

Pick n Pay Supermarkets

7 countries
536 stores (237 owned; 299 franchise)
3 000 average m²
24 new stores in 2017

Pick n Pay supermarkets offer a wide range of groceries, as well as a targeted range of clothing, general merchandise and value-added services.

Customers can buy everything they need from a quick daily top-up to a larger weekly or monthly bulk shop. Fresh produce and butchery offerings are complemented by an in-store bakery, deli and hot food counter. Pick n Pay supermarkets serve a wide range of communities, from lower and middle-income families to the most affluent households. Product ranges are tailored to meet the needs of customers. Some stores focus on basic necessities and local produce while others boast specialty service counters, wine rooms, flower markets and sushi bars. Pick n Pay supermarkets trading under the Pick n Pay, Family, Daily and Mini-market banners, provide easily accessible locations and parking.

Pick n Pay Hypermarkets

South Africa
20 owned stores
15 000 average m²

Pick n Pay's largest format store, providing customers with an expanded range of groceries, clothing and general merchandise.

A hypermarket is a "one-stop-shop" offering fresh produce, a butchery, deli, bakery and hot food counter, plus specialist categories not always available in a supermarket such as clothing, appliances, kitchenware, home improvement, garden and pool accessories, toys and an expanded health and beauty range. These retail sites are large, catering for destination shoppers, with wide aisles and ample parking. Prices are very competitive, leaning towards multi-pack and bulk-buy items and increased targeted promotional activity.

Pick n Pay Local

South Africa
31 owned stores
14 new stores in 2017
500 m² to 3 900 m²

Our small Pick n Pay Local stores offer neighbourhood convenience.

These stores serve a range of communities, from lower and middle-income families to those in more affluent suburbs. A Local store has a much smaller range than a traditional supermarket, tailored specifically to the community it serves. The range is focused on fresh and convenience, and can include a small bakery and butchery. Customers can pop in quickly for a daily top-up, but can still choose from a tailored grocery and general merchandise offer for a bigger weekly shop.

Pick n Pay Spaza

South Africa
6 partner stores
5 new stores in 2017
70 m² – 300 m²

Our "Spaza-to-Store" partnership with the Gauteng Government's Department of Economic Development provides spaza shop owners with access to Pick n Pay's procurement and distribution channel, business systems and technology and management advice and mentoring.

Our partnership with six spaza entrepreneurs in Soweto and Bophelong has revitalised and modernised their stores and delivered strong growth. Pick n Pay is excited by the opportunity to play a positive role in growing the informal retail market in South Africa.

Pick n Pay Express

South Africa
111 franchise stores
32 new stores in 2017
300 average m²

Pick n Pay's partnership with BP, one of the world's leading international oil and gas companies, provides small 24-hour Pick n Pay Express convenience stores on BP service station forecourts in South Africa.

Pick n Pay Express offers a targeted convenience range that satisfies an immediate "top-up" shop or a quick meal solution. The range is limited and is mainly focused on daily needs. Value-added services offered include ATMs, lottery, airtime and electricity purchases. These sites are located in high traffic flow areas including high-density residential areas and public transport intersections.

Pick n Pay Online

South Africa
99% on time delivery record
Delivery within 24 hours

Our internet shopping platform at www.picknpayonline.co.za is a small, but growing part of the Pick n Pay business.

Pick n Pay is the largest online grocery retailer in Africa. The division is winning customers by offering online convenience, good availability and delivery in one-hour time slots. The online offer in the Western Cape has been expanded through the establishment of a dedicated online picking warehouse at our refurbished Brackenfell Hypermarket. The Group invested in a similar solution in Gauteng in December 2016.

Pick n Pay Clothing

4 countries
173 standalone stores (156 owned; 17 franchise)
24 new stores in 2017
450 average m²

Pick n Pay Clothing provides the whole family with quality, fashionable clothing and footwear at exceptional prices.

Our clothing offer is broad, from baby and children's wear to men's and ladies' fashion and includes casual wear, sleep wear, active wear and formal attire. The private label, Real, is complemented by our exclusive rights to the international brands Cherokee and Maui & Sons. Our standalone clothing stores provide the same quality and value for money as our hypermarkets and supermarkets, but with an extended range.

Pick n Pay Liquor

6 countries
395 stores (214 owned; 181 franchise)
39 new stores in 2017
200 average m²

Our liquor stores are situated close to our supermarkets but with separate entrances. These stores provide customers with the added convenience of purchasing liquor while doing their grocery shop. Our liquor stores also help customers to cater for parties and functions by providing a full delivery service.

Pick n Pay Pharmacy

South Africa
23 pharmacies in-store, 3 standalone

We are committed to giving our customers convenient and affordable basic healthcare, by providing a wide range of vitamins, supplements, sports nutrition, self-medication, medical services, clinics and dispensaries.

OUR STORE FORMATS continued

Our Boxer stores provide a "one-stop-shop" for middle to lower-income shoppers in South Africa and Swaziland.

Boxer offers quality products and services at very affordable prices. Stores offer essential daily commodities such as maize meal, rice, samp, sugar, oil and beans, perishables, health and beauty, general merchandise and bulk-buy offers. The stores also offer fruit and vegetables, butcheries, bakeries and deli sections providing a choice of prepared convenience meals.

There are no franchise stores under this brand. While Boxer has reach across all nine provinces in South Africa, with the opening of its Khayelitsha store in Cape Town, its geographical heartland is KwaZulu-Natal and the Eastern Cape. Boxer celebrates 40 years this year and will continue to grow and expand in areas where the Group knows it can serve the needs of communities through its wide product range, affordable prices and community-rooted staff.

2 countries
4 store formats
229 stores

Boxer Superstores

2 countries
144 owned stores
11 new stores in 2017
1 850 average m^2

Boxer Superstores are full-service supermarkets offering a wide range of groceries.

The fresh produce offering is complemented by an in-store butchery, bakery and hot foods counter. The target markets are middle to lower-income urban, peri-urban and rural communities of South Africa and Swaziland. All stores are located close to public transportation hubs and have a welcoming market-style atmosphere.

Boxer Build

South Africa
31 owned stores
7 new stores in 2017
550 average m^2

Boxer Build stocks a diversified range of building and hardware supplies satisfying home owners and builders' DIY and home improvement needs at the most competitive prices.

Boxer Build stores offer savings cards and access to short-term credit facilities. Delivery of purchases can also be arranged at store level.

Boxer Punch

South Africa
20 owned stores
400 average m^2

Boxer Punch is a smaller-sized supermarket located in compact sites that have considerable customer foot traffic.

The store has a lower-cost operating model, enabling the business to further reduce the selling prices of products. Boxer Punch stores offer a relatively narrow range of convenience products including basic commodities, pre-packed frozen and fresh meat, and a limited range of breads and confectionery.

Boxer Liquors

2 countries
34 owned stores
7 new stores in 2017
185 average m^2

Boxer Liquors are situated close to Boxer supermarkets but with separate entrances.

These liquor stores provide customers with the added convenience of purchasing liquor at the same time as doing their grocery shopping.

The Group has a 49% investment in its associate TM Supermarkets in Zimbabwe.

TM Supermarkets is one of the most trusted retail brands in Zimbabwe. With its pay off line "Real Value Always", customers are offered a wide range of groceries and perishables, with a limited range of general merchandise and a fresh offering which caters specifically for the communities they serve at competitive prices. With its reach, TM Supermarkets draws its customers from all communities and income groups across Zimbabwe, while store formats range from convenient small supermarkets to larger supermarkets.

56 supermarkets in Zimbabwe
40 trading as TM
16 trading as Pick n Pay

TM SUPERMARKETS WON A NUMBER OF PRESTIGIOUS RETAIL AWARDS THIS YEAR, INCLUDING ZIMBABWE'S SUPERMARKET OF THE YEAR.

OUR BUSINESS MODEL

Pick n Pay is a food, grocery, clothing and general merchandise retailer, selling a wide range of products at competitive prices, under our Pick n Pay and Boxer brands.

Our business model describes how the Pick n Pay Group creates long-term, sustainable value for all its stakeholders, through the effective and balanced use of our capitals, and while always keeping the customer at the centre of everything we do.

Our business model is underpinned by strong corporate and social governance, with our unique values at its core.

CAPITAL INPUTS

FINANCIAL CAPITAL

- Shareholders' equity of over R4.0 billion
- Short-term borrowings of R1.8 billion
- Cash balances of almost R1.0 billion
- Working capital management

MANUFACTURED CAPITAL

- 1 560 stores
- 6 support offices
- 10 distribution centres
- 2 online distribution centres
- Leading information systems infrastructure

INTELLECTUAL CAPITAL

- 2 valued brands – Pick n Pay and Boxer
- Growing private label offering
- Enterprise-wide SAP operating and reporting system
- Brand Match
- Smart Shopper

HUMAN CAPITAL

- Over 80 000 employees across our owned and franchise business
- Diverse workforce reflecting the communities we serve
- 53% female; 93% non-white

SOCIAL AND RELATIONSHIP CAPITAL

- Customer-focused business with customer-led strategy
- Committed to open and constructive engagement with all stakeholders
- Investment in the communities we serve

NATURAL CAPITAL

- Commitment to reducing our use of natural resources
- Commitment to reducing our environmental impact

PRIMARY BUSINESS ACTIVITIES

WE SOURCE AND BUY PRODUCTS EFFECTIVELY

WE PROVIDE A COMPETITIVE CUSTOMER OFFER

WE BUILD A HIGH PERFORMANCE TEAM OF RETAIL SPECIALISTS

WE RUN COST EFFECTIVE AND EFFICIENT OPERATIONS

WE SERVE CUSTOMERS AND DRIVE SALES

WE INVEST IN OUR COMMUNITIES

We have a strong and experienced management team that operates within a sound risk management framework, to ensure that the business can grow, adapt, change and innovate without placing stakeholders at any undue risk, and always considers the social and environmental impact of our decisions and operations. The business has demonstrated capital efficiency in the funding of its operations, delivering strong returns on capital employed over many years. Please refer to page 11 of "This is Pick n Pay" for more information on the six capitals utilised within our business model.

VALUE DRIVERS

- Buying better for our customers
- Ethical sourcing and food safety
- Securing sustainable future supply

- Leading product range at competitive prices
- High quality stores within customer reach
- More convenience, including value-added services

- Customer focused
- Talented and diverse retail team
- Employment through growth

- An increasingly efficient supply chain
- Lean operating model in stores and support offices
- Most attractive franchise model

- Most inclusive retailer in South Africa, serving customers across the diverse spectrum of African societies

- The economic and social upliftment of the communities we serve leads to growth for all

CAPITAL OUTPUTS

FINANCIAL CAPITAL

- Turnover up 7.0%
- Gross profit margin improved 0.1 percentage point to 18.0%
- Trading profit margin improved 0.2 percentage points to 2.3%
- HEPS up 18.0%
- Net asset value per share up 7.6%

MANUFACTURED CAPITAL

- 164 new stores, 14 closures
- 62 refurbishments
- New fresh distribution centre in Western Cape
- New online distribution centre in Gauteng
- Online deliveries brought in-house

INTELLECTUAL CAPITAL

- SAP EWM system rolled-out across all distribution centres
- Boxer SAP finance system integrated with Pick n Pay
- Online shopping website and app enhancements
- Enhancements to Smart Shopper system and app
- Grew private label offering to over 1 700 products

HUMAN CAPITAL

- Created 4 500 new jobs
- Secured three-year wage agreement
- Guaranteed 85 working hours per month
- More than 800 training interventions, reaching almost 30 000 of our staff
- 2 650 promotions, recognising skill and development
- Introduced new performance management system

SOCIAL AND RELATIONSHIP CAPITAL

- Proactive and broad programme of stakeholder engagements including workshops; conferences and one-on-one meetings. Please refer to our "Engaging with our Stakeholders" section on page 28

NATURAL CAPITAL

- Pick n Pay recognised as a world leading retailer in the Carbon Disclosure Project
- CO_2e emissions per square metre down 3.5% year-on-year
- Energy use per square metre reduced by 0.6% on last year-now down 34.1% against our 2008 baseline
- Diverted 48.4% of our waste from landfill, a total of just over 19 000 tonnes

THE VALUE WE CREATE

Pick n Pay has created value for our stakeholders for fifty years. Our business model seeks to maintain a virtuous circle – which balances the needs of our stakeholders in a fair and effective manner, while efficiently managing the trade-offs between our capitals.

The value we create goes far beyond providing safe and affordable food and merchandise to our customers. We create substantial economic development and employment opportunity across our value chain, procuring goods and services from more than 10 000 suppliers and service providers. We provide direct employment to more than 80 000 people across our owned and franchise business. We give back to the communities in which we operate through investment in education and literacy programmes, housing, nutrition and poverty-relief schemes, and through the support of cultural and theatrical projects, sports development and environmental programmes.

Our stakeholders have competing interests and needs. Similarly there is interdependence between our capitals. Our ethical value system underpinned by strong corporate and social governance guides our every-day decision making, to ensure we balance and optimise the trade-offs that exist in our business, to act in the best interests of our stakeholders.

Below are examples of some of the trade-offs that have been necessary in our business to create greater shared value for all:

COMPETITIVE AND FAIR EMPLOYEE REMUNERATION, INCLUDING THROUGH BROAD-BASED EMPLOYEE SHARE SCHEMES

Pick n Pay is committed to the economic upliftment of its employees. In 2017 the Group purchased shares to the value of R345.4 million under its employee share incentive schemes during the year, and delivered substantial wealth creation for 9 250 employees at all levels, who realised their share awards during the period.

↑ Human capital

↓ Financial capital

REDUCING OUR IMPACT ON THE ENVIRONMENT

The Group is committed to finding more energy efficient and environmentally friendly ways in which to do business and this has required investment across our stores and distribution centres, including investment in energy-efficient lighting and refrigeration, rain water harvesting and recycling initiatives.

↑ Natural capital

↓ Financial capital

RESPONSIBLE PROCUREMENT

The Group continues to invest in building a diverse and ethical supply base, to provide our customers with safe, high quality food that will promote healthy living and sustainable farming. Our investment includes the development of small emerging businesses, including through the growth of our private label range of products.

↑ Social and relationship and intellectual capital

↓ Financial capital

PRODUCT AVAILABILITY

The Group is focused on providing its customers with high levels of on-shelf availability, to ensure our customers can always find what they need in our stores. The Group consistently maintained its on-shelf availability at 96% during the 2017 financial period. This does require that the Group invest in higher levels of inventory, which can lead to waste of fresh and perishable produce, if customer demand does not meet expectation. Automated forecast and replenishment systems are improving our performance in this area.

↑ Social and relationship capital

↓ Financial and natural capital

GROWING OUR BUSINESS OUTSIDE OF SOUTH AFRICA

The Group believes that opportunities outside South Africa will provide the Group with a second engine for growth. While we look to countries which offer political stability, economic growth, ease of business and the prospect of strategic scale, expanding our footprint into the rest of Africa does not come without risk, including exposing the Group to the operational challenges of trading in a new environment and the risk of foreign currency movements. This reduces our short-term financial capital with the prospect of long-term financial capital appreciation.

↑ Manufactured, intellectual and financial capital

↓ Financial capital

OUR VALUE OUTCOMES

R77.6 billion

Turnover and other revenue – a growing owned and franchise estate, serving more customers with a stronger offer

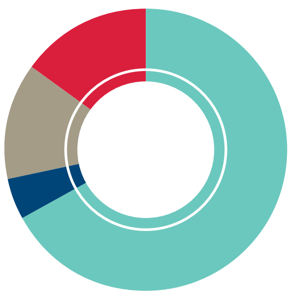
less

R67.7 billion

Cost of merchandise sold and operations – providing growth opportunities for over 10 000 suppliers and service providers across our value chain

=

R9.9 billion
value added



R6.6 billion
for our employees
– providing economic upliftment and job security, with 4 500 new jobs created this year

R0.5 billion
paid in government taxes and R38.7 million invested in CSI initiatives
– for the social upliftment of our communities

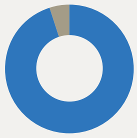
R1.3 billion
to providers of capital
– generating long-term sustainable returns

R1.5 billion
reinvested for future growth
– for the benefit of all stakeholders

OUR ECONOMIC ENVIRONMENT

CORE SOUTH AFRICAN OPERATIONS CONTRIBUTE 95% TO TURNOVER

Operations in the Rest of Africa, contribute 5% to turnover

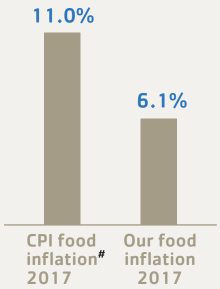


THE REGIONS WE OPERATE IN ARE EXPERIENCING SIMILAR SHORT-TERM CHALLENGES

- Low economic growth
- Political uncertainty
- Drought
- Weaker local currencies

SOUTH AFRICAN RETAIL ENVIRONMENT

- Economic growth of 0.3% in 2016*
- Unemployment of 26.7% in 2016*
- High food inflation – peaking at 11.7% in December 2016
- Pressure on customers' discretionary spend



SHORT-TERM CONSUMER OUTLOOK

- Low consumer confidence
- High unemployment
- Consumers looking for more value
- Decreasing food inflation in South Africa – with the end of the drought in the northern part of South Africa

LONG-TERM OUTLOOK MORE POSITIVE, SUPPORTED BY:

- A young population
- A growing consumer base
- Good infrastructure
- Strong and enduring institutions

* *Bureau of Economic Research (BER)*
\# *Stats SA*

The South African economy grew just 0.3% in the 2016 calendar year, against a backdrop of political uncertainty, low investor confidence, high unemployment, a volatile currency and rising inflation. It has been a difficult time for South African consumers who saw household income eroded by escalating food prices, alongside higher personal income tax and ongoing increases in utility, transport and health care costs. Wage increases, particularly in the public sector, did not keep up with the rising cost of living, with South Africans largely ending the year poorer than when it began. At the same time, access to household credit declined, with household debt expressed as a percentage of disposable income falling to a 10-year low, putting further pressure on cash-strapped consumers.

In this challenging environment, customers have become increasingly price conscious and value-driven. Customers are shopping more frequently for smaller baskets and are spending less on luxury or discretionary items. The Group responded with meaningful price investment this year, made possible in part through headroom created by a more centralised supply chain and more efficient operations. The Group restricted its selling price inflation to just 6.1%, well below published food inflation of 11.0%. With pressure on consumers likely to remain acute, the Group has committed to further price support in the coming year in respect of fresh, perishable and everyday grocery lines. Pick n Pay's Brand Match programme continues to give customers confidence in the competitiveness of our pricing across 2 000 branded grocery lines. The Group is also meeting its customers' needs for unbeatable value through the development of a strong and compelling private label offering.

The retail market in South Africa is extremely diverse and is marked by very wide disparities in income. A number of retailers operate across the formal and informal markets of South Africa, contributing to a highly-competitive market. The Group has a celebrated 50-year history in South Africa and benefits from broad-appeal across all socio-economic groups, and strong brand loyalty in the grocery retail market. Notwithstanding the tough trading environment, our high levels of customer retention across all customer segments suggests that our Pick n Pay brand provides a strong and trusted offer in terms of price, quality, value and range. Our Boxer business continues to be the value leader for customers in the lower-income communities of South Africa and Swaziland, delivering strong turnover growth in a depressed and highly contested area of the market. The Boxer team was able to invest meaningfully in the price of basic commodities this year, while strengthening its fresh meat, fruit and vegetable offer.

Traditionally our Pick n Pay brand has been positioned in the more urbanised areas of South Africa, with particularly strong advocacy from South Africa's middle to upper-income consumer. However, there are many communities across the country, across all demographics, where Pick n Pay is not yet well represented and we look forward to bringing our offer to these communities, whether they are in urban, peri-urban or more rural areas. In recent years, stronger retail growth has been recorded in the lower-income segment of the market and we believe that both our Pick n Pay and Boxer brands will continue to play a valuable and growing role for customers in these markets. However the Group will continue to follow a measured approach to space growth, focusing on space which we are confident will drive sustainable financial returns. By reducing our operating costs and improving our efficiency, we have significantly improved our ability to deliver sustainable new space, including through smaller, neighbourhood stores which reflect the growing customer demand for convenience.

The Group strengthened its position outside South Africa this year, with 12 store openings across Botswana, Namibia, Zambia and Zimbabwe. The profits of the Rest of Africa division were dampened by tough trading conditions in Zambia, where the impact of the prolonged drought and related water and power outages, coupled with the low copper price, continued to curb sales growth across the region. The team in Zambia responded to the low growth environment with strong discipline on cost. Notwithstanding current economic headwinds, the Group remains positive of its long-term position and opportunity in Zambia. The Group's franchise businesses in Namibia, Botswana, Swaziland and Lesotho continued to trade well, and its 49% investment in TM Supermarkets delivered strong profit growth, notwithstanding political and economic challenges in Zimbabwe. The Group has plans to expand its operations into Ghana and Nigeria over the next two years. The ongoing formalisation of food and grocery retail across Africa will provide the Group with a second engine of growth in coming years.

The macro-economic outlook for South Africa and its retail sector remains challenging in the near term. The Government's cabinet reshuffle in March 2017, and in particular the removal of Finance Minister Pravin Gordhan, resulted in two international ratings agencies downgrading South Africa's sovereign debt to below investment grade. These downgrades have led to further political and economic uncertainty in South Africa. Growth forecasts for the near term are insufficient to address the country's high level of unemployment, and higher costs of borrowing as a result of the recent downgrades, may constrain future economic stimulus plans.

There are encouraging signs however that pressure on the South African consumer will start to ease in the second half of this year. The prolonged drought in the northern parts of the country has come to an end, and there has been a marked decrease in food inflation over recent months, which will provide welcome respite for consumers.

The Reserve Bank has held the Repo rate steady at 7% for more than a year, and moderating levels of inflation should ease the burden on households over the medium term. In the longer term, there is hope that the pressure resulting from recent increases in both personal income and consumption taxes will be off-set by lower inflation, real wage growth, and an end to above-inflation electricity tariff increases.

The trading environment will continue to be tough. We believe that retail competition for hard-pressed and cost-conscious customers is the new normal. The Group will succeed in this new normal by accelerating the pace of its plan, in particular by further reducing its costs in order to create additional headroom to deliver lower prices and better value for customers.

The Group has delivered solid progress against its strategic plan over the past four years

The Group has improved its customer offer, modernised its stores, centralised its supply chain, and firmly controlled its costs. As a result, the Group has delivered four years of strong profit growth, and a steady improvement in its underlying trading profit margin, notwithstanding the economic headwinds to growth. The Group remains confident of the material opportunity that exists within the business for improved efficiency and profit growth, regardless of the short-term challenges facing the retail industry in South Africa and beyond. The Group has invested R6.0 billion in its capital investment programme over the past four years and created more than 10 000 new jobs across its corporate and franchise business. We plan to spend another R1.8 billion this year. Ours is a growing business, and we are confident of the long-term opportunities in the markets in which we operate, and are confident of the valuable role we will play in uplifting the communities we serve.

CONSUMER TRENDS AND OUR RESPONSE

LATEST TRENDS

PRICE AND VALUE

- Customers are demanding lower prices and added value
- Customers need everyday low prices more than the highs and lows of promotional calendars
- Customers are prepared to shop around for the lowest prices
- Customers expect to be rewarded for their loyalty

CONVENIENCE

- Time-pressed customers are seeking out convenience
- Customers are shopping closer to home, work and transport hubs
- Smaller convenience supermarkets are becoming increasingly relevant, over traditional, large mall developments
- Customers are shopping more regularly for smaller baskets, and are looking for smaller stores that they can move around quickly in
- Customers demand more added-value options, including pre-prepared convenience meals
- In order to save time, customers are seeking out value-added services at till, such as electricity purchases and bill payments

ONLINE SHOPPING

- Customers are shopping via modern, online retail platforms and mobile apps
- Online shopping provides added convenience – customers can shop from their desk or their phone
- Customers are able to price check and shop specific promotions
- Online apps enable customers to maintain and update shopping lists
- Social media provides consumers with a powerful platform to review price, quality and range and discuss changing trends and needs

OUR RESPONSE

IMPROVED EFFICIENCY SUPPORTING PRICE INVESTMENT

- Increased operational efficiency is supporting meaningful and ongoing price investment
- Boxer securing value leadership in the lower-income communities of South Africa
- In March 2017 Pick n Pay announced it would invest a further R500 million into the price of everyday grocery lines
- In March 2017 Pick n Pay announced it would refresh its Smart Shopper loyalty programme to provide more reward than ever before

Supported by strategic business acceleration pillars: 1 3 5 6

MEETING THE CHANGING NEEDS OF OUR CUSTOMERS

- Our more efficient operating model has enabled Pick n Pay to successfully operate a smaller supermarket on a leaner cost base
- Our local and express formats are bringing Pick n Pay closer to customers in smaller communities and neighbourhoods
- The growth of our Boxer brand and our partnership with Spaza shops in Gauteng, has brought a quality offering to some of the more informal communities of South Africa
- Pick n Pay is growing its private label offering, which includes a stronger ready-meal range for customers
- A compelling value-added services platform, with strong growth across all categories, including third-party bill payments and money transfers

Supported by strategic business acceleration pillars: 1 2 3 4 6

INVESTMENT IN PICK N PAY ONLINE

- Ongoing investment in our online platform, with the development of dedicated online warehouses in the Western Cape and Inland regions of South Africa, to improve our online offer for customers
- Insourced the management of the online delivery fleet to provide customers with reliable and on-time delivery service in one-hour time slots
- Enhanced the Pick n Pay Online website and mobile app to provide customers with a quick and easy online shopping experience
- Open and constructive engagement with stakeholders on a number of social media platforms, including Facebook, Twitter and Instagram

Supported by strategic business acceleration pillars: 1 2 3

ENGAGING WITH OUR STAKEHOLDERS

The Group's ability to create long-term sustainable value depends on open and constructive engagement with all our stakeholders.

Stakeholders are those parties that can affect, or be affected by, our activities, objectives and policies. The Group identifies its key stakeholders through ongoing engagement with individuals, groups and organisations.

Engagement enables us to identify and act upon the issues that affect our stakeholders and our business, improves our understanding of stakeholders' expectations, aspirations and interests, and strengthens the transparency and accountability through which we have established valued relationships.

The Group's stakeholders include: customers, suppliers, shareholders, franchisees, employees, regulating authorities, media, and various levels of government and community groups.

We are committed to balancing their interests in a responsible and respectful manner.

Key stakeholders

- CUSTOMERS
- COMMUNITY
- EMPLOYEES
- SUPPLIERS
- FRANCHISEES
- SHAREHOLDERS

Below we detail our engagement with key stakeholders, focusing on those groups that have either a significant interest in the operations of the Group or have significant influence over the way we do business and create value.

CUSTOMERS

885 million interactions with customers this year

WHAT OUR CUSTOMERS TELL US IS MOST IMPORTANT TO THEM:	HOW OUR STRATEGY RESPONDS TO CUSTOMERS NEEDS:	WHY WE ENGAGE:	HOW WE ENGAGE:
• More convenience • Low prices, good value • Product quality and food safety • Good, consistent availability • Great service • Rewards for loyalty • Community involvement	**Strategic pillar: Better for customers** 1 • Convenient store locations • Leading product range • Great prices and promotions • South Africa's favourite loyalty programme • Excellent place to shop • Compelling value-added services *Refer to the better for customers business acceleration pillar on page 44*	• To improve our customer offer • To adequately respond to the changing needs of our customers • To hold ourselves accountable to those we serve	• Daily engagements in our stores • Dedicated Customer Director • Customer-care line • One-on-one meetings • Regular customer surveys, consumer forums and online customer panels • Website www.picknpay.co.za and various social media forums

COMMUNITY

Continued focus on community development and upliftment programmes, including through employment and buying from local communities

WHAT OUR COMMUNITIES TELL US IS MOST IMPORTANT TO THEM:	HOW OUR STRATEGY RESPONDS TO COMMUNITY NEEDS:	WHY WE ENGAGE:	HOW WE ENGAGE:
• Job creation • Access to safe food, at low prices • Poverty relief and community outreach programmes • Environmental consciousness	**Doing good in our communities underpins all our strategic pillars** 1–7 • Doing good is good business • Be environmentally responsible • Develop and source from diverse and ethical suppliers • Job creation through long-term sustainable growth • Promote healthy and sustainable living *Refer to the strategic focus section on pages 42 to 51*	• To drive and share in the success and wellbeing of the communities in which we trade • Local communities engage with those businesses that engage with them, promoting the sustainability of both	• Forums such as township co-operatives, university partnerships and the Pick n Pay Schools Club • Individual stores' varied social responsibility programmes • Collaboration with the Ackerman Pick n Pay Enterprise Development Fund, including income generation, community enterprise development and food security initiatives

ENGAGING WITH OUR STAKEHOLDERS
continued

EMPLOYEES

Pick n Pay created 4 500 new jobs this year through our store opening programme

WHAT OUR EMPLOYEES TELL US IS MOST IMPORTANT TO THEM:	HOW OUR STRATEGY RESPONDS TO EMPLOYEE NEEDS:	WHY WE ENGAGE:	HOW WE ENGAGE:
• Competitive remuneration • Training, career development and wellness programmes • Fair and reasonable working hours, with certainty of hours and shifts • Sustainable business performance • Working for a responsible and ethical corporate citizen	**Strategic pillar: A winning team** 5 • Most talented South African retail business • Effective and lean organisational structure • Advance employee opportunity and diversity *Refer to the winning team business acceleration pillar on page 48*	• To get the best out of our team, we regularly engage with our employees on strategy, key performance indicators, financial performance and the role we expect each individual employee to play in our business • To identify and recognise good performance • To identify training and development needs • To hold each team member accountable for the job they do	• Regular management updates • Employee surveys • Monthly internal publications • In-house television, radio communications and employee conferences • Skills development and training • Ongoing engagement with labour unions

SUPPLIERS

The Group has more than 10 000 suppliers and service providers

WHAT OUR SUPPLIERS TELL US IS MOST IMPORTANT TO THEM:	HOW OUR STRATEGY RESPONDS TO SUPPLIER NEEDS:	WHY WE ENGAGE:	HOW WE ENGAGE:
• Fair pricing, research and development support, transparent contracts and agreements, infrastructure and logistics support • Opportunities for cost reduction • Transformation and enterprise development • Resource efficiency (energy, water, waste, logistics)	**Strategic pillar: Every product, every day** 4 • Building fair, efficient and mutually beneficial business relationships • Developing a cost effective and efficient supply chain • Product innovation to meet evolving customer needs • Continual development of small businesses and diverse and ethical suppliers • Contribute to job creation *Refer to the every product everyday business acceleration pillar on page 47*	• To ensure that we are able to source a leading range of high-quality produce and merchandise at the best possible prices • To ensure that we can commit to on-shelf availability, food safety and sustainable and ethical business practices	• Regular meetings in line with merchandise cycle timelines • Regular food safety audits at production facilities • Ongoing store visits with suppliers • Joint business planning sessions • Supplier conferences • Dedicated enterprise development programme

FRANCHISEES 614 of our stores are owned and managed by franchisees

WHAT OUR FRANCHISEES TELL US IS MOST IMPORTANT TO THEM:	HOW OUR STRATEGY RESPONDS TO FRANCHISEE NEEDS:	WHY WE ENGAGE:	HOW WE ENGAGE:
• The opportunity to build a profitable and sustainable business • Security and sustainability of supply, timely delivery of products, competitive pricing, product innovation, marketing support, quality of products and food safety • Opportunities for cost reduction • Resource efficiency (energy, water, waste, logistics) • Transformation and enterprise development	**Strategic pillar: A flexible and winning estate** 2 • Offer the most successful, mutually beneficial franchise model in the retail industry • Operate as a sustainable franchisor of choice *Refer to the flexible and winning estate business acceleration pillar on page 45*	• Our franchise stores are an important part of the Pick n Pay business, adding to our scale and brand reach • Our franchise model works well when our franchisees have opportunities to succeed and have an active voice in the business	• Regular store visits by franchise management team and service area consultants • Bi-monthly meetings between regional operational teams • Bi-monthly CEO forum meetings with national franchise representatives • CSI programmes in the communities in which our franchisees operate • Franchise conferences

SHAREHOLDERS Dividends have grown at a compound annual growth rate of 20% over the past four years

WHAT OUR SHAREHOLDERS TELL US IS MOST IMPORTANT TO THEM:	HOW OUR STRATEGY RESPONDS TO SHAREHOLDER NEEDS:	WHY WE ENGAGE:	HOW WE ENGAGE:
• Improved and sustainable return on investment • Understanding our business model, strategic direction and profit drivers • Access to timely, accurate and relevant information • Sufficient free float of shares for trade • Good corporate governance • A socially responsible and ethical corporate citizen	**Strategic pillar: Efficient and effective operations** 3 • Generate consistent profits in a sustainable manner • Operate according to the highest corporate governance principles • Follow innovative business practices at acceptable levels of risk • Capital efficiency • Provide attractive returns on investment *Refer to the efficient and effective operations acceleration pillar on page 46*	• To provide our shareholders with a comprehensive, transparent and objective understanding of the business, so that our shares may trade at a fair value and that our shareholders are aware of the risks and opportunities associated with investing in the Group	• At least four formal engagements a year: two financial results presentations, AGM and an investor day/strategic update • Regular engagement with investors, analysts and fund managers • Direct engagement on proposed resolutions prior to annual and extraordinary general meetings • Dedicated investor relations website at www.picknpayinvestor.co.za

MATERIAL ISSUES, RISKS AND OPPORTUNITIES

The issues and related risks that could have a significant impact on the Group's financial performance, its ability to meet its strategic objectives, or the long-term sustainability of its earnings.

In determining materiality and identifying the material issues and related risks facing the business, consideration is given to the Group's macro-economic environment, changing industry and consumer trends, and the expectations and concerns of all its stakeholders.

Material issues are reviewed annually by senior management, the audit, risk and compliance committee and the Board, as part of a comprehensive, enterprise-wide risk management and combined assurance programme. The risk management process is discussed in more detail on page 85 of our corporate governance section.

The material issues and related risks identified below are aligned with the Group's risk register. Opportunities demonstrate how the risks are being mitigated, and where possible, are viewed as growth opportunities for the Group through its strategic long-term plan.

MATERIAL ISSUE

CONSUMER ENVIRONMENT

THE SOUTH AFRICAN ECONOMIC ENVIRONMENT HAS BEEN CHALLENGING OVER RECENT YEARS, WITH CONSUMERS BATTLING HIGHER LEVELS OF UNEMPLOYMENT, TOGETHER WITH THE INCREASING COST OF FOOD, TRANSPORT, UTILITIES AND HOUSEHOLD DEBT. CONSUMER CONFIDENCE IS LOW, AND CUSTOMERS ARE SPENDING MORE PRUDENTLY.

MATERIAL RISKS

- Worsening macro and socio-economic conditions that could further constrain consumer spending
- Persistently high food inflation and ongoing pressure on sales volumes
- Negative customer perception around price and value
- We don't stock what our customers need

OPPORTUNITIES AND RISK MANAGEMENT

- Pick n Pay is the most inclusive retailer in South Africa, well positioned to meet the changing needs of all consumers
- Greater operational efficiency is driving meaningful price investment
- Our scale, history and supplier relationships enables effective price negotiation on behalf of customers
- Smart Shopper is providing more value than ever before
- Brand Match gives customers confidence in our pricing across 2 000 branded products
- Growing private label offer – providing more trusted value
- 95% of our offer is local – reducing the impact of a weaker rand on the value chain
- Boxer is providing the most competitive prices on staple commodities to customers who need it the most

CAPITALS

- FINANCIAL CAPITAL
- MANUFACTURED CAPITAL
- SOCIAL AND RELATIONSHIP CAPITAL
- INTELLECTUAL CAPITAL

STAKEHOLDERS

- CUSTOMERS
- COMMUNITY
- SUPPLIERS
- SHAREHOLDERS

STRATEGIC BUSINESS ACCELERATION PILLARS

- 1 BETTER FOR CUSTOMERS
- 3 EFFICIENT AND EFFECTIVE OPERATIONS
- 4 EVERY PRODUCT, EVERY DAY
- 6 BOXER – A NATIONAL BRAND

MATERIAL ISSUE

COMPETITIVE ENVIRONMENT

THE SOUTH AFRICAN RETAIL SPACE IS STRONGLY CONTESTED, WITH BOTH ESTABLISHED AND EMERGING RETAILERS ACROSS THE FORMAL AND INFORMAL MARKET.

MATERIAL RISKS

- The impact of a strategic competitive move against a major product category or store format
- Increased price competitiveness and promotional intensity resulting in uncompetitive pricing
- Missing out on the best locations for new stores
- Opening or refurbishing stores that do not deliver sustainable returns
- Not attracting or retaining the best franchisees

OPPORTUNITIES AND RISK MANAGEMENT

- Brand loyalty – Pick n Pay is one of the most loved and admired brands in South Africa, giving the Group a unique competitive advantage
- Smart Shopper is South Africa's favourite loyalty programme with over 7 million active customers
- Flexible formats and an increasingly lean operating model allows us to respond quickly to changing consumer needs – including through Boxer, which is demonstrating strong growth and increasing customer advocacy in the lower income and more rural areas of South Africa
- Strong opening and refurbishment programme – focused on investment that will generate sustainable return
- Stringent control over capital spend
- Open and constructive engagement with all developers and landlords
- The most successful and mutually beneficial franchise model in the retail industry – with regular and open engagement with all our franchisees to ensure value creation for all

CAPITALS

- FINANCIAL CAPITAL
- MANUFACTURED CAPITAL
- SOCIAL AND RELATIONSHIP CAPITAL
- INTELLECTUAL CAPITAL

STAKEHOLDERS

- CUSTOMERS
- COMMUNITY
- FRANCHISEES
- SHAREHOLDERS

STRATEGIC BUSINESS ACCELERATION PILLARS

- 1 BETTER FOR CUSTOMERS
- 2 A FLEXIBLE AND WINNING ESTATE
- 4 EFFICIENT AND EFFECTIVE OPERATIONS
- 6 BOXER – A NATIONAL BRAND

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

MATERIAL ISSUE

EFFECTIVENESS OF PROCUREMENT AND DISTRIBUTION CHANNEL

THE GROUP IS INCREASINGLY RELIANT ON THE EFFECTIVENESS OF ITS OWN SUPPLY CHAIN CHANNEL, WITH 60% OF ITS INVENTORY DISTRIBUTED THROUGH ITS CENTRALISED DISTRIBUTION CENTRES.

MATERIAL RISKS

- Inefficient stock holdings (too much or too little inventory on hand)
- Poor on-shelf availability impacting our ability to serve customers
- Poor quality or shortened shelf-life of fresh produce
- Increased waste
- Increased cost of distribution
- The catastrophic loss of a major distribution centre

OPPORTUNITIES AND RISK MANAGEMENT

- The Group has made substantive progress in building a robust distribution network, which is distributing every product, every day to stores on a short-order lead time
- Improved efficiencies from:
  - a single warehouse management system across all distribution centres
  - an enterprise-wide automatic forecast and replenishment system
  - an online, real-time supplier portal
- A dedicated team of procurement and distribution experts
- Strong relationships with suppliers, logistics providers, and warehouse managers
- Business continuity and disaster recovery plans in place

CAPITALS

- MANUFACTURED CAPITAL
- SOCIAL AND RELATIONSHIP CAPITAL
- INTELLECTUAL CAPITAL
- HUMAN CAPITAL
- FINANCIAL CAPITAL
- NATURAL CAPITAL

STAKEHOLDERS

- CUSTOMERS
- SUPPLIERS
- FRANCHISEES
- EMPLOYEES
- SHAREHOLDERS

STRATEGIC BUSINESS ACCELERATION PILLARS

- 3 EFFICIENT AND EFFECTIVE OPERATIONS
- 4 EVERY PRODUCT, EVERY DAY
- 5 A WINNING TEAM

MATERIAL ISSUE

FOOD AND OTHER HEALTH AND SAFETY STANDARDS

MORE THAN HALF OF ALL SOUTH AFRICANS SHOP IN OUR STORES AND WE PROVIDE THEM WITH SAFE, HIGH QUALITY FOOD AND A SAFE AND SECURE SHOPPING EXPERIENCE.

MATERIAL RISKS

- We stock or prepare unsafe food or other grocery products which causes harm to customers
- Our suppliers or franchisees do not adhere to our overall minimum health and safety standards
- Safety standards are not followed in-store putting our customers or staff at risk of injury or ill-health

OPPORTUNITIES AND RISK MANAGEMENT

- All suppliers are subject to an audit of their food safety standards by a third-party auditor
- Non-compliance with food safety standards results in termination of supply agreements until compliance is restored
- All stores undergo stringent food safety audits on a regular basis
- Formal product recall standards in place
- Formal health and safety regulations in place throughout our stores and support offices, with strong awareness and compliance
- Franchise agreements regulate minimum safety requirements

CAPITALS

- SOCIAL AND RELATIONSHIP CAPITAL
- INTELLECTUAL CAPITAL
- FINANCIAL CAPITAL
- MANUFACTURED CAPITAL

STAKEHOLDERS

- CUSTOMERS
- SUPPLIERS
- FRANCHISEES
- SHAREHOLDERS

STRATEGIC BUSINESS ACCELERATION PILLARS

- 1 BETTER FOR CUSTOMERS
- 4 EVERY PRODUCT, EVERY DAY
- 5 A WINNING TEAM

MATERIAL ISSUE

EXECUTION OF STRATEGY AND LONG-TERM SUSTAINABLE EARNINGS GROWTH

THE GROUP IMPLEMENTED ITS STRATEGIC LONG-TERM RECOVERY PLAN IN 2014, TO RETURN THE BUSINESS TO LONG-TERM PROFIT GROWTH, WITH A STRONGER AND SUSTAINABLE PROFIT MARGINS.

MATERIAL RISKS

- Poor or non-execution of strategy by the Group Executive and leadership team that impacts sales growth, operating margins or long-term earnings performance

OPPORTUNITIES AND RISK MANAGEMENT

- The strategy has been in place for over three years, has been clearly communicated and is well understood
- The strategic business acceleration pillars place executive focus on the Group's material growth opportunities, while considering material risks
- Dedicated teams are accountable for delivering the key elements of each strategic pillar and are measured against key performance indicators

CAPITALS

- HUMAN CAPITAL
- FINANCIAL CAPITAL
- MANUFACTURED CAPITAL
- INTELLECTUAL CAPITAL

STAKEHOLDERS

- EMPLOYEES
- SHAREHOLDERS
- FRANCHISEES
- COMMUNITY

STRATEGIC BUSINESS ACCELERATION PILLARS

- 1 BETTER FOR CUSTOMERS
- 2 A FLEXIBLE AND WINNING ESTATE
- 3 EFFICIENT AND EFFECTIVE OPERATIONS
- 4 EVERY PRODUCT, EVERY DAY
- 5 A WINNING TEAM
- 6 BOXER – A NATIONAL BRAND
- 7 REST OF AFRICA – SECOND ENGINE OF GROWTH

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

MATERIAL ISSUE — EFFECTIVENESS OF INFORMATION SYSTEMS AND TECHNOLOGY

THE GROUP IS RELIANT ON ENTERPRISE-WIDE INFORMATION TECHNOLOGY WHICH SUPPORTS AND FACILITATES CRITICAL FUNCTIONS ACROSS ITS OPERATIONS, INCLUDING POINT-OF-SALE TRANSACTIONS, PRODUCT FORECAST AND REPLENISHMENT, LABOUR SCHEDULING, SMART SHOPPER AND BRAND MATCH SYSTEMS AND REAL-TIME FINANCIAL REPORTING.

MATERIAL RISKS

- Any system disruption which could impact our ability to serve our customers and run our business efficiently and effectively
- The ability of IT systems to support growth and innovation
- Cyber-attacks and the impact on the security of confidential information of the Group and/or our customers
- The accuracy and timeliness of information for decision-making purpose

OPPORTUNITIES AND RISK MANAGEMENT

- The Group has a specialist team that is dedicated to building, maintaining and protecting its IT infrastructure, which follows best practice in development, maintenance, cyber security and recovery
- Ongoing innovation has:
  - driven growth of value-added services at point of sale
  - facilitated Brand Match price checks
  - created an engaged and personalised Smart Shopper loyalty programme
- The team is focused on customer-centric, forward thinking, mobile technology, to drive convenience and customer service

CAPITALS

- FINANCIAL CAPITAL
- MANUFACTURED CAPITAL
- INTELLECTUAL CAPITAL
- HUMAN CAPITAL

STAKEHOLDERS

- CUSTOMERS
- EMPLOYEES
- SHAREHOLDERS

STRATEGIC BUSINESS ACCELERATION PILLARS

- 1 BETTER FOR CUSTOMERS
- 3 EFFICIENT AND EFFECTIVE OPERATIONS

MATERIAL ISSUE — BUILDING AND RETAINING A TALENTED AND DIVERSE RETAIL TEAM

ONE OF THE KEY DRIVERS BEHIND THE GROUP'S LONG-TERM STRATEGIC TURNAROUND PLAN WILL BE THE AMBITION AND PERFORMANCE OF ITS TEAM. THE SUCCESS OF PICK N PAY IS ALSO PREDICATED ON THE GROWTH OF SOUTH AFRICA AND ITS ABILITY TO PROVIDE JOB CREATION FOR ALL. PICK N PAY IS DETERMINED THAT ITS TEAM WILL REFLECT THE DIVERSE COMMUNITIES THAT WE SERVE, AND WE WILL PROVIDE OPPORTUNITY FOR ALL THAT SEEK A CAREER IN RETAIL.

MATERIAL RISKS

- Inability to attract or retain talent and ensure succession
- Lack of skills development and training
- Lack of diversity or opportunity for all
- Increasing cost of labour without a commensurate increase in return
- Labour strikes/stoppages that affect the operation of our business

OPPORTUNITIES AND RISK MANAGEMENT

- Remuneration philosophy and principles provide strong commitment to career advancement, training and incentivisation
- Business-wide performance management system to drive a high performance culture and to recognise and reward performance
- Remuneration bench-marked across the industry
- Recognition in 2016, by South Africa's Department of Labour, as the overall winner in the private sector for transformation in the workplace – an ongoing strategic imperative for the Group
- Open and constructive relationships with labour unions and formal processes to proactively manage critical issues

CAPITALS

- FINANCIAL CAPITAL
- HUMAN CAPITAL

STAKEHOLDERS

- EMPLOYEES
- SHAREHOLDERS
- COMMUNITY

STRATEGIC BUSINESS ACCELERATION PILLAR

- 5 A WINNING TEAM

MATERIAL ISSUE

VOLATILITY OF GROUP'S REST OF AFRICA DIVISION

THE GROUP IS BUILDING ITS OPERATIONS OUTSIDE SOUTH AFRICA AND SEES THIS DIVERSIFICATION AS A SECOND ENGINE OF GROWTH. IT OPERATES IN SIX COUNTRIES OUTSIDE SOUTH AFRICA, AND HAS PLANS TO OPEN INTO TWO MORE.

MATERIAL RISKS

- The Group faces different political, economic, social, regulatory and other operational risks, in each country in which it operates – which has led to increased volatility in the result of the Rest of Africa division
- A lack of understanding of local markets can negatively impact on the sustainable returns from these countries

OPPORTUNITIES AND RISK MANAGEMENT

- Growth outside South Africa is managed in a planned and deliberate manner – without placing the core South African business at any undue risk
- The ownership or investment model is tailored to best suit the operating environment and wherever possible, includes collaboration with experienced, local partners, who share our values and our commitment to strong corporate governance
- We look for growing markets that provide opportunity for real scale, in a business environment that is well regulated, without too much complexity, and that is welcoming to foreign investment
- We have a dedicated "Rest of Africa" team

CAPITALS

- FINANCIAL CAPITAL
- MANUFACTURED CAPITAL
- SOCIAL AND RELATIONSHIP CAPITAL
- HUMAN CAPITAL

STAKEHOLDERS

- EMPLOYEES
- SHAREHOLDERS
- COMMUNITY

STRATEGIC BUSINESS ACCELERATION PILLARS

- 5 A WINNING TEAM
- 7 REST OF AFRICA – SECOND ENGINE OF GROWTH

A MESSAGE FROM OUR CHAIRMAN

During my seven-year tenure as chairman, I have had the pleasure of watching our company set itself on a course of rejuvenation, bedding down the foundation and firmly moving on a growth trajectory.

Gareth Ackerman
Chairman

This year is an important one for Pick n Pay as we celebrate our 50th anniversary. 1967 was not a propitious year in which to start a retail business in South Africa, and building a business in this environment took enormous guts and determination.

Raymond and Wendy Ackerman's 50-year partnership with South African customers and their commitment to South African society has enabled Pick n Pay to become South Africa's best-loved food retailer.

Half a century ago, we could never have imagined the supermarket of today, the sheer pace of change, the demands of today's consumers and the role of disruptive technology. Despite the massive evolution in world retail, one thing that has not and will not change is our commitment to the core values of consumer sovereignty, business efficiency, and doing good in our communities.

Our future, as with our past, lies largely in our own hands. Our commitment to our people and to South Africa means we will resist the temptation to be distracted by political upheaval or short-term economic challenges. We have always and will continue to take the longer term view: on our country, our economy and our business.

This is why we have invested R6 billion in new and refurbished stores over the past four years. It's why we've created over 10 000 new jobs, bringing our staff complement to over 80 000 and making us one of the largest employers in South Africa.

It's also why we're celebrating the increasing number of women into decision-making roles, from the Board to store management. It's why we are working to transfer skills to spaza shop owners, by building their businesses alongside them and making their enterprises more profitable and sustainable. It's why we keep growing the number of smaller, ambitious and innovative suppliers into our supply chain. And it's why we keep investing in South African communities.

In short, we're getting on with the job of bringing quality and value to our customers, and employment and prosperity to our communities.

But for us and others to grow, we need certainty. We need genuine, open engagement. And we need a joint and honest commitment to making South Africa the economic success her people deserve to have.

That certainty lies in policy-making. For those of us trading beyond South Africa's borders, we need policy certainty and co-operation on cross-border trade. For companies relying on the road network to get their goods to market, we need certainty and proper debate about a draft Transport Bill that's been in process for over two years now. We need transparency on policy which directly affects manufacturers, retailers and consumers, such as the sugar tax, which allowed for virtually no consultation prior to implementation.

And we need government departments to talk to each other to avoid the negative ripple effect of legislation with unintended consequences we can ill afford.

As I write, public representations are being made in respect of the Competition Commission's enquiry into the retail sector, focusing particularly on the impact of formal retail on townships and the informal economy. The conventional wisdom has it that as competition intensifies, informal traders find it harder to compete.

The first and most important point to make, one that those of us on the ground know well, is that it is possible for large and small retailers to co-exist. We offer different things to consumers. The Pick n Pay franchise model has long been a very effective route for emerging entrepreneurs to create and build their own businesses, leveraging the buying, supply chain, systems and other benefits of a partnership with Pick n Pay. We have now converted six spaza shops to franchise stores, working with the Gauteng government. Based on the successes already achieved, we believe this could be another promising route through which small and in some cases marginal traders can retain ownership of their stores but become fully-fledged sustainable entrepreneurs, trading alongside bigger retail stores.

Secondly, we must avoid the temptation to be myopic, and thus we must also focus on the interests of families as well as traders. If a new supermarket opens in an area which previously lacked formal retail, the result is that families in these communities can now buy safe and affordable food at lower prices without incurring high transport costs to get to their store of choice. Jobs are created in stores, and our investment encourages others to invest therefore creating more local jobs. This is a win, not a loss, for the communities concerned.

More broadly, our growing business encourages and enables new suppliers to emerge and grow with us. A new location presents opportunities to supply goods not usually found in other stores, and which are particular to the geography in which they are located. Through our supplier development programmes, we set out to find new products and new ideas. We nurture them through our commercial teams. When they are big enough, our national supply chain gives them a route to market which would not be available without us.

South Africa has never been an easy place to do business. In looking to our future, we need to work hard, together, to transform our economy. We need to remove obstacles to trade. We need to avoid legislation which while well-intentioned, effectively blocks progress and disadvantages our citizens. We need to make every effort to unlock the potential of our people. And we need to grasp the future, mindful of the challenges created by our past. Business must redouble its work in partnership with stakeholders – including government – to achieve the societal goals we are seeking.

During my seven-year tenure as chairman, I have had the pleasure of watching our Group set itself on a course of rejuvenation, bedding down the foundation and firmly moving on a growth trajectory. The path has not always been easy but our direction has been clear. We are now a more centralised business, a more efficient business, with a better customer offer and more innovation. We have improved our offer, modernised our stores, centralised our supply chain, and controlled our costs, delivering consistently better returns for shareholders as well as a better shopping trip for customers. The journey is not complete, but an enormous amount has been achieved under the leadership of Richard Brasher and the executive team. They have my sincere thanks and appreciation.

The Group took a significant step forward in its modernisation this year, with the elimination of its pyramid control structure and the unbundling of Pick n Pay Holdings Limited RF Group. The simplified Group structure is more cost effective to administer and has substantially increased our free float of shares. The Group thanks its shareholders for their valued engagement over the course of the unbundling process and their overwhelming support of the transaction.

In difficult times, Pick n Pay can do no better than draw on the strong roots which my father laid down for our company half a century ago. Consumer sovereignty demands that we help customers more in tough times and we have accelerated our plan to do so. Improving efficiency in our business means we create the space to lower prices and deliver better value. Doing good is good business is a maxim that has never been more important than now.

I am excited by the progress we are making and by our determination to do more for our future.

Gareth Ackerman
Chairman

23 June 2017

STRATEGIC FOCUS

Pick n Pay's strategic plan

The Pick n Pay Group developed its strategic turnaround plan in 2014. Its objective is to restore the business to a position of long-term sustainable growth. In promulgating the plan, the Group explained that a sustainable recovery would need to be achieved in a planned, considered and balanced way over a number of years, avoiding short-term actions which might weaken the business in the longer term.

The strategic focus of the business is to:

GROW SALES IN LINE WITH, OR AHEAD OF THE MARKET, BY PROVIDING GREAT VALUE, SERVICE AND INNOVATION FOR CUSTOMERS:

Focus here is on delivering a first-class fresh, convenience and grocery offer, which gives customers unbeatable prices, value and service. The business is also developing a strong multi-platform and multi-channel retail offer, including standalone clothing and liquor stores and a burgeoning online business. In addition, the Group aims to continue to build its Boxer business into a thriving national limited-range discount format, and to continue to grow sales outside South Africa in a planned and prudent way.

ACHIEVE HIGH LEVELS OF OPERATING EFFICIENCY AND LOWER COSTS TO ENABLE MAXIMUM REINVESTMENT IN THE CUSTOMER OFFER:

Focus here is on completing the centralisation of the Group's supply chain and other services, reducing the cost and improving the accuracy and responsiveness of distribution. The Group also aims to improve the efficiency and cost-effectiveness of its employee costs, both in stores and in its head office structures, while minimising increases in rentals, rates, electricity, water and other charges.

RESTORE THE UNDERLYING PROFIT MARGIN TO A HISTORICALLY SUSTAINABLE LEVEL:

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

STAGE 1 STABILISE THE BUSINESS

The first stage of the plan saw the Group focused on stabilising its operations. The objective was to provide the Group with a stronger and more secure foundation from which to launch an accelerated recovery. By the end of 2015 the Group had achieved the following:

- a strengthened management team
- strict control over capital and operating spend
- tighter working capital management
- a clear plan on centralisation
- new customer innovation, including the introduction of the Brand Match programme
- the closure of unprofitable stores
- the development of a leaner and more efficient operating model

The successful execution of Stage 1, with improvements in operating efficiency and financial discipline to continue, provided the Group with a solid foundation from which to grow. By 2016, the Group was well positioned for the second stage of its plan – changing the growth trajectory of Pick n Pay.

STAGE 2 CHANGE THE **TRAJECTORY**

Stage 2 is organised around seven business acceleration pillars. These pillars represent the seven material growth opportunities for the Group to create value over the short, medium and long term. The pillars consider the material needs and concerns of our stakeholders, as well as the risks facing the business, and are underpinned by our commitment to always do good in the communities we serve.

The pillars provide the senior management team with clear priorities, objectives and lines of accountability. Since 2015, the Group has consistently communicated its financial and operational performance against these pillars, providing stakeholders with a consistent and transparent score-card of progress.

BUSINESS ACCELERATION PILLARS	THE OPPORTUNITY TO CREATE VALUE
1 BETTER FOR CUSTOMERS	LOW PRICES AND EFFECTIVE PROMOTIONS, QUALITY FRESH PRODUCE AND MEAT, COMPELLING RANGES, CONSISTENT AVAILABILITY, GREAT CUSTOMER SERVICE AND INNOVATION THROUGHOUT THE OFFER
2 A FLEXIBLE AND WINNING ESTATE	STRONG NEW SPACE AND REFURBISHMENT PROGRAMME, LEVERAGING AN IMPROVED OPERATING MODEL TO IMPROVE SPACE, RANGE AND AVAILABILITY AT LOWER COST. GREATER FLEXIBILITY IN THE SIZE, FORMAT AND LOCATION OF STORES TO TAKE ADVANTAGE OF CUSTOMER CHANGES, INCLUDING THE GROWING DEMAND FOR CONVENIENCE
3 EFFICIENT AND EFFECTIVE OPERATIONS	UNLOCK SAVINGS IN OPERATING COSTS AND EFFICIENCIES IN STORES AND HEAD OFFICE FUNCTIONS, ENSURING THAT ALL COSTS ARE DEVOTED TO IMPROVING VALUE AND SERVICE FOR CUSTOMERS
4 EVERY PRODUCT, EVERY DAY	EFFICIENT, COST-EFFECTIVE AND RELIABLE SUPPLY CHAIN – WITH A GOAL THAT EVERY PRODUCT SHOULD BE DELIVERED EVERY DAY TO STORES
5 A WINNING TEAM	THE RIGHT SKILLS AND THE RIGHT PEOPLE THROUGHOUT THE ORGANISATION
6 BOXER – A NATIONAL BRAND	A NATIONAL BRAND SECURING VALUE LEADERSHIP AS SOUTH AFRICA'S BEST LIMITED RANGE DISCOUNTER
7 REST OF AFRICA – SECOND ENGINE OF GROWTH	EXTENDING OUR CUSTOMER OFFER TO MARKETS OUTSIDE SOUTH AFRICA

STRATEGIC FOCUS continued

1 Business acceleration pillar: Better for customers

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

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED
BETTER PRICES AND PROMOTIONS	• Food selling price inflation kept to 6.1% against CPI food inflation of 11.0% • Stronger promotions, including through bulk buys and combination offers • Everyday low prices on staple commodities, particularly in our Boxer business
BETTER ON-SHELF AVAILABILITY	• On-shelf availability consistently maintained at 96% over the year
STRONGER SMART SHOPPER LOYALTY PROGRAMME	• More instant savings and an expanded partner programme • Enhanced technology – Smart Shopper platform and app supports weekly personalised discounts • Recognised as South Africa's favourite loyalty programme for the fifth year in a row
IMPROVED FRESH PRODUCE OFFER	• Expanded fresh and convenience range • More space dedicated to fresh produce in Next Generation stores • Investment in cold chain delivering better freshness and longer shelf-life
EXPANDED PRIVATE LABEL	• New and repackaged private label products reached 1 700 items – contributing to 18% of turnover • Strong growth ahead of the market in a number of categories, including convenience • Ongoing support and development of small suppliers and entrepreneurs
IMPROVED CUSTOMER SERVICE	• 9 000 staff members received customer service specific training • New tills rolled-out across all Next Generation stores to improve check-out experience

2018 STRATEGIC PRIORITIES FOR NEXT YEAR

LOWER EVERYDAY PRICES

- focused on what our customers need most, including meat and fresh produce

EXPANDED PRIVATE LABEL

- providing exceptional value through a stronger 3-tiered 'good, better, best' offer

REFRESHED SMART SHOPPER

- a modern and highly engaged loyalty programme providing weekly personal discounts and greater reward

IMPROVED FRESH PRODUCE OFFER

- better freshness, stronger range, more innovation

IMPROVED CUSTOMER SERVICE

- staff training focused on an efficient and courteous shopping experience for our customers

2 Business acceleration pillar: A flexible and winning estate

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

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED
OPEN MORE PROFITABLE STORES	• 164 new stores • New stores contributed 3.6% to turnover growth • Estate has reached 1 560 stores across all formats, including 750 supermarkets
INCREASE THE REACH OF OUR BRANDS	• The Group brought Pick n Pay and Boxer to 15 communities in South Africa for the first time • Partnered with five new informal Spaza shops in Soweto and Bophelong • Strong growth in smaller clothing and liquor formats
GROW OUR CONVENIENCE OFFER	• 14 new Pick n Pay Local stores and 32 new Pick n Pay Express stores • Our convenience estate now numbers 168 neighbourhood supermarkets
OPEN MORE FRANCHISE STORES	• 70 new franchise stores added over the year • Consistent growth in issues to franchisees, driven by a stronger buying and distribution channel
IMPROVE THE QUALITY OF OUR EXISTING ESTATE	• R1.9 billion invested in new stores and refurbishments • 62 refurbishments, including 28 Pick n Pay and 16 Boxer supermarkets • Closed 14 under-performing stores • Next Generation format now across 106 stores – almost 20% of our supermarket estate
INCREASED INVESTMENT IN OUR ONLINE BUSINESS	• Opened second dedicated online warehouse in Gauteng • Online sales in the Western Cape up 30%, driven by a broader range, improved availability and lower prices
IMPROVE THE PROFITABILITY OF HYPERMARKETS	• Improved trade and profit performance from refurbished Hypermarkets – including Brackenfell and Boksburg

2018 STRATEGIC PRIORITIES FOR NEXT YEAR

SUSTAINABLE GROWTH

- continue to bring Pick n Pay and Boxer stores to new communities, whether on a company-owned or franchise basis

MORE CONVENIENCE

- meet our customers' growing need for convenience through the expansion of our Local and Express formats

MORE NEXT GENERATION STORES

- targeted refurbishments that add real value to customers and deliver stronger turnover growth and return on investment

ENHANCED ONLINE OFFER

- harness benefits of new dedicated online picking warehouse in Gauteng, to ensure customers benefit from a broader range, improved availability and lower prices

INVESTMENT IN OUR HYPERMARKET DIVISION

- a comprehensive Next Generation refurbishment planned for our Durban North Hypermarket in KwaZulu-Natal

3 Business acceleration pillar: Efficient and effective operations

Efficient, well-run and cost-effective store operations is key to delivering an excellent shopping trip for customers. Greater efficiency also unlocks value for further investment in the customer offer. The Group's specialist Retail Office is tasked with defining and implementing a more effective operating model across all store formats. The Group demonstrated strong cost control and improved operational efficiency in 2017, with like-for-like expense growth of only 3.0% in an inflationary environment. The Group's Next Generation stores, and specifically our smaller convenience formats, have demonstrated an ability to operate a more efficient store on a leaner cost base. The Group is also focused on providing more cost-effective and productive support offices, centralising support services to eliminate any inefficiencies and duplication of effort.

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED
LESS COST, MORE EFFICIENCY	• Like-for-like expense growth of 3.0%, contained below like-for-like turnover growth of 3.4% • Growth in like-for-like employee costs restricted to 3.3% supported by more efficient store operating model and improved labour scheduling • Energy-saving initiatives contributed to well managed electricity costs
IMPROVED BACK-DOOR PRODUCTIVITY	• Next Generation stores have less back-up areas and more trading space • Volumes distributed to stores out of Group distribution centres up 20% year-on-year • Integrated warehouse management system improving service to stores and the administration of back-door receiving
IMPROVED STOCK REPLENISHMENT	• Stronger forecast and replenishment systems, Wi-Fi in store and mobile stock management app all contributing to improved replenishment and on-shelf availability
STRONGER WORKING CAPITAL MANAGEMENT	• Franchise debtors book well managed • Accounts payable well managed, with payment terms in line with last year • Pick n Pay's "Fast Pay" supplier finance system implemented – allowing early settlement at competitive funding rates • Inventory targets were not met – greater levels of centralisation, new stores and investment buys at year-end increased the number of days stock-on-hand

2018 STRATEGIC PRIORITIES FOR NEXT YEAR

LEANER OPERATING MODEL ACROSS STORES
- minimum operating standards rolled out across all store formats

COST-EFFECTIVE SUPPORT OFFICES
- more centralisation of administrative functions to improve efficiencies

MORE SYNERGIES WITH BOXER
- unlock synergies with Boxer wherever appropriate to provide cost-effective support across the Group and reduce duplication of effort

STRONGER WORKING CAPITAL MANAGEMENT
- with a specific focus on reducing inventory levels across the business

BETTER FRONT-LINE SERVICE
- supported by improvements in in-store technology and the roll-out of modern tills

4 Business acceleration pillar: Every product, every day

The Group has made substantive progress in developing an efficient and fully centralised procurement and distribution channel. The Group's centralisation strategy has significantly improved on-shelf availability, and is driving cost savings and efficiency across the business. The volume of centralised supply in the business now stands at 60%, with our distribution centres across the country delivering every product, every day to stores across the country, on a short order lead time.

<table>
<tr><th>2017
WHAT WE SAID
WE WOULD DO</th><th>2017
WHAT WE
ACCOMPLISHED</th><th>2018
STRATEGIC PRIORITIES
FOR NEXT YEAR</th></tr>
<tr><td>MORE SUPPLIERS CENTRALISED</td><td>• 140 new suppliers, including eight suppliers from our supplier development and business incubator initiatives
• Central supply increased to 60% from 56% last year
• Grocery centralisation reached 87% and 68% in the Western Cape and Inland regions respectively</td><td rowspan="5">MORE SUPPLIERS CENTRALISED
• wherever it is more cost effective and efficient than direct to store deliveries from suppliers

LOWER COST
• we will continue to lower the cost of our distribution channel through improved operating efficiencies in order to enable investment in the customer offer

BETTER AVAILABILITY IN STORES
• remains a strategic imperative to ensure our customers will always find what they need on our shelves

NEW DISTRIBUTION CENTRE CAPABILITY
• we are exploring opportunities to build our grocery and fresh distribution capability in the Inland and Eastern Cape regions, including through a new Boxer distribution centre outside East London</td></tr>
<tr><td>INCREASED PRODUCTIVITY</td><td>• Single warehouse management system rolled out across all distribution centres (SAP EWM), improving efficiencies across channel
• Volumes distributed to stores out of Pick n Pay distribution centres up 20% year-on-year
• Ongoing reduction in cost per case delivered, contributing to improved gross margin</td></tr>
<tr><td>FOCUS ON FRESH SUPPLY CHAIN</td><td>• Opened our new fresh distribution centre at our Philippi facility in the Western Cape
• Completed the centralisation of the main dairy suppliers in KwaZulu-Natal
• The Philippi and Longmeadow distribution centres delivered a reduction in waste across all fresh categories, alongside ongoing improvements at store level</td></tr>
<tr><td>FEWER DELIVERIES, LESS KILOMETRES TRAVELLED</td><td>• Fewer direct to store deliveries
• Ongoing optimisation of distribution logistics, including route efficiency</td></tr>
<tr><td>NEW DISTRIBUTION CENTRE CAPABILITY</td><td>• Secured additional Pick n Pay distribution capacity in KwaZulu-Natal, with the site planned to open during the 2018 financial period</td></tr>
</table>

STRATEGIC FOCUS continued

5 Business acceleration pillar: A winning team

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

<table>
<tr><th>2017
WHAT WE SAID WE WOULD DO</th><th>2017
WHAT WE ACCOMPLISHED</th><th>2018
STRATEGIC PRIORITIES FOR NEXT YEAR</th></tr>
<tr><td>MORE JOBS</td><td>• We created 4 500 new jobs this year through our store opening programme
• We secured a three-year wage agreement with labour partners, providing job certainty and a guarantee of 85 working hours per month for employees</td><td rowspan="4">LEANER AND FITTER HEAD OFFICE
• reduce the cost and improve the productivity and efficiency of all support services; providing a stronger support base for our stores and our customers

FOCUS TRAINING ON CUSTOMER SERVICE
• to ensure that we give our customers consistently good service in our stores and keep the customer at the very centre of all that we do

DRIVE AND REWARD EXCEPTIONAL PERFORMANCE
• developing performance management and reward programmes aimed at building a strong, tenacious and ambitious team that is recognised for delivery of strategy</td></tr>
<tr><td>MORE TRAINING</td><td>• Over 800 training courses reached more than 50% of our staff
• 66 new graduates on our graduate training programme
• Enhanced performance management programme to identify training needs and monitor performance
• CA(SA) training programme now has five articled clerks</td></tr>
<tr><td>FOCUS ON CUSTOMER SERVICE</td><td>• Over 9 000 staff members received training aimed specifically at improved customer service
• Standard store operating procedures includes management and staff structures that are focused on customer service, particularly at the front line</td></tr>
<tr><td>DIVERSE WORKFORCE</td><td>• Ongoing progress in achieving broad-based diversity across the organisation – with skills training, appointments and promotions focused on achieving diversity targets</td></tr>
</table>

Business acceleration pillar: 6 Boxer – a national brand

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

2017 WHAT WE SAID WE WOULD DO	2017 WHAT WE ACCOMPLISHED	2018 STRATEGIC PRIORITIES FOR NEXT YEAR
SHARPER PRICES AND PROMOTIONS	• Unbeatable value on basic commodities, including through bulk and combination offers	**FOCUS ON PROVIDING BEST VALUE IN THE MARKET** • low prices are critical for our Boxer customers and we will do everything possible to bring value and support to the communities we serve **MORE STORES SERVING MORE COMMUNITIES** • we will open more stores this year, including building on our presence in the Western Cape **CONTINUED REFURBISHMENT OF EXISTING ESTATE** • we will continue with a strong refurbishment programme to enhance the quality of the Boxer estate **MORE SYNERGIES WITH PICK N PAY** • continued realisation of administration synergies across the Group
ACCELERATED SPACE GROWTH	• 25 new Boxer stores this year across all formats, including 11 supermarkets	
ACCELERATED REFURBISHMENT PROGRAMME	• 16 refurbishments • Successful Next Generation store model rolled out across new and refurbished stores	
IMPROVED DISTRIBUTION CENTRE CAPABILITY	• Greater centralised supply through Cato Ridge distribution centre in KwaZulu-Natal • Plans in place for additional distribution capacity in the Eastern Cape	
STRONG ON FRESH	• Stronger meat, produce, deli and bakery offer, driving turnover growth and a stronger gross margin contribution	
BUILD ON SYNERGIES WITH PICK N PAY	• SAP Finance implementation driving more synergies with Pick n Pay, with improved administrative and reporting capability • Pick n Pay's distribution centre in Philippi serving Boxer's Khayelitsha store in the Western Cape	

7 Business acceleration pillar: Rest of Africa – a second engine of growth

The Group has an established presence in Botswana, Lesotho, Namibia, Swaziland and Zambia and has a 49% investment in our associate, TM Supermarkets, in Zimbabwe. Our foreign operations contributed R4.3 billion of segmental revenue this year, notwithstanding difficult trading conditions, heightened competition and political uncertainty in some of the regions in which we trade. We will continue to look for profitable opportunities to grow our footprint outside South Africa in countries which offer political stability, economic growth, ease of business and the prospect of strategic scale. The Group has plans to open stores in Ghana and Nigeria over the next few years.

<table>
<tr><th>2017
WHAT WE SAID WE WOULD DO</th><th>2017
WHAT WE ACCOMPLISHED</th><th>2018
STRATEGIC PRIORITIES FOR NEXT YEAR</th></tr>
<tr><td>IMPROVE FRESH OFFER IN ALL MARKETS</td><td>• The Group continued to strengthen the quality and breadth of its fresh offer in its operations outside South Africa, with a focus on local produce and closer engagement with local suppliers</td><td rowspan="4">MAINTAIN PROGRESS IN ZIMBABWE
• the Group will continue to invest in improving the quality of its stores and its customer offer, in order to maintain the momentum achieved over the past two years

IMPROVE IN ZAMBIA
• the Group remains confident of the growth opportunity in Zambia, notwithstanding the current tough economic and political conditions, and will continue to open stores and drive growth through a competitive customer offer

DEVELOPING OUR BUSINESSES IN GHANA AND NIGERIA
• our Rest of Africa division will continue with its plans to open stores in these countries over the next few years</td></tr>
<tr><td>MORE EFFICIENT OPERATIONS</td><td>• Stronger operational efficiency and sound cost control in our Zambian operation tempered the impact of the tough trading environment on sales growth
• Ongoing collaboration with Pick n Pay has improved the operational efficiency and cost effectiveness of the TM business in Zimbabwe, which delivered strong profit growth over the year of 75%
• Two under-performing stores closed in Zimbabwe</td></tr>
<tr><td>MORE STORES IN THE REST OF AFRICA</td><td>• 12 new stores outside South Africa – two in Botswana, three in Namibia, six in Zambia and one in Zimbabwe</td></tr>
<tr><td>FIRST STORES IN GHANA AND NIGERIA</td><td>• Our operations in Ghana and Nigeria are in an early start-up phase. There has been no capital expenditure to date, and administrative costs related to the development of local infrastructure and support systems have been well managed
• Depressed economic conditions in both countries have delayed the acquisition and development of sites, with the first store in Ghana likely to open in the 2018 calendar year, with Nigeria to follow thereafter</td></tr>
</table>

Looking ahead

STAGE 3 SUSTAINABLE LONG-TERM GROWTH

The Group's turnaround plan has essentially been about returning the Group to its roots as a discounter and consumer champion. Over the past four years, the Group has improved its customer offer, modernised its stores, centralised its supply chain, and firmly controlled its costs. The result has been strong profit growth, and an improvement in underlying profit margins. The Group is well advanced on Stage 2 of its plan, with a cost-effective and efficient engine and effective platforms for long-term growth.

Conditions for consumers have become progressively more challenging over the past few years and customers at all levels are demanding consistently lower prices and better value. The Group is determined to succeed in this environment by accelerating the pace of its plan, in particular by reducing its costs further in order to create additional headroom to deliver lower prices and better value for customers.

The Group has not communicated a time-line for the completion of Stage 2. However, the key indicators of completion, and a positioning of the business for Stage 3 – sustainable long-term growth are the following:

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

The progress the Group has delivered over the past four years has put the business in a stronger position to reach Stage 3 of its plan, and it is starting to reflect a number of the attributes detailed above associated with a long-term sustainable business. These include good momentum in centralising its supply chain, improvement in the efficiency and cost-effectiveness of its stores, a clear blueprint for growth through Next Generation stores and a stronger fresh, convenience and private label offer.

The Group has begun to explore and develop additional engines for growth for the final stage of its turnaround plan, which includes expansion plans in Ghana and Nigeria, a strong national Boxer brand, and ongoing investments into the Group's online and value-added services offer.

A strong and growing Pick n Pay is important for South Africa and the communities we serve across our borders. Our capital investment programme has injected over R6 billion into our local economies over the last four years, and we have created over 10 000 jobs over the same period through our store opening programme. We remain committed to enterprise development and in giving many more small and medium-sized businesses access to a national retail platform through our stores – including through the growth of our private label range.

We opened stores in 15 new communities for Pick n Pay and Boxer this year, bringing access to safe, reliable and affordable food in previously under-served communities, while providing new employees with reliable income, healthcare and other benefits.

Our values of consumer sovereignty, business efficiency and doing good is good business have endured and continue to guide our progress, and as we grow, so will our contribution to society.

REFLECTING ON THE HIGHLIGHTS OF 2017

HEPS ↑ 18%

with compound annual growth in earnings of 24% over the past four years

Trading profit margin improved from 2.1% to 2.3%

Total dividend of 176.30 cents per share, ↑ 18%

with compound annual growth in dividends of 20% over the past four years

164 new stores

Our estate now totals 1 560 stores across all formats of Pick n Pay, Boxer and TM Supermarkets

More than 50 new convenience stores

bringing Pick n Pay closer to the communities we serve

62 refurbishments

with more than 100 supermarkets now reflecting our Next Generation format

Private label products contributed 18% of turnover

with more than 1 700 new and redesigned private label products in-store

A growing Pick n Pay online business, with turnover up 30% in the Western Cape

The Group added a new dedicated online distribution centre in Johannesburg following the success of its Western Cape facility

Selling price inflation kept to 6.1% for the year, against published CPI food inflation of 11.0%

New Fresh Distribution Centre opened in the Western Cape

delivering 350 000 cases of fresh produce every week, and serving over 120 stores

REFLECTING ON THE HIGHLIGHTS OF 2017
continued

Smart Shopper recognised as South Africa's favourite loyalty programme for the 5th year in a row

R1.3 million raised for breast cancer awareness and testing

through our women's walks in aid of PinkDrive

Our Founder and Consumer Champion Raymond Ackerman recognised as a Global Leader and awarded with an Honorary Doctorate from Rutgers University – Camden

Pick n Pay School Club supported over 3 000 schools, and more than 5 million learners, educators and parents with valuable curriculum-aligned educational material

Modernised and simplified our Group structure

with the unbundling of Pick n Pay Holdings Limited RF Group

Pick n Pay recognised as a World leading retailer in the Carbon Disclosure Project achieving an A rating

5 new Spaza-to-Store conversions in Soweto and Bophelong, outside Johannesburg

with Pick n Pay playing a positive role in growing the informal retail market in South Africa

Pick n Pay's Kids in Parks took more than 5 000 children into National Parks to teach them about our environment

5.8 million meals donated to people in need

through Pick n Pay's donations to FoodForward SA (Food Bank)

48% of Pick n Pay's waste diverted from landfill

with 19 200 tonnes of waste recycled

A MESSAGE FROM OUR CEO

Customers have been at the core of our business since its establishment by Raymond Ackerman in 1967. I have made it clear from the outset of my tenure as CEO that our recovery can only be successful and sustainable if it is customer-led as well as cost-driven.

Richard Brasher
Chief Executive Officer

We have made good progress over the past year, despite a challenging environment for consumers and for business. We have recorded eight consecutive reporting periods of turnover and profit growth. Our business is stronger and more resilient than it was four years ago, and we are on track with our long-term plan.

We have stated clearly and consistently that our plan is in three stages. Having achieved stage one, stabilising the Group, we are well embarked on the second stage, which is to change the trajectory of the business. Our strategic objectives in this second stage are organised around seven business acceleration pillars, and I wish briefly to report on our progress in these key areas.

Customers have been at the core of our business since its establishment by Raymond Ackerman in 1967. I have made it clear from the outset of my tenure as CEO that our recovery can only be successful and sustainable if it is customer-led as well as cost-driven. Over the past year, sales grew at 7.0%. This reflected a very tough trading environment in which consumers were buffeted as real incomes lagged the steep rise in food inflation and other costs. It also reflected the disruptive impact of store refurbishments as we improve and modernise our estate.

Despite these impacts, our business is getting better for customers. By running a better business, we were able to restrict selling price inflation within our business to 6.1%, compared with food CPI at 11.0%. We have also improved the range, quality and value of our fresh offer. Our private label products are a growing part of our offer and we have launched over 1 700 new and repackaged products over the past two years. In this time, private label participation has increased from 15% to 18% of turnover. Our focus on growing private label will pay even greater dividends as customers seek ever-greater value and convenience.

We have continued to improve the quality of our stores, with 62 refurbishments and 150 net new stores over the past year. Our Next Generation store format is proving very popular with customers, and now accounts for almost one-fifth of our South African supermarket estate. Our new space development is also focused on the future, and in particular on growing our convenience formats outside traditional shopping malls. We have quadrupled our number of convenience stores over the past four years, both through our PnP Express collaboration with BP and our Local convenience format.

We have made notable progress over the past four years in developing and implementing a lower-cost operating model. This was exemplified by our ability to restrict the like-for-like increase in our trading expenses to 3% in 2017. Employee costs remains our biggest single operating cost, and we have made substantial progress in improving the productivity, increasing the flexibility and reducing the cost of our store labour.

We concluded a three-year labour agreement which delivers fair wage rates and benefits for our employees while lowering our costs and increasing the competitiveness of our business.

We have made notable progress on centralising our supply chain over the past four years, with the total volume of goods centralised now at 60%. In our key regions of the Western Cape and Inland, grocery centralisation is at 87%

and 68% respectively. A more centralised supply chain delivers numerous benefits including lower costs, more efficient receiving in stores, and better availability for customers. It also complements our work in stores to improve forecasting and replenishment, and on-shelf availability has over the past year been maintained consistently at or above 96%.

In its 40th year, our Boxer business has gone from strength to strength. By offering unbeatable prices, it has grown and served customers exceptionally well in a very tough market. It has developed its own next generation format, with a very strong meat, produce and deli offer. The Boxer offer was extended to more customers with 25 new stores opened through the year, and more planned for this year.

We remain committed to developing our business in the rest of Africa as an engine for future growth. We opened 12 stores outside South Africa in the past year, and now operate 140 stores in six countries outside our home market. Our Zambia business was resilient in the face of tough economic conditions, responding with strong financial discipline and cost control. TM Supermarkets in Zimbabwe, in which we hold a 49% stake, performed very well despite a tough market, and is benefiting from the refurbishment and rebranding of more stores under the Pick n Pay brand. We remain on course to open stores in Ghana and Nigeria over the next two years.

The progress we've made in all of the above areas depends upon the hard-work and dedication of colleagues across the business, as well as our valued franchisees, suppliers and other partners. I want to thank each and every one of them for their continuing contribution to our business, and for helping to serve our customers.

The grocery retail industry is again under the spotlight through a market inquiry led by the Competition Commission. We are playing our part in that inquiry. I am determined that the considerable benefits which retail brings to individuals, communities and the economy are fully reflected in the inquiry process. At a time when many sectors are contracting, formal retail continues to grow new jobs. It provides reliable jobs with good prospects for advancement for those prepared to work hard and serve customers well. It is therefore a strong vehicle for social advancement, regardless of background, education, creed or ethnicity. Investment in new stores provides employment and confidence for others to invest and grow or regenerate local economies. Small entrepreneurs find in retailers like Pick n Pay, not only sympathetic partners in growth, but access to regional and national markets through our store network and centralised supply chain.

Modern grocery retail can be a major partner in delivering many of the government's policy objectives and we stand ready to work with all stakeholders in the difficult but essential task of strengthening our society and our economy.

We face a challenging outlook for the economy and the retail sector over the coming year. Economic growth is likely to remain low. Business and consumer confidence is muted. Unemployment remains high. Food price inflation is easing, although the rand remains volatile. An already highly cost-conscious South African consumer is looking for even better prices and value, and is prepared to shop around for them. An operating environment characterised by competition on price and value is the "new normal" in the South African market and is likely to remain so for the foreseeable future.

I am determined that Pick n Pay should be a proactive and successful player in this new normal. As one financial year has drawn to a close, and another has begun, we have taken a number of decisive steps to strengthen our competitiveness:

- We invested R500 million in lowering the prices of 1 300 everyday grocery products in March 2017, with a focus on fresh fruit, vegetables and meat.
- We modernised our Smart Shopper loyalty scheme for customers, introducing instant weekly personalised discounts available either in-store or via our smartphone app. Feedback from customers is positive at a time when shoppers are seeking more immediate help to balance their household budgets.
- We completed Pick n Pay's first business-wide voluntary severance programme in May 2017, reducing the number of roles in various areas of the business where better processes, newer technology and improved organisation mean we can operate more efficiently and more cheaply. Our aim is that the resulting savings in employment costs are reinvested in even better prices and even better value for customers.

I am determined that Pick n Pay should begin its second 50 years with the same drive, determination and optimism that characterised its first 50 years. In difficult times, our customers need our help more than ever, and we will not let them down. We have made a steady and sustained improvement in the way we run our business over the past four years. We are more focused and efficient, and there is more to come in driving greater productivity and delivering better customer service. The shopping trip we offer customers is improving, and our next generation stores are giving our customers confidence in our offer and in the future of Pick n Pay. By delivering a more efficient operation we can invest further in price and value for customers. I am optimistic about the future and believe that – after our first 50 years – the best is yet to come for our customers and for Pick n Pay.

Richard Brasher
Chief Executive Officer

23 June 2017

OUR CFO'S FINANCIAL REVIEW

The Group delivered growth in headline earnings per share of 18.0% for the 2017 financial period, maintaining the positive momentum achieved over each of the past four years.

Bakar Jakoet
Chief Finance Officer

KEY FINANCIAL INDICATORS

	52 weeks to 26 February 2017	52 weeks to 28 February 2016	% change
Turnover	**R77.5 billion**	R72.4 billion	7.0
Gross profit margin	**18.0%**	17.9%	
Trading expenses margin	**17.1%**	17.2%	
Trading profit	**R1 773.8 million**	R1 516.3 million	17.0
Trading profit margin	**2.3%**	2.1%	
Profit before tax (before capital items)	**R1 761.5 million**	R1 506.1 million	17.0
Profit before tax margin (before capital items)	**2.3%**	2.1%	
Basic earnings per share (EPS)	**256.67 cents**	219.11 cents	17.1
Headline earnings per share (HEPS)*	**264.35 cents**	224.04 cents	18.0
Diluted headline earnings per share (DHEPS)*	**257.69 cents**	219.90 cents	17.2
Total annual dividend per share	**176.30 cents**	149.40 cents	18.0

* *Headline earnings per share and diluted headline earnings per share exclude capital items, which accounts for the difference in the year-on-year increase between EPS and HEPS.*

OVERVIEW OF OUR FINANCIAL RESULT

The Group has continued to improve its customer offer, modernise its stores, centralise its supply chain, and maintain a strong grip on its costs. The result has been eight consecutive reporting periods of double-digit profit growth, and an improvement in the trading profit margin to 2.3%.

Conditions for consumers became increasingly more difficult over the year, which is reflected in the turnover growth of 7.0%. The Group's stronger gross profit margin of 18.0% and its lower trading expenses margin, demonstrate the value of the Group's increasingly centralised supply chain and its greater operating efficiency in this low-growth environment.

Profit before tax (before capital items) was up 17.0% year-on-year to R1 761.5 million, more than double the profit of four years ago. The profit before tax margin (before capital items) has improved from 1.2% in 2013 to 2.3% in 2017.

The Group is now well advanced on its journey to restore the business to a sustainable profit margin, with a cost-effective and efficient engine and effective platforms for long-term growth.

MODERNISATION OF PICK N PAY'S CONTROL STRUCTURE

The Group took a significant step forward in its modernisation this year, with the elimination of its pyramid control structure and the unbundling of the Pick n Pay Holdings Limited RF Group. The simplified Group structure is more cost-effective in administration and improves the Group's appeal to investors. The Group thanks its shareholders for their overwhelming support and their valued engagement over the course of the implementation of the transaction.

The unbundling transaction had no impact on trading profit or headline earnings, however, it resulted in a number of material non-recurring movements on certain individual categories of other trading income and trading expenses, as detailed below:

Summary of non-recurring items included in trading profit:

	As reported 52 weeks to 26 February 2017 Rm	Non-recurring items 52 weeks to 26 February 2017 Rm	**Excluding non-recurring items 52 weeks to 26 February 2017 Rm**	% of turnover	% change	As reported 52 weeks to 28 February 2016 Rm	% of turnover
Revenue	**79 117.8**	412.3	**78 705.5**		7.1	73 477.3	
Turnover	**77 486.1**		**77 486.1**		7.0	72 445.1	
Cost of merchandise sold	**(63 549.4)**		**(63 549.4)**			(59 474.8)	
Gross profit	**13 936.7**		**13 936.7**	18.0	7.5	12 970.3	17.9
Other trading income	**1 505.6**	412.3	**1 093.3**	1.4	12.6	971.3	1.3
Dividend *in specie*	**412.3**	412.3	**–**			–	
Franchise fee income	**349.8**		**349.8**	0.5	10.5	316.7	0.4
Operating lease income	**345.3**		**345.3**	0.4	4.9	329.1	0.5
Commissions, dividends received and other income	**398.2**		**398.2**	0.5	22.3	325.5	0.4
Trading expenses	**(13 668.5)**	(412.3)	**(13 256.2)**	17.1	6.7	(12 425.3)	17.2
Employee costs	**(6 619.8)**	(205.8)	**(6 414.0)**	8.3	5.8	(6 060.6)	8.4
Occupancy	**(2 678.9)**		**(2 678.9)**	3.4	14.6	(2 337.6)	3.2
Operations	**(2 961.7)**		**(2 961.7)**	3.8	4.0	(2 848.1)	3.9
Merchandising and administration	**(1 408.1)**	(206.5)	**(1 201.6)**	1.5	1.9	(1 179.0)	1.6
Trading profit	**1 773.8**	–	**1 773.8**	2.3	17.0	1 516.3	2.1

Other trading income – includes a dividend *in specie* of R412.3 million, representing the value of the Pick n Pay Stores Limited shares (now held as treasury shares) received by the Group on the unbundling of Pick n Pay Holdings Limited RF (PWK).

Employee costs – the Group operates an employee share incentive scheme where eligible employees were granted share options in PWK. These share options were cancelled and replaced with Pick n Pay Stores Limited share options, in terms of the shareholder approval received at the extraordinary general meeting held on 25 July 2016.

Employee costs include the share-based payment expense related to the increase in the market value of PWK share options prior to the unbundling, as well as the cancellation and replacement cost of these options.

Merchandising and administration costs – include a net fair value loss of R206.5 million in respect of the Group's investment in Pick n Pay Holdings Limited RF. This fair value movement was as a result of the increased market value of PWK shares prior to the unbundling, and the subsequent write-off of the investment on the receipt of the dividend *in specie* distribution.

The dividend *in specie,* increased share-based payment costs and related fair value adjustments detailed above, had no impact on trading profit or headline earnings.

Losses on capital items – include an impairment loss incurred by a subsidiary company in respect of its investment in Pick n Pay Holdings Limited RF of R13.9 million. The loss is added back for the purposes of calculating headline earnings per share.

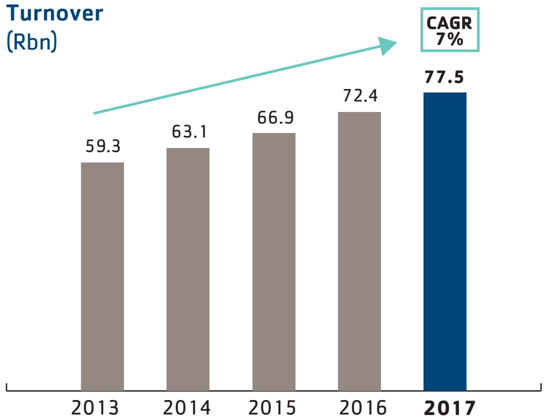
A new class of shares, B shares, was created as a result of the unbundling. Please refer to note 5.2 on page 75 for further information.

REVIEW OF EARNINGS PERFORMANCE

The detailed financial review which follows, excludes the material non-recurring items included in trading profit related to the unbundling transaction.

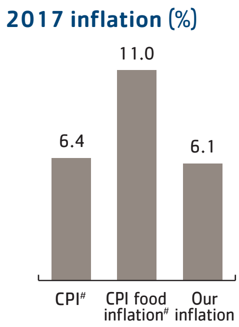
Turnover	52 Weeks to 26 February 2017 Rm	52 Weeks to 28 February 2016 Rm	% change
Group turnover	**77 486.1**	72 445.1	7.0
South Africa division	**74 026.2**	69 300.6	6.8
Rest of Africa division	**3 459.9**	3 144.5	10.0

Group turnover at R77.5 billion, was up 7.0% on last year, with like-for-like turnover growth of 3.4%. On a constant currency basis, Group turnover was up 7.1%, with currency weakness in operations outside South Africa marginally impacting reported turnover growth, particularly in the first half of the year.



The turnover growth of 6.8% in the **South Africa division** reflects the increasingly challenging consumer environment in the region. Throughout the year, customers faced growing pressure on their household budgets, resulting from high food inflation, rising utility and transport costs, and stagnating real incomes. This led to an increasingly stressed consumer, with customers across all income levels demanding consistently lower prices and better value.

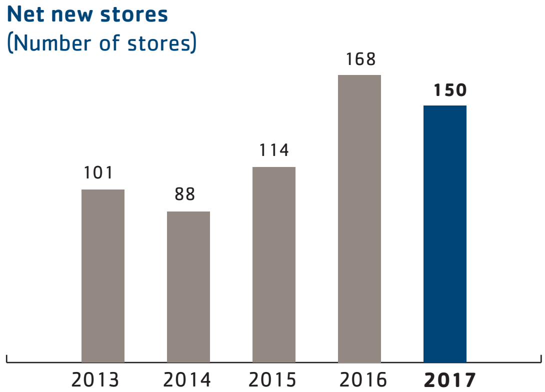
Through better buying and more efficient operations, the Group was able to provide meaningful support for customers, restricting its food selling price inflation to 6.1% for the year, well below published food inflation of 11.0%.



Stats SA

The Group improved the overall quality of its store estate over the year, with the refurbishment of 62 stores and the closure of 12 under-performing stores. The resulting disruption to trade had some negative impact on turnover growth, however, the improvement in the estate is a valuable investment in the future.

The Group's estate grew by 150 stores in 2017, including 35 net new supermarkets.



The Group opened 68 new Pick n Pay company-owned stores and 25 new Boxer stores across all formats over the year, including 14 Pick n Pay Local convenience stores. This growth delivered on the Group's intention to open new stores in communities which it had not previously served, and to respond to the growing demand for convenience. New stores contributed 3.6% to turnover growth.

The Group opened 70 Pick n Pay franchise stores over the period, including 32 Pick n Pay Express stores on BP forecourts. There are now 111 Pick n Pay Express stores, more than double the number of two years ago. Our franchise partners continue to be a key growth opportunity for Pick n Pay and the Group strengthened its support of franchisees during the year by delivering more competitive prices, improving availability and by expanding its administrative and operational support.

The Group improved its customer offer, particularly in fresh produce, by broadening its range, delivering better freshness and longer shelf-life, and by running promotions on staple commodities, including through bulk buys and combination offers. Pick n Pay expanded its private label offer across convenience, perishable and grocery lines. Customers responded positively, and private label contributed 18.0% of total turnover. The Group delivered its best availability in over four years, with on-shelf stock availability consistently maintained at 96% over the year.

Boxer delivered strong turnover growth in a depressed and highly contested area of the market. The Boxer team was able to invest meaningfully in the price of basic commodities, while strengthening its fresh meat, fruit and vegetable offer over the year.

The Pick n Pay clothing business again delivered strong double-digit growth, as customers sought long-lasting quality at great value. The Group's liquor business grew 15%, with solid market share growth across a number of key lines. The Group added 24 clothing stores and 46 liquor stores in 2017.

Online turnover growth remains strong, with more customers turning to the trusted convenience offered by Pick n Pay online. Online turnover in the Western Cape grew 30% year-on-year, driven by the success of the dedicated online picking warehouse situated at the Brackenfell Hypermarket near Cape Town. Following the success of this warehouse, the Group opened a second online warehouse, outside Johannesburg, in December 2016. Online shoppers in Gauteng will benefit from a broader range, improved availability and lower prices.

The **Rest of Africa division** delivered growth in segmental revenue of 7.7%, with a decrease in segmental profit before tax of 0.3%. On a constant currency basis, ignoring the impact of currency movements in the regions in which we operate, total segment revenue was up 8.7%, with like-for-like revenue retraction of 0.4%.

Segment external turnover, excluding the direct deliveries to franchisees through the Group's supply chain, was up 10.0%, driven by new stores in Zambia and Namibia.

In Zambia, the impact of drought and related water and power outages, coupled with the low copper price, continued to dampen economic growth across the region. The team responded to the low growth environment with strong discipline on cost. Notwithstanding current economic headwinds, the Group remains positive of its long-term position and opportunity in the region.

The Group's franchise businesses in Namibia, Botswana, Swaziland and Lesotho continued to trade well. The Group opened its first new supermarket and liquor stores in Botswana in five years, and is looking forward to working with a new franchisee in Swaziland, who has bought six of the 10 Pick n Pay franchise stores in the region, with plans for expansion and a revitalised offer.

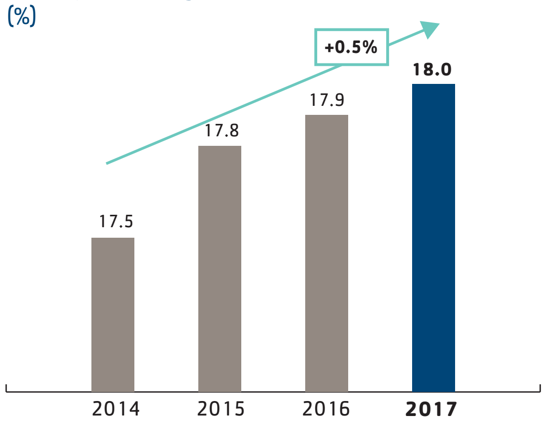
The Group opened 12 new supermarkets outside South Africa during the year, three in Namibia, six in Zambia, one in Zimbabwe and two in Botswana. The Group plans to open its first stores in Ghana and Nigeria over the next two years.

Gross profit

Gross profit at R13.9 billion increased 7.5% on last year. The gross profit margin improved 0.1 percentage point to 18.0% of turnover, with progress across the Group's procurement and supply chain channel.

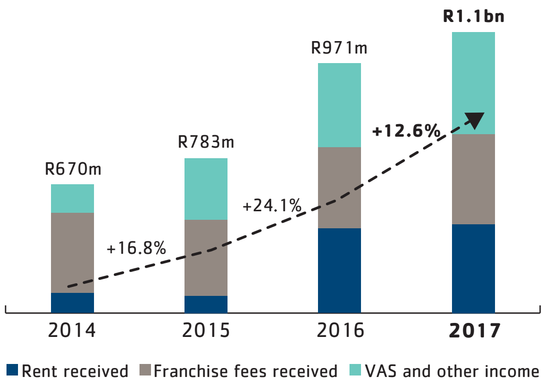
As a greater proportion of goods were brought into its centralised supply chain, the Group improved the efficiency and cost-effectiveness of its distribution centres and lowered the cost per case delivered. The Group also improved its management of shrink and waste through a dedicated management programme and increased security measures.

Gross profit margin
(%)



Boxer in particular delivered a stronger gross profit margin performance, driven by greater participation of its butchery, fresh produce and value-added convenience categories.

Other trading income



Other trading income increased 12.6% to R1 093.3 million.

Franchise fee income is up 10.5% to R349.8 million, reflecting the 65 net new franchise stores opened over the last 12 months and an improved franchise turnover performance.

Operating lease income increased 4.9% to R345.3 million, with a number of non-strategic head leases not renewed this year. Excluding this impact, operating lease income increased 7.4%, in line with annual escalations. The related operating lease expenses are included within occupancy costs.

Commissions, dividends received and other income grew 22.3% to R398.2 million. Our value-added service business is maturing into an important part of our customer offer, with a solid performance across all categories of value-added services, including strong double digit growth in commission income from prepaid electricity, third-party bill payments, ticketing and financial services. The Group launched a new money transfer service in partnership with the Commonwealth Bank of Australia this year. The service has been used by more than 100 000 customers in just five months. The service is integrated with our Smart Shopper loyalty programme, is entirely digitised, and enables customers to execute a money transfer easily and quickly from any Pick n Pay till point.

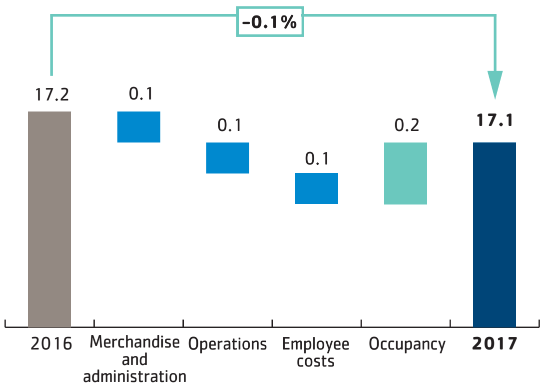
OUR CFO'S FINANCIAL REVIEW continued

Trading expenses

	52 weeks to 26 February 2017 Rm	% of turnover	52 weeks to 28 February 2016 Rm	% of turnover	% change
	13 256.2	**17.1**	12 425.3	17.2	6.7
Employee costs	**6 414.0**	**8.3**	6 060.6	8.4	5.8
Occupancy	**2 678.9**	**3.4**	2 337.6	3.2	14.6
Operations	**2 961.7**	**3.8**	2 848.1	3.9	4.0
Merchandising and administration	**1 201.6**	**1.5**	1 179.0	1.6	1.9

Trading expenses increased 6.7% to R13.3 billion, notwithstanding the addition of a net 86 company-owned stores over the year. This is a commendable performance in an inflationary environment, with like-for-like trading expenses up only 3.0% on the previous year.

Trading expenses as % of turnover
– 2017 change



Employee costs – increased 5.8% on last year to R6 414.0 million, and improved 0.1 percentage points to 8.3% of turnover. The like-for-like increase of 3.3% was supported by a more efficient store operating model and ongoing improvements in labour scheduling.

The Group purchased shares to the value of R345.4 million under its share incentive schemes during the year, and delivered substantial wealth creation for 9 250 employees at all levels, who realised their share awards during the period.

Occupancy costs – are up 14.6% on last year to R2 678.9 million, and up 0.2 percentage points to 3.4% of turnover, driven by new stores. The like-for-like increase in occupancy costs of 7.2% is largely in line with annual escalations, however, this category of expense continues to trend upwards, driven by high regulated increases in rates and increased security costs. Increased security measures have mitigated the cost of shrink and theft in the business.

Operations costs – are up 4.0% on last year to R2 961.7 million, with like-for-like operations costs up 1.5%. The biggest benefits this year came from well managed electricity and repairs and maintenance costs and tightly controlled depreciation and amortisation. Energy-saving initiatives and investment in better refrigeration and lighting has reduced energy usage by 14% over the last five years, contributing to tightly managed energy costs.

Merchandising and administration costs – grew 1.9% on last year to R1 201.6 million. The Group continues to tightly manage the cost of its professional, legal and other support services. This category of expense also includes fair value adjustments related to the Group's forward exchange contracts and foreign exchange differences. The strengthening of the South African rand over the year, saw the Group expense R29.9 million in foreign exchange and related fair value losses, compared to profits of R8.2 million in the prior year.

Trading profit

Trading profit increased by 17.0% to R1 773.8 million. The trading profit margin improved by 0.2 percentage points, from 2.1% to 2.3% of turnover. The stronger gross profit margin, ongoing growth in income from value added-services and resolute cost discipline contributed to the solid increase in trading profit in a challenging trading environment. The Group remains confident of the ongoing opportunity to optimise our cost structure and improve business efficiency.

Net finance costs

	52 weeks to 26 February 2017 Rm	52 weeks to 28 February 2016 Rm	% change
	(92.5)	(56.1)	65.0
Finance income	**126.1**	60.9	107.1
Finance costs	**(218.6)**	(117.0)	86.8

Net finance costs of R92.5 million increased 65.0% on last year, as a result of increased gearing over the year. Net cash balances reflect the Group's ongoing investment in capital and inventory related to its store opening, refurbishment and centralisation programmes, and increased share buy-backs related to its employee share incentive schemes. Higher interest rates payable on overnight borrowings also had an impact on the total net interest bill over the period.

Share of associate's income

The Group's associate in Zimbabwe, TM Supermarkets (TM), delivered a strong performance in a tough macroeconomic environment, characterised by liquidity constraints, rising unemployment and falling consumer confidence. The Group's share of TM's earnings grew 74.7% on last year to R80.2 million, representing growth in local currency terms of 71.8%. The team benefited from increased operational collaboration with Pick n Pay, and strong trade from the rebranded Pick n Pay stores in the region. TM was once again recognised as Retailer of the Year in Zimbabwe by the Confederation of Zimbabwe Retailers. TM Supermarkets now has 56 stores in Zimbabwe, 16 of which trade under the Pick n Pay banner.

Losses on capital items

The Group incurred R46.3 million of capital losses. The losses include a R13.9 million impairment loss incurred by a subsidiary company in respect of its investment in Pick n Pay Holdings Limited RF, as a result of the unbundling transaction. The remaining R32.4 million relates to the impairment and disposal of assets mainly due to the Group's refurbishment programme, compared with R32.6 million in the prior year. Capital items are added back in the calculation of headline earnings.

Profit before tax

Profit before tax is up 16.4% to R1 715.2 million, representing a margin improvement from 2.0% to 2.2%. Profit before tax excluding capital items, is up 17.0%, with the underlying margin improving from 2.1% to 2.3% of turnover. The Group's core South African operations delivered growth in profit before tax (before capital items) of 20.0%, with tough trading conditions in Zambia constraining growth in the Rest of Africa division.

Tax

The effective tax rate of 27.5% is marginally down on the 27.7% of last year, as a result of the Group's increased profitability, with no corresponding change in the level of non-deductible expenditure.

Earnings per share

Basic earnings per share (EPS) – increased 17.1% from 219.11 to 256.67 cents per share.

Headline earnings per share (HEPS) – increased 18.0% from 224.04 to 264.35 cents per share.

The difference between the growth in basic earnings per share and headline earnings per share relates to the effect of losses of a capital nature in the calculation of headline earnings. Capital losses of R37.2 million, net of tax, were taken into account in the calculation of headline earnings in the current period, against R23.3 million in the prior period.

Diluted headline earnings per share (DHEPS) – increased 17.2% from 219.90 to 257.69 cents per share. DHEPS reflects the dilution effect of share options held by participants in the Group's employee share schemes. The dilution increased marginally over the period due to the unbundling of Pick n Pay Holdings Limited RF, with employees that had previously held share options in Pick n Pay Holdings Limited RF (previously dilutive at PWK level) receiving replacement share options in Pick n Pay Stores Limited.

REVIEW OF FINANCIAL POSITION

The increase in the Group's assets reflects its ongoing investment in its turnaround strategy, including investment in its store opening and refurbishment programme, its centralised supply chain and systems infrastructure.

The fair value of financial instruments held by the Group decreased year-on-year, in line with the increase in treasury shares, with the Group's investment in the equity of Pick n Pay Holdings Limited RF being replaced with unbundled treasury shares in Pick n Pay Stores Limited, to the same value.

Working capital

The financial calendar cut-off, in particular the timing of creditor payments over the financial year-end, had a substantial impact on the movement in the Group's reported working capital balances in 2017, against that of 2016. Further information is provided below.

Inventory

Inventory increased 16.4% on last year to R5 994.6 million, impacted by the 151 net new stores (excluding TM Supermarkets) opened over the last 12 months, and increased levels of centralisation in the short-term. Removing the impact of new stores and inflation, inventory is up 5.2% year-on-year. The Group also increased its value of investment buys at year-end, to support customers ahead of supplier price increases. The Group is confident of the opportunity to reduce stock levels in the business through targeted assortment management, keener forecast and replenishment and a stronger promotional calendar. This is a key focus area for the 2018 financial year.

Trade and other receivables

Trade and other receivables increased 3.6% on last year to R3 445.1 million, with 65 net new franchise stores added over the year. Franchise debt remains well controlled, with the impairment allowance at 3.5% of the value of the debtors book in line with last year.

Trade and other payables

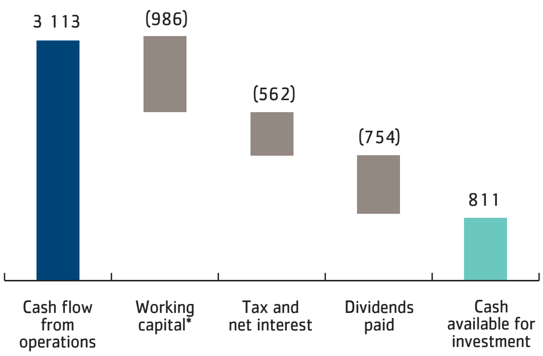
Trade and other payables is flat on last year at R10 490.2 million, largely due to the positive impact of the financial calendar cut-off in the prior year of R1.2 billion. On a comparable basis, trade and other payables increased 12.1% year-on-year.

Cash and cash equivalents	**Sunday 26 February 2017 Rm**	Sunday 28 February 2016 Rm
Cash balances	**961.9**	982.9
Bank overdraft and overnight borrowings	**(1 800.0)**	(100.0)
Cash and cash equivalents	**(838.1)**	882.9
Total borrowings	**(133.2)**	(529.6)
Net funding position	**(971.3)**	353.3

The timing of the Group's financial calendar cut-off can have a substantial impact on reported working capital and cash balances, depending on the timing of creditor payments over financial year-end. The decrease in funding from net working capital of R986.3 million, and the related decrease in cash balances at year-end, reflects the reversal of an estimated R1.2 billion positive calendar impact in 2016. The Group remains cash generative, with cash generated before movements in working capital up 14% on last year. Net working capital funding increased by R230 million on a comparable basis.

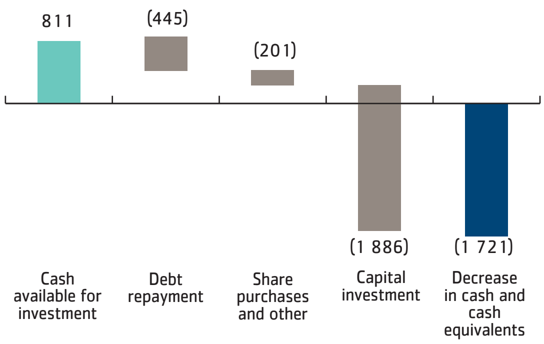
Cash flow analysis

Free cash flow generated for investment (Rm)



* Year-on-year working capital movement impacted by R1.2 billion related to financial calendar cut-off

Utilisation of cash generated for investment (Rm)



The Group paid R753.5 million in dividends to shareholders (up 27.8% on last year), invested R1.9 billion in improving the quality of its estate, invested R345.4 million in its employee share incentive schemes and repaid R445.1 million of long-term structured debt. These important outlays, together with increased inventory balances in line with the Group's plan to improve on-shelf availability across the business, resulted in increased gearing over the 2017 year and an increased interest bill.

The Group delivered return on capital employed of 31.3% (2016: 29.3%). The net asset value per share increased from 910.0 cents per share to 979.5 cents per share.

Capital investment

Capital expenditure related to the Group's capital investment programme at R1.9 billion, was in line with last year. The Group continues to commit the majority of its capital investment on expansion and refurbishment in order to improve the customers' shopping experience. The Group plans to invest a further R1.8 billion in its store opening and store improvement programme next year. The Group is confident of its ability to meet its investment requirements through internal cash generation and cost-effective short-term borrowings. The Group's liquidity position remains strong, with 25% of available borrowing facilities utilised at year-end.

	52 weeks to 26 February 2017 Rm	52 weeks to 28 February 2016 Rm
Expansion into new stores	**634**	634
Improving existing stores	**900**	856
Improving the customer experience	**1 534**	1 490
Investing in future infrastructure	**154**	88
Maintaining current infrastructure	**198**	213
Total capital investment	**1 886**	1 791

SHAREHOLDER DISTRIBUTION

The Board declared a final dividend of 146.40 cents per share, bringing the total annual dividend for the year to 176.30 cents per share, 18.0% up on last year and maintaining a dividend cover of 1.5 times headline earnings per share.

Bakar Jakoet
Chief Finance Officer

23 June 2017

EXTRACT FROM GROUP ANNUAL FINANCIAL STATEMENTS

Statement of comprehensive income
for the period ended

	Note	**52 weeks 26 February 2017 Rm**	52 weeks 28 February 2016 Rm
Revenue	2	**79 117.8**	73 477.3
Turnover	2	**77 486.1**	72 445.1
Cost of merchandise sold		**(63 549.4)**	(59 474.8)
Gross profit		**13 936.7**	12 970.3
Other trading income	2	**1 505.6**	971.3
Trading expenses		**(13 668.5)**	(12 425.3)
Employee costs		**(6 619.8)**	(6 060.6)
Occupancy		**(2 678.9)**	(2 337.6)
Operations		**(2 961.7)**	(2 848.1)
Merchandising and administration		**(1 408.1)**	(1 179.0)
Trading profit		**1 773.8**	1 516.3
Finance income	2	**126.1**	60.9
Finance costs		**(218.6)**	(117.0)
Share of associate's income		**80.2**	45.9
Profit before tax before capital items		**1 761.5**	1 506.1
Losses on capital items		**(46.3)**	(32.6)
Loss on sale of property, plant and equipment		**(20.4)**	(24.0)
Impairment loss on property, plant and equipment		**(5.9)**	–
Impairment loss on intangible assets		**(6.1)**	(8.6)
Impairment loss on available-for-sale financial instruments		**(13.9)**	–
Profit before tax		**1 715.2**	1 473.5
Tax		**(471.7)**	(408.1)
Profit for the period		**1 243.5**	1 065.4
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss		**1.5**	14.8
Remeasurement in retirement scheme assets		**2.1**	20.5
Tax on remeasurement in retirement scheme assets		**(0.6)**	(5.7)
Items that may be reclassified to profit or loss		**(96.9)**	59.4
Foreign currency translations		**(64.4)**	58.1
Fair value gain on available-for-sale financial instruments		**(32.5)**	1.3
Total comprehensive income for the period		**1 148.1**	1 139.6
		Cents	Cents
Basic earnings per share	3	**256.67**	219.11
Diluted earnings per share	3	**250.20**	215.05
Headline earnings per share	3	**264.35**	224.04
Diluted headline earnings per share	3	**257.69**	219.90

Statement of financial position

	Note	As at 26 February 2017 Rm	As at 28 February 2016 Rm
ASSETS			
Non-current assets			
Property, plant and equipment		**5 583.6**	4 950.9
Intangible assets		**984.3**	1 004.9
Operating lease assets		**198.3**	171.6
Financial instruments at fair value through profit or loss		**13.7**	232.1
Available-for-sale financial instruments		**–**	46.4
Investment in associate		**309.7**	285.5
Participation in export partnerships		**–**	14.1
Loans		**85.1**	96.4
Retirement scheme assets		**95.3**	90.8
Deferred tax assets		**218.0**	225.1
		7 488.0	7 117.8
Current assets			
Inventory		**5 994.6**	5 152.0
Trade and other receivables		**3 445.1**	3 326.2
Cash and cash equivalents		**961.9**	982.9
Derivative financial instruments		**–**	6.0
		10 401.6	9 467.1
Non-current asset held for sale		**212.8**	–
Total assets		**18 102.4**	16 584.9
EQUITY AND LIABILITIES			
Equity			
Share capital	5	**6.0**	6.0
Treasury shares		**(554.3)**	(63.5)
Fair value reserve		**–**	32.5
Retained earnings		**4 652.1**	3 882.9
Foreign currency translation reserve		**(24.5)**	39.9
Total equity		**4 079.3**	3 897.8
Non-current liabilities			
Borrowings		**84.0**	83.0
Operating lease liabilities		**1 398.6**	1 239.6
Deferred tax liabilities		**14.6**	9.5
		1 497.2	1 332.1
Current liabilities			
Trade and other payables		**10 490.2**	10 500.6
Share-based payment liability		**–**	124.6
Bank overdraft and overnight borrowings		**1 800.0**	100.0
Borrowings		**49.2**	446.6
Current tax liabilities		**174.8**	183.0
Provisions		**–**	0.2
Derivative financial instruments		**11.7**	–
		12 525.9	11 355.0
Total equity and liabilities		**18 102.4**	16 584.9
Number of shares in issue – thousands	5	**488 450.3**	488 450.3
Weighted average number of shares in issue – thousands	3	**482 237.5**	478 873.4
Diluted weighted average number of shares in issue – thousands	3	**494 709.6**	487 894.0
Net asset value – cents per share (property value based on directors' valuation)		**979.5**	910.0

Statement of changes in equity

for the period ended

	Note	Share capital Rm	Treasury shares Rm	Fair value reserve Rm	Retained earnings Rm	Foreign currency translation reserve Rm	Total equity Rm
At 1 March 2015		6.0	(60.1)	31.2	3 302.9	(18.2)	3 261.8
Total comprehensive income for the period		–	–	1.3	1 080.2	58.1	1 139.6
Profit for the period		–	–	–	1 065.4	–	1 065.4
Remeasurement in retirement scheme assets		–	–	–	14.8	–	14.8
Foreign currency translations		–	–	–	–	58.1	58.1
Fair value gain on available-for-sale financial instruments		–	–	1.3	–	–	1.3
Transactions with owners		–	(3.4)	–	(500.2)	–	(503.6)
Dividends paid		–	–	–	(589.5)	–	(589.5)
Share purchases		–	(126.2)	–	–	–	(126.2)
Net effect of settlement of employee share options		–	122.8	–	(87.2)	–	35.6
Share-based payments expense		–	–	–	176.5	–	176.5
At 28 February 2016		**6.0**	**(63.5)**	**32.5**	**3 882.9**	**39.9**	**3 897.8**
Total comprehensive income for the period		**–**	**–**	**(32.5)**	**1 245.0**	**(64.4)**	**1 148.1**
Profit for the period		**–**	**–**	**–**	**1 243.5**	**–**	**1 243.5**
Remeasurement in retirement scheme assets		**–**	**–**	**–**	**1.5**	**–**	**1.5**
Foreign currency translations		**–**	**–**	**–**	**–**	**(64.4)**	**(64.4)**
Fair value gain on available-for-sale financial instruments		**–**	**–**	**26.6**	**–**	**–**	**26.6**
Reclassification to profit or loss		**–**	**–**	**(59.1)**	**–**	**–**	**(59.1)**
Transactions with owners		**–**	**(490.8)**	**–**	**(475.8)**	**–**	**(966.6)**
Dividends paid		**–**	**–**	**–**	**(753.5)**	**–**	**(753.5)**
B share capital issued	5.2	**–**	**–**	**–**	**–**	**–**	**–**
Shares received upon unbundling		**–**	**(412.3)**	**–**	**–**	**–**	**(412.3)**
Share purchases		**–**	**(345.4)**	**–**	**–**	**–**	**(345.4)**
Net effect of settlement of employee share options		**–**	**266.9**	**–**	**(259.5)**	**–**	**7.4**
Share-based payments expense		**–**	**–**	**–**	**537.2**	**–**	**537.2**
At 26 February 2017		**6.0**	**(554.3)**	**–**	**4 652.1**	**(24.5)**	**4 079.3**

Statement of cash flows
for the period ended

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
Cash flows from operating activities		
Trading profit	**1 773.8**	1 516.3
Adjusted for dividend income	**(18.0)**	–
Adjusted for non-cash items	**1 356.7**	1 220.0
Amortisation	**160.6**	162.5
Depreciation	**820.9**	778.4
Equity-settled share-based payment expense	**537.2**	176.5
Cash-settled share-based payment (gain)/expense	**(124.6)**	13.0
Movement in net operating lease liabilities	**132.3**	79.3
Movement in provisions	**(0.2)**	(0.8)
Fair value loss on financial instruments at fair value through profit or loss	**242.8**	11.1
Dividend *in specie* received upon unbundling	**(412.3)**	–
Cash generated before movements in working capital	**3 112.5**	2 736.3
Movements in working capital	**(986.3)**	728.7
Movements in trade and other payables	**(28.1)**	1 610.9
Movements in inventory	**(839.3)**	(492.4)
Movements in trade and other receivables	**(118.9)**	(389.8)
Cash generated from trading activities	**2 126.2**	3 465.0
Interest received	**126.1**	60.9
Interest paid	**(218.6)**	(117.0)
Cash generated from operations	**2 033.7**	3 408.9
Dividends received	**18.0**	–
Dividends paid	**(753.5)**	(589.5)
Tax paid	**(469.2)**	(335.8)
Cash generated from operating activities	**829.0**	2 483.6
Cash flows from investing activities		
Investment in intangible assets	**(134.0)**	(85.7)
Investment in property, plant and equipment	**(1 736.0)**	(1 623.1)
Investment in financial instruments at fair value	**(6.7)**	(16.1)
Purchase of operations	**1.8**	(87.6)
Proceeds on disposal of property, plant and equipment	**49.8**	40.0
Loans repaid	**11.3**	4.2
Participation in export partnership	**14.1**	9.3
Retirement obligation	**(2.4)**	(0.2)
Cash utilised in investing activities	**(1 802.1)**	(1 759.2)
Cash flows from financing activities		
Borrowings raised	**48.7**	–
Repayment of borrowings	**(445.1)**	(254.7)
Share purchases	**(345.4)**	(126.2)
Proceeds from employees on settlement of share options	**8.0**	0.3
Cash utilised in financing activities	**(733.8)**	(380.6)
Net (decrease)/increase in cash and cash equivalents	**(1 706.9)**	343.8
Net cash and cash equivalents at beginning of period	**882.9**	524.5
Foreign currency translations	**(14.1)**	14.6
Net cash and cash equivalents at end of period	**(838.1)**	882.9
Consisting of:		
Cash and cash equivalents	**961.9**	982.9
Bank overdraft and overnight borrowings	**(1 800.0)**	(100.0)

Notes to the extract from Group annual financial statements

1. BASICS OF PREPARATION

This extract of the Group annual financial statements are not audited but are extracted from audited information. The audited Group annual financial statements were audited by Ernst & Young Inc., who expressed an unmodified opinion thereon. The audited Group annual financial statements and the auditor's report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of the audited Group annual financial statements and that this financial information has been correctly extracted from the underlying audited Group annual financial statements. The audited Group annual financial statements have been prepared by the Finance Division under the supervision of the Chief Finance Officer, Mr Bakar Jakoet CA(SA).

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
2. REVENUE		
Turnover	**77 486.1**	72 445.1
Finance income	**126.1**	60.9
Bank balances and investments	**81.4**	30.0
Trade and other receivables	**40.3**	27.3
Staff loans and other	**4.4**	3.6
Other trading income	**1 505.6**	971.3
Dividend *in specie* received upon unbundling	**412.3**	–
Franchise fee income	**349.8**	316.7
Operating lease income	**345.3**	329.1
Commissions, dividend received and other income	**398.2**	325.5
	79 117.8	73 477.3

	% change	52 weeks 26 February 2017 Cents per share	52 weeks 28 February 2016 Cents per share
3. BASIC, HEADLINE AND DILUTED EARNINGS PER SHARE			
Basic	17.1	**256.67**	219.11
Diluted	16.3	**250.20**	215.05
Headline	18.0	**264.35**	224.04
Diluted headline	17.2	**257.69**	219.90

	Rm	Rm
3.1 Basic and headline earnings		
Reconciliation between basic and headline earnings:		
Profit for the period	**1 243.5**	1 065.4
Profit attributable to forfeitable share plan shares	**(5.7)**	(16.2)
Basic earnings for the period	**1 237.8**	1 049.2
Adjustments:	**37.2**	23.3
Loss on sale of property, plant and equipment	**20.4**	24.0
Tax effect of loss on sale of property, plant and equipment	**(5.7)**	(6.8)
Impairment loss on property, plant and equipment	**5.9**	–
Tax effect of impairment loss on property, plant and equipment	**(1.7)**	–
Impairment loss on intangible assets	**6.1**	8.6
Tax effect of impairment loss on intangible assets	**(1.7)**	(2.5)
Impairment loss on available-for-sale financial instruments	**13.9**	–
Adjustments attributable to forfeitable share plan shares	**(0.2)**	0.4
Headline earnings	**1 274.8**	1 072.9

	000's	000's
3.2 Number of ordinary shares		
Number of ordinary shares in issue	**488 450.3**	488 450.3
Weighted average number of shares (excluding treasury shares)	**482 237.5**	478 873.4
Diluted weighted average number of ordinary shares in issue	**494 709.6**	487 894.0
Reconciliation of weighted average number of shares to diluted weighted average number of shares:		
Weighted average number of shares (excluding treasury shares)	**482 237.5**	478 873.4
Dilutive effect of share awards	**12 472.1**	9 020.6
Diluted weighted average number of ordinary shares in issue	**494 709.6**	487 894.0

The outstanding forfeitable shares, granted in terms of the employee share scheme, that have not met performance hurdles, had no dilutive impact on the weighted average number of shares for the current and prior period.

Notes to the extract from Group annual financial statements
continued

4. OPERATING SEGMENTS

Operating segments are identified based on financial information regularly reviewed by the Chief Operating Decision-Maker (CODM) of the Group, for performance assessments and resource allocations. The Group annually performs a detailed review of the executive, or group of executives, that could be considered the appropriate and relevant CODM of the Group. During the current and prior period under review, the CODM of the Group consisted of the Group executive committee, consisting of Richard Brasher (CEO), Richard van Rensburg (deputy CEO) and Bakar Jakoet (CFO).

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

South Africa – operates in various formats under the Pick n Pay and Boxer brands in South Africa.

Rest of Africa – responsible for the Group's expansion into the rest of Africa.

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.

	South Africa Rm	Rest of Africa Rm	Total operations Rm
52 weeks to 26 February 2017			
Total segment revenue	**75 635.8**	**4 315.7**	**79 951.5**
External revenue	**75 635.8**	**3 482.0**	**79 117.8**
Direct deliveries*	**–**	**833.7**	**833.7**
Segment external turnover			
Profit before tax**	**74 026.2**	**3 459.9**	**77 486.1**
Other information	**1 489.7**	**225.5**	**1 715.2**
Statement of comprehensive income			
Finance income	**119.6**	**6.5**	**126.1**
Finance costs	**217.6**	**1.0**	**218.6**
Depreciation and amortisation	**948.0**	**33.5**	**981.5**
Impairment loss on intangible assets	**6.1**	**–**	**6.1**
Impairment loss on property, plant and equipment	**5.9**	**–**	**5.9**
Impairment loss on available-for-sale financial instrument	**13.9**	**–**	**13.9**
Share of associate's income	**–**	**80.2**	**80.2**
Statement of financial position			
Total assets	**16 474.5**	**1 627.9**	**18 102.4**
Total liabilities	**13 617.9**	**405.2**	**14 023.1**
Investment in associate	**–**	**309.7**	**309.7**
Additions to non-current assets	**1 792.5**	**93.7**	**1 886.2**
52 weeks to 28 February 2016			
Total segment revenue	70 312.7	4 005.6	74 318.3
External revenue	70 312.7	3 164.6	73 477.3
Direct deliveries*	–	841.0	841.0
Segment external turnover	69 300.6	3 144.5	72 445.1
Profit before tax**	1 247.4	226.1	1 473.5
Other information			
Statement of comprehensive income			
Finance income	52.8	8.1	60.9
Finance costs	116.7	0.3	117.0
Depreciation and amortisation	911.6	29.3	940.9
Impairment loss on intangible assets	8.6	–	8.6
Share of associate's income	–	45.9	45.9
Statement of financial position			
Total assets	15 261.3	1 323.6	16 584.9
Total liabilities	12 402.9	284.2	12 687.1
Investment in associate	–	285.5	285.5
Additions to non-current assets	1 773.6	17.7	1 791.3

* *Direct deliveries are issues to franchisees directly by Group suppliers, these are not included in revenue on the statement of comprehensive income.*

** *Segmental profit before tax is the reported measure used for evaluating the Group's operating segments performance. On an overall basis the segmental profit before tax is equal to the Group's reported profit before tax. The Rest of Africa segment's segmental profit before tax comprises the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental cost incurred by the South Africa segment relating to the Rest of Africa segment.*

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
5. SHARE CAPITAL		
5.1 Ordinary share capital		
Authorised		
800 000 000 (2016: 800 000 000) ordinary shares of 1.25 cents each	**10.0**	10.0
Issued		
488 450 321 (2016: 488 450 321) ordinary shares of 1.25 cents each	**6.0**	6.0
	000's	000's
The number of shares in issue at end of period is made up as follows:		
Treasury shares held by the Group	**6 531.8**	1 752.4
Treasury shares allocated under the forfeitable share plan	**9 336.5**	7 923.0
Shares held outside the Group	**472 582.0**	478 774.9
	488 450.3	488 450.3

The Company can issue new shares to settle the Group's obligations under its employee share schemes, but issues in this regard are limited, in aggregate, to 5% of total issued share capital or 24 422 516 (2016: 24 422 516) shares. To date, 10 743 000 (2016: 10 743 000) shares have been issued, resulting in 13 679 516 (2016: 13 679 516) shares remaining for this purpose.

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.

Certain ordinary shares are stapled to B shares and are subject to restrictions upon disposal. Refer to note 5.2.

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
5.2 B share capital		
Authorised		
1 000 000 000 (2016: nil) unlisted, non-convertible, non-participating, no par value B shares	**–**	–
Issued		
259 682 869 (2016: nil) unlisted, non-convertible, non-participating, no par value B shares	**–**	–

The Pick n Pay Holdings Limited RF Group included the ultimate holding company, Pick n Pay Holdings Limited RF, an investment holding company listed on the JSE. The Company was formed with the sole purpose of holding a controlling interest in Pick n Pay Stores Limited resulting in a pyramid control structure.

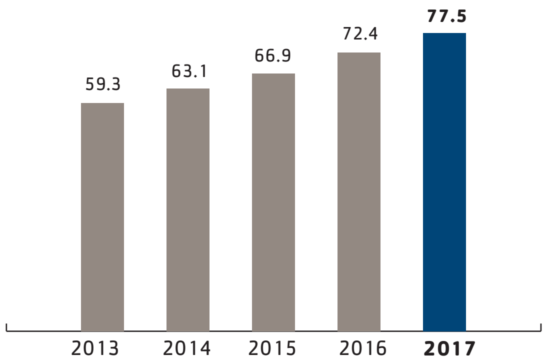
During the period under review, a new class of shares was created as a result of the unbundling of the Pick n Pay Limited RF Holdings Group, as approved by shareholders on 25 July 2016. A total of 259 682 869 B shares were issued to existing controlling shareholders of Pick n Pay Holdings Limited RF, and are stapled to such ordinary shares and cannot be traded separately from each other. Stapled ordinary shares, together with B shares, are subject to restrictions upon disposal.

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits.

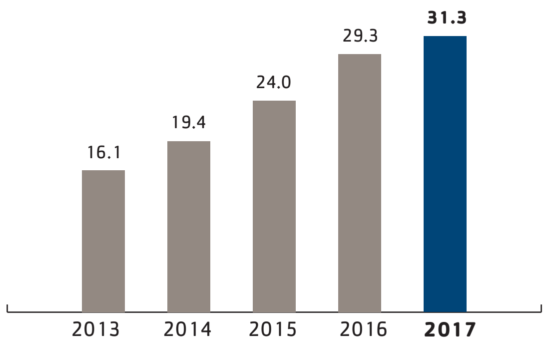
FIVE-YEAR REVIEW

		2017 364 days	2016 364 days	2015 364 days	2014 364 days	2013 368 days
PERFORMANCE MEASURES						
Turnover growth	%	**7.0**	8.2	6.1	6.5	7.1
Gross profit on turnover	%	**18.0**	17.9	17.8	17.5	17.4
Trading profit growth	%	**17.0**	22.3	22.7	18.5	(33.2)
Trading profit margin	%	**2.3**	2.1	1.9	1.6	1.4
Profit before tax growth	%	**16.4**	22.3	44.7	3.0	(30.9)
PBTAE growth	%	**17.0**	26.1	26.7	19.7	(33.1)
EBIT growth	%	**18.2**	20.9	35.6	3.9	(29.1)
EBITDA growth	%	**13.3**	17.9	6.7	12.4	(14.9)
Profit margin	%	**1.6**	1.5	1.3	0.9	0.9
Headline earnings growth	%	**18.8**	26.6	28.0	24.5	(30.7)
Headline earnings margin	%	**1.6**	1.5	1.3	1.0	0.9
Headline earnings per share	cents	**264.4**	224.0	177.3	138.5	111.3
Headline earnings per share growth	%	**18.0**	26.4	28.0	24.4	(30.8)
Return on shareholders' equity	%	**32.0**	30.0	27.9	24.8	21.1
ROCE	%	**31.3**	29.3	24.0	19.4	16.1
Return on total assets	%	**7.4**	6.8	5.9	4.9	4.2
Net asset value per share	cents	**979.5**	910.0	774.1	679.9	609.2
WACC	%	**13.1**	11.9	9.5		
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Turnover	Rm	**77 486.1**	72 445.1	66 940.8	63 117.0	59 271.3
Trading profit	Rm	**1 773.8**	1 516.3	1 240.1	1 010.3	852.4
Profit before tax	Rm	**1 715.2**	1 473.5	1 205.2	833.1	808.9
PBTAE	Rm	**1 761.5**	1 506.1	1 194.8	942.7	787.3
EBITDA	Rm	**2 835.5**	2 503.1	2 123.9	1 990.7	1 771.3
Headline earnings	Rm	**1 274.8**	1 072.9	847.8	662.6	532.2
CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
ASSETS						
Non-current assets	Rm	**7 488.0**	7 117.8	6 207.3	5 990.1	5 669.7
Current assets	Rm	**10 401.6**	9 467.1	8 616.8	8 139.4	7 506.2
Non-current asset held for sale	Rm	**212.8**	–	–	–	–
Total assets	Rm	**18 102.4**	16 584.9	14 824.1	14 129.5	13 175.9
EQUITY AND LIABILITIES						
Ordinary shareholders' equity	Rm	**4 079.3**	3 897.8	3 261.8	2 823.7	2 526.9
Non-current liabilities	Rm	**1 497.2**	1 332.1	1 631.3	1 789.8	1 697.1
Current liabilities	Rm	**12 525.9**	11 355.0	9 931.0	9 516.0	8 951.9
Total equity and liabilities	Rm	**18 102.4**	16 584.9	14 824.1	14 129.5	13 175.9

Turnover (Rbn)



Return on capital employed (%)



		2017 364 days	2016 364 days	2015 364 days	2014 364 days	2013 368 days
STOCK EXCHANGE (JSE LIMITED) PERFORMANCE						
Number of shares in issue	millions	**488.5**	488.5	487.3	480.4	480.4
Weighted average number of shares in issue	millions	**482.2**	478.9	478.3	478.4	478.1
Total market capitalisation	Rbn	**34.0**	27.4	25.7	21.7	21.8
Market capitalisation net of treasury shares	Rbn	**33.6**	27.3	25.6	21.6	21.7
Price: Earnings ratio	times	**26.4**	25.1	29.8	32.6	40.8
Dividend per share	cents	**176.3**	149.4	118.1	92.3	84.0
Dividend cover	times	**1.5**	1.5	1.5	1.5	1.3
Volume of shares traded	millions	**345.7**	281.6	213.3	165.2	274.5
Percentage of shares traded	%	**70.8**	57.6	43.8	34.4	57.1
Market price per share						
– close at year-end	cents	**6 969**	5 614	5 282	4 514	4 544
– high for the year	cents	**8 424**	7 000	6 082	5 440	4 900
– low for the year	cents	**5 525**	4 850	4 401	3 519	4 022

DEFINITIONS

Headline earnings Net profit for the period adjusted for the after tax effect of items specified in Circular 2/2015 –Headline Earnings.

Return on shareholders' equity Headline earnings expressed as a percentage of the average ordinary shareholders' equity for the period.

Return on capital employed (ROCE) Headline earnings divided by average shareholders' equity plus non-current borrowings.

Return on total assets Headline earnings expressed as a percentage of the average total assets for the period.

Headline earnings per share Headline earnings divided by the weighted average number of shares in issue for the period.

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 period end, adjusted for directors' valuations of property, divided by the number of shares in issue at period-end, held outside the Group.

Profit before tax and exceptional items (PBTAE) Profit for the period, before tax and exceptional items. Exceptional items are capital items determined by the remuneration committee.

EBITDA Profit for the period, before net interest, tax, depreciation, amortisation and capital items.

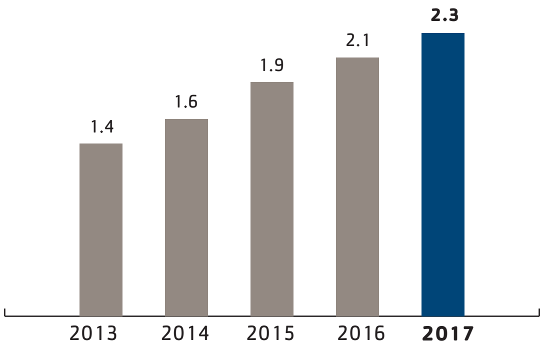
Market capitalisation The price per share at period-end multiplied by the number of shares in issue at period-end.

Price earnings ratio The price per share at period-end divided by headline earnings per share.

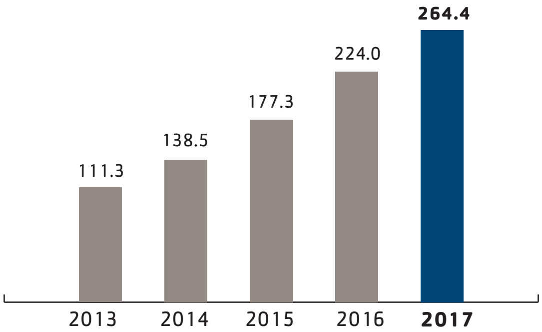
Dividends per share The interim dividend declared during the current financial period and the final dividend declared after period-end, in respect of the current financial year.

Weighted average cost of capital (WACC) WACC is the average after tax cost of the Group's debt funding, which includes non-current borrowings and current liabilities, and the Group's equity funding, with each source of funding included on a proportional basis.

Trading profit margin (%)



Headline earnings per share (cents)



FIVE-YEAR REVIEW continued

		2017 364 days	2016 364 days	2015 364 days	2014 364 days	2013 368 days
HUMAN MEASURES*						
Developed a skilled workforce						
Number of employees	000	**54.4**	52.9	48.7	49.3	47.9
Permanent employee turnover	%	**19.9**	16.1	19.3	15.0	16.0
Employment equity**						
Top management	%	**35.0**	36.0	35.7	39.0	40.0
Senior management	%	**63.0**	66.0	64.4	61.0	60.0
Professionally qualified middle management	%	**87.0**	88.0	87.1	85.0	84.0
Skilled technical and junior management	%	**97.0**	96.0	95.2	95.0	95.0
Semi-skilled and discretionary decision-making	%	**100.0**	100.0	99.7	99.8	99.7
Unskilled and defined decision-making	%	**100.0**	100.0	99.4	99.6	99.6
SOCIAL AND ENVIRONMENTAL MEASURES*						
Carbon footprint#	CO_2e tonnes	**671 052.6**	656 765.1	613 934.7	588 509.2	591 985.5
Energy usage per square metre reduction (2008 baseline)	%	**34.1**	31.4	32.0	30.0	27.2
CO_2e emissions per square metre reduction (2013 baseline)	%	**3.5**	0.6	2.4	4.0	^
Waste diverted from landfill	%	**48.4**	46.0	45.0	43.0	^
Water consumed	megalitres	**1 332**	1 249.0	1 316.0	1 133.0	1 085.0
Total corporate social investment (CSI) spend	Rm	**38.7**	41.5	44.6	36.0	40.9
Schools in Pick n Pay Schools Club		**3 025**	3 025	3 025	2 750	2 500
BBBEE Level∆		**Level 8**	Level 4	Level 4	Level 6	Level 6
OPERATIONAL STATISTICS						
Number of stores						
Group		**1 504**	1 353	1 189	1 076	991
Pick n Pay – Owned		**661**	596	510	464	420
Pick n Pay – Franchise		**614**	549	490	433	421
Boxer – Owned		**229**	208	189	179	150
Associate						
TM Supermarkets		**56**	57	53	52	49
Total with associate		**1 560**	1 410	1 242	1 128	1 040
Total square metres	000 m^2	**2 347.4**	2 277.1	2 178.0	2 069.4	2 002.2
Owned	000 m^2	**1 630.3**	1 603.9	1 524.7	1 466.6	1 386.4
Franchise	000 m^2	**717.1**	673.2	653.3	602.8	615.8

* *Information relates to Pick n Pay-owned stores only*

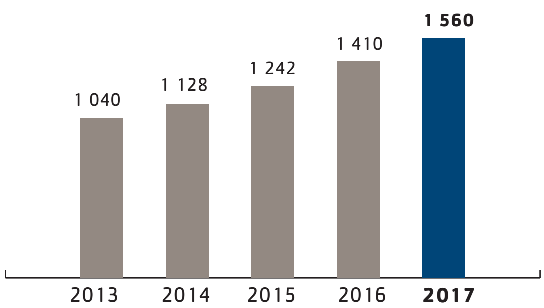
** *These measures represent the participation of employment equity candidates, as governed by the Employment Equity Act, No 55 of 1998, in the presented categories*

^ *Not measured at that time*

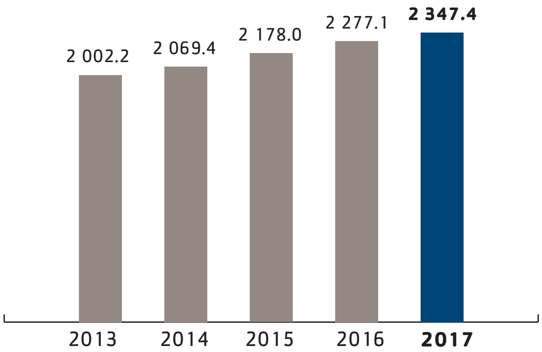
∆ *Independently assured. The amendments to the BBBEE Act and the codes fundamentally changed the manner in which our BBBEE level is calculated, resulting in a change in our BBBEE status from level 4 to level 8 compliance*

\# *Independently assured*

Total number of stores



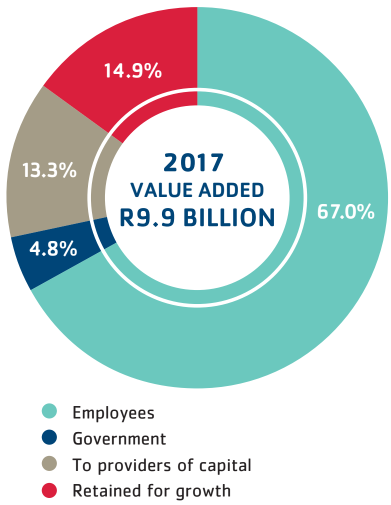
Total square metres (000 m^2)



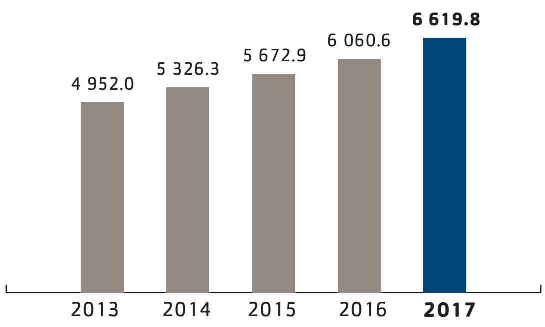
VALUE ADDED STATEMENT

	52 weeks 26 February 2017 Rm	%	52 weeks 28 February 2016 Rm	%
Turnover	**77 486.1**		72 445.1	
Amounts paid for merchandise and expenses	**(67 731.7)**		(63 787.8)	
Finance income	**126.1**		60.9	
Total value created	**9 880.5**	**100.0**	8 718.2	100.0
Distributed as follows:				
Employees				
Salaries, wages and other benefits	**6 619.8**	**67.0**	6 060.6	69.5
To providers of capital	**1 317.5**	**13.3**	832.7	9.6
Distributions to shareholders	**753.5**	**7.6**	589.5	6.8
Share purchases	**345.4**	**3.5**	126.2	1.4
Finance costs	**218.6**	**2.2**	117.0	1.4
Government				
Taxation expense	**471.7**	**4.8**	408.1	4.7
Retained for growth	**1471.5**	**14.9**	1416.8	16.2
Depreciation and amortisation	**981.5**	**9.9**	940.9	10.8
Profit for the period after distributions to shareholders	**490.0**	**5.0**	475.9	5.4
Total value distributed	**9 880.5**	**100.0**	8 718.2	100.0

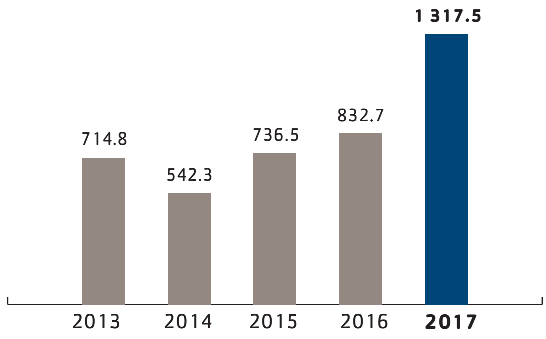
WE HAVE CREATED FINANCIAL VALUE OF R9.9 BILLION (2016: R8.7 BILLION) DURING THE FINANCIAL PERIOD. THE VALUE ADDED STATEMENT ILLUSTRATES HOW WE HAVE DISTRIBUTED THIS VALUE TO OUR STAKEHOLDERS.



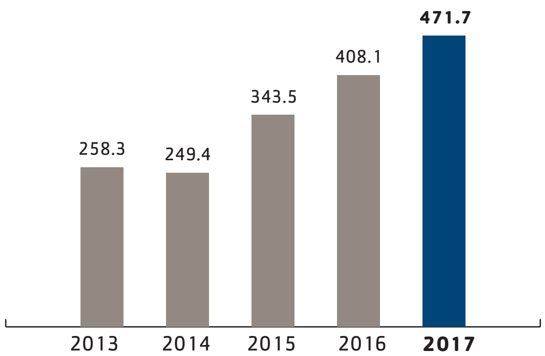
Employee costs (Rm)



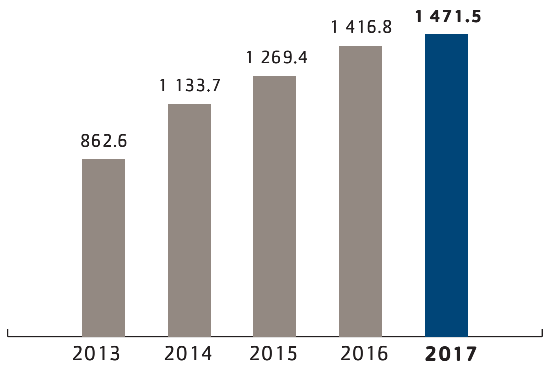
Providers of capital (Rm)



Government (Rm)



Retained for growth (Rm)



OUR CORPORATE GOVERNANCE

INTRODUCTION

The Board of directors takes overall responsibility for the performance and sustainable value creation of the Group, ensuring that it is managed in a transparent, equitable and responsible manner to the benefit of all of its stakeholders. As part of Pick n Pay's intellectual capital, members of the Board operate as a resource for executives in directing, finalising and overseeing the implementation of the Group's strategy and policy.

The Board and the Group are committed to upholding the highest standards of ethics, transparency and good corporate governance, while pursuing sustainable value creation. The Board, assisted by senior management, is ultimately accountable for the ethical leadership, sustainability and good corporate citizenship of the Group, in line with its core values as set out on page 11. The Group's commitment to good corporate governance permeates every aspect of the management structure.

With the aim of achieving a balanced economic, social and environmental performance, the Board supports efforts to ensure the long-term sustainability of the business. Legitimate stakeholder involvement is kept in mind at all times. The Board supports the materiality approach, which emphasises integrated reporting based on issues and elements that can have a material impact on the sustainable performance of the business over the short, medium and long term. The Group has made progress in identifying and managing significant risks that could have a material impact on the business. Details of the Group's material issues and related risks, and how they are identified as such, are set out on pages 32 to 37.

The Board is supported by the audit, risk and compliance, corporate finance, corporate governance, nominations, remuneration and social and ethics committees to carry out its oversight role of ensuring that implementation of the Group's strategy is managed in a manner that is consistent with the values of the Group.

The Board believes that the Group has applied all significant governance principles and is compliant with all significant Listings Requirements of the JSE. The Group has not breached any regulatory requirements and has complied with all its statutory obligations.

APPLICATION OF THE KING CODE

The King Code of Governance Principles underpins the Group's corporate governance framework.

An assessment of the King IV Report on Corporate Governance for South Africa 2016 (King IV) was undertaken following its publication in November 2016. The Group is in full support of the voluntary principles and leading practices of King IV and will apply its recommendations leading up to its effective date. Work is underway to integrate King IV into the Group's internal controls and policies, as well as the Board's corporate governance charter.

The Board confirms that the Group complied with the Code of Governance Principles as set out in King III for the 2017 financial period. A full review of the application of the King Codes is available on our website at www.picknpayinvestor.co.za. The table opposite sets out the King III recommendations that are applied differently by the Board.

SUMMARY OF APPLICATION OF KING III PRINCIPLES

CHAPTER AND PRINCIPLE	COMMENTS FOR 2017
CHAPTER 2 – BOARD AND DIRECTORS	
Principle 2:16 The Board should elect a Chairman of the Board who is an independent non-executive director	King III acknowledges that there may be sound reasons for a company to appoint a Chairman who does not meet all the criteria for independence, but requires such a company to justify this decision and to put further checks in place to ensure no real or perceived conflicts of interest arise. Chairman, Gareth Ackerman, is not independent by virtue of his indirect shareholding in the Group. Refer to the directors' interests in shares section of the remuneration report on page 103. Perceptions of conflicts of interest may arise regarding his decisions relating to the Group and its shareholders. Hugh Herman has been appointed as Lead Independent Director ("LID"). The main function of the LID is to provide leadership and advice to the Board when the Chairman has a conflict of interest, without detracting from the authority of the Chairman. The LID provides an important point of contact for the broader investment and stakeholder community should they have concerns with the management of the Group or potential conflicts of interest. All members of the Board have unfettered access to the LID when required. In addition to the role of the LID, and to ensure good governance, the chairmanship of four of the six Board committees is held by other independent directors. Consistent with the King III guidelines, Gareth Ackerman: • Is not a member of the audit, risk and compliance committee; • Does not chair the remuneration committee, but is a member; and • Is not a member of the social and ethics committee.
Principle 2.22 The evaluation of the Board, its committees and the individual directors should be performed every year	Individual performance evaluations of directors and evaluations of the effectiveness of the Board are undertaken annually by the Chairman of the Board. The evaluation of the effectiveness of the Board's committees is undertaken regularly, but not necessarily annually. The results allow the Board to determine whether or not it has delivered on its mandate. It also measures, and where possible, enhances, the Board's overall efficiency and each director's individual contribution to the Board. If improvements are indicated, the necessary measures are implemented. Refer to page 84 for more detail on the annual independence assessment process.
CHAPTER 3 – AUDIT COMMITTEES	
Principle 3.5 The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	The Board and audit, risk and compliance committee continue to develop and implement a comprehensive combined assurance approach. Refer to "About Our Report" on pages 4 and 5 for the assurances obtained for information contained in this report.
CHAPTER 9 – INTEGRATED REPORTING AND DISCLOSURE	
Principle 9.3 Sustainability reporting and disclosures should be independently assured	The Board and audit, risk and compliance committee continue to develop and implement a comprehensive combined assurance approach to ensure the integrity of reported financial and non-financial data. Refer to "About Our Report" on pages 4 and 5 for the assurances obtained for information contained in this report.

BOARD GOVERNANCE

BOARD FUNCTION

Directors are encouraged to promote rigorous debate with the aim of promoting direction, governance and effective control of the Group. Decisions are usually made by consensus. All Board members, including those who are not independent, are well aware of corporate governance requirements, and are conscious of their obligation to act with integrity as representatives of all stakeholders in the Group.

During the reporting period the Board adopted a gender diversity policy to guide its future appointments of directors in accordance with the amended JSE Listings Requirements on the promotion of gender diversity (paragraph 3.84(k)). The Board is committed to proactively monitoring the Group's performance in meeting the requirements outlined in the policy.

The Board process is managed by the Company Secretary, who is supported by the risk, legal, compliance and governance functions. The Board meets on a quarterly basis in line with the financial and strategic processes of the Group and engages on a quarterly basis with management to examine progress made in the implementation of the Group's strategic objectives.

The Board annually performs a formal review of the Group's ability to continue trading as a going concern in the foreseeable future. The Board has performed this review for the 2017 financial period and confirms the Group's going-concern status.

BOARD COMPOSITION

The Board consisted of twelve directors during most of the 2017 financial period, increasing to thirteen with the reappointment of Alex Mathole to the Board in October 2016. As at the end of the 2017 financial period, six of the eight non-executive directors were independent. The remaining five directors were executive directors. As the Chairman was not independent, Hugh Herman was appointed as LID.

The non-executive directors are diverse in their academic qualifications and business experience, resulting in a balanced Board. Directors exercise leadership, enterprise, integrity and judgement in directing the Group's value creation processes to ensure the sustainability thereof for all stakeholders. All directors are formally inducted upon joining the Board, and receive ongoing briefings on changes in risks, laws and the business environment.

CHANGES TO BOARD COMPOSITION DURING 2017

Alex Mathole was appointed to the Board in October 2016. Being eligible, she will offer herself for election to shareholders at the AGM to be held on 31 July 2017. An admitted attorney, Alex was previously a non-executive director of Pick n Pay. She resigned in 2013 when she took up a position with a major supplier to Pick n Pay so as to avoid any perception of a conflict of interests arising. Alex is now employed by FirstRand Limited where she holds the position of regulatory risk management executive. We are pleased to welcome her back to Pick n Pay.

CONTROLLING SHAREHOLDER REPRESENTATION ON THE BOARD

Gareth Ackerman, Suzanne Ackerman-Berman, Jonathan Ackerman and David Robins were nominated as representatives of the controlling shareholders, and were elected by shareholders to the Board. Between them, they have 70 years' executive experience in the Group. Their experience, as well as their strategic overview, assists the Group in making long-term decisions for the benefit of all stakeholders in the Group.

EXECUTIVE REPRESENTATION ON THE BOARD

The executive function of the Group is performed by Richard Brasher (CEO), Richard van Rensburg (deputy CEO) and Bakar Jakoet (CFO), who are all executive directors of the Company.

ANNUAL ASSESSMENT OF INDEPENDENCE

The Board's corporate governance charter requires an annual assessment of the independence of non-executive directors to be performed by considering the following:

- The directors' involvement with other companies;
- External directorships;
- Relationships with material suppliers and competitor companies; and
- Material contracts with the Group, if any.

The annual internal assessment of the independence of non-executive directors was undertaken by the Chairman. Following this assessment, the Chairman made recommendations to the Board as to independence. The Board interrogated the recommendations before a final decision was made regarding the independence or otherwise of each non-executive director.

All directors submit a declaration of their directorships and commercial interests to the Company Secretary. These declarations, which are regularly updated, are distributed quarterly to the Board and noted at Board meetings. Transparency of commercial interests ensures that directors can be seen to be free from any business or other relationship that may interfere materially with any director's capacity to act in an independent manner.

All the Board's independent non-executive directors met the criteria for independence as established by the King Codes, the Companies Act and the JSE Listings Requirements.

LENGTH OF SERVICE AND RETIREMENT BY ROTATION

The Board has found that length of service does not automatically preclude a director from exercising independence in decision making. The longer-serving non-executive directors vigorously exercise their duty to act in the best interests of all stakeholders of the Group.

All our independent non-executive directors are strong-minded individuals of integrity, who are successful and experienced professionals in their respective fields. They strive to act with independence of mind in the best interests of the Group. They have no interest, position, association or relationship which is likely to unduly influence or cause bias in decision-making in relation to the Group.

The Group values the balance achieved between the fresh insights from new directors and the experience of longer-serving directors.

In terms of the Company's Memorandum of Incorporation (MOI), one-third of the non-executive directors retire by rotation and, should they wish and if they are eligible, may stand for re-election to the Board at the following annual general meeting.

In order to ensure that shareholder perceptions are aligned with the Board's view of the independence of long-serving non-executive directors, and in terms of the corporate governance charter, all independent non-executive directors who have served on the Board for more than nine years serve one-year terms of office, instead of the standard three-year term. At the end of each term, the director and the Chairman jointly evaluate the director's contribution and independence. By mutual consent the director may be considered for re-election. If so agreed, that director will be nominated for re-election by shareholders at the Company's annual general meeting for a further period of one year.

BOARD COMMITTEES

The Board committees report to the Board on their activities. The corporate governance charter governing the committees is reviewed annually to ensure that the mandates remain current and effective. The corporate governance charter, containing the terms of reference of each committee, is available on the investor relations section of our website, www.picknpayinvestor.co.za. Each committee reviews its effectiveness by way of a review of its activities against the approved terms of reference in line with their delegated powers and authority. The chairman of each committee reports back to the Board on the assessment. All committees, after review, were satisfied that they carried out their responsibilities during the period.

COMPANY SECRETARY

The Board is aware of the duties the Company Secretary is required to perform and has created an environment in which the Company Secretary is able to ensure full adherence to Board procedures and relevant regulations. The Company Secretary is not a director of the Company, and the directors have unlimited access to the advice and services of the Company Secretary.

Annual consideration is given by the Board to the competence, qualification and experience of the Company Secretary. The Board is satisfied that the Company Secretary meets the necessary requirements. The Board is satisfied that the Company Secretary has maintained an arms' length relationship with the Board. The Company Secretary acted as secretary for all Board committees other than the remuneration committee, where the CFO acted as secretary.

RISK GOVERNANCE

Risk governance and management are integral elements of the Group's governance framework. The Group aims to ensure business specific risks are adequately and timeously identified and mitigated, whether they are operational and strategic risks, emerging risks, or risks posed by the external environment. The Board confirms that the Group's risk management, mitigation and monitoring processes have been effective in limiting the impact of risks on the business during the period.

An enterprise-wide risk management approach aims to ensure that all areas of the business are aligned with the Group's risk management philosophy and strategy.

The overall risk profile of the Group has not changed materially in the period under review. For detail on the material issues and related risks facing the Group, and how that informs the Group's strategy, please refer to pages 32 to 37.

INFORMATION TECHNOLOGY (IT) GOVERNANCE

The Board takes responsibility for IT governance. An IT governance function has been established within the IT division. IT governance is monitored by the audit, risk and compliance committee, which considers the efficiency of IT controls, policies and processes.

OPERATIONAL GOVERNANCE

There are well-entrenched governance structures within the Group to ensure proper assurance is given to strategic and operational matters, including:

- Property committee to manage real estate development
- Capital committee to manage capital expenditure
- Treasury committee to manage debt structures and cash flow

The CEO is mandated to ensure that the day-to-day business affairs of the Group are appropriately managed by the Group Executive and that the necessary systems and controls are in place for the effective risk management of the Group.

The Board recognises that risk management is an integral part of the Group strategy, and delegates to management the responsibility of designing, implementing and monitoring the risk management plan. The Group combined assurance model is interrogated by the audit, risk and compliance committee, and is tabled biannually to ensure that the Board is comfortable with the level and type of assurance that the Group obtains.

Compliance with statutory, legislative and regulatory requirements is managed through an integrated compliance framework. The compliance monitoring plan is approved on an annual basis. The plan provides independent objective assurance that material legislation applicable to the business has been monitored, and ensures that processes and compliance controls are in place to manage compliance risk.

UNBUNDLING OF PICK N PAY HOLDINGS LIMITED RF GROUP

During the 2017 financial period, at the General Meeting held on 25 July 2016, shareholders approved the unbundling of the Pick n Pay Holdings Limited RF Group, in order to remove the pyramid control structure. Independent boards were constituted after following a rigorous corporate governance process to ensure that the directors of both Pick n Pay Holdings Limited RF and Pick n Pay Stores Limited acted in the best interests of the companies to which they owed a fiduciary duty. The independent boards concluded that the unbundling would be in the best interests of shareholders of the respective companies. Directors who were members of the Ackerman family, as controlling shareholders, recused themselves from discussing and from voting on the proposal at every level of its consideration, including at the shareholder meetings. The proposal was put to shareholders, who voted in favour of the resolutions required to implement the unbundling.

Subsequent to the elimination of the pyramid control structure, Pick n Pay Holdings Limited RF was de-listed from the JSE and purchased as a wholly-owned subsidiary by Pick n Pay Stores Limited. Its only asset, being its shareholding in Pick n Pay Stores Limited, was distributed to its shareholders. Pick n Pay Stores Limited created and issued a new class of unlisted voting shares (B shares) to the existing controlling shareholders of the Pick n Pay Holdings Limited RF Group, so as to retain the control structure of the Group as it was prior to the unbundling. The holders of the B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefit. Refer to note 5.2 to the extracts from Group annual financial statements on page 75 for more detail.

Raymond Ackerman, Wendy Ackerman, René de Wet, Hugh Herman and Jeff van Rooyen have all resigned as directors of Pick n Pay Holdings Limited RF, and David Robins, Suzanne Ackerman-Berman and Jonathan Ackerman have resigned as alternate directors. Mr and Mrs Ackerman remain integral to the Group in their capacity as Honorary Life Presidents. Hugh Herman and Jeff van Rooyen continue to serve on the Board of the Company. David Robins, Suzanne Ackerman-Berman and Jonathan Ackerman continue to serve on the Board of the Company as representatives of the controlling shareholder.

SUMMARY OF DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The table below details attendance at Board and committee meetings during the past annual financial period:

DIRECTOR	BOARD AND AGM	INDEPENDENT BOARD AND EGM	AUDIT, RISK AND COMPLIANCE COMMITTEE	REMUNERATION COMMITTEE	SOCIAL AND ETHICS COMMITTEE
Gareth Ackerman (Chairman)	5/5	#		2/2	
Richard Brasher (CEO)	5/5	2/2			
Richard van Rensburg (deputy CEO)	3/5	1/2			
Bakar Jakoet (CFO)	5/5	2/2			
Suzanne Ackerman-Berman	5/5	#			4/4
Jonathan Ackerman	5/5	#			
Hugh Herman (LID)	4/5	2/2	2/2	2/2	
David Friedland	3/5	1/2	2/2		
Alex Mathole*	1/1	#			
Audrey Mothupi	5/5	2/2	2/2	2/2	
Lorato Phalatse	4/5	2/2			4/4
David Robins	5/5	#			
Jeff van Rooyen	5/5	2/2	2/2	2/2	

The nominations committee, corporate finance committee and corporate governance committee meet as and when required throughout the financial year.

* *Alex Mathole was appointed in October 2016 and attended the Board meeting in February 2017*
# *Directors not members of the Independent Board constituted to consider the proposal to eliminate the pyramid control structure*

For more detail on the objectives and activities of the Board and its committees please refer to the governance report on our website at www.picknpayinvestor.co.za.

GOVERNANCE STRUCTURE

The diagram below is a summary of the governance structure of the Group:

1 **Pick n Pay Stores Limited Board**. Refer to the Board of directors on pages 88 and 89.

COMMITTEE	ROLE	CAPITAL
2 **Audit, risk and compliance committee**	Provides independent oversight and assessment of the Group's risk management processes, legal and regulatory compliance, financial reporting, business and financial controls, internal and external audit processes and acts as a liaison between the Board and external and internal auditors.	FINANCIAL CAPITAL
3 **Remuneration committee**	Assists the Board in meeting its responsibility for setting and administering appropriate remuneration policies which are in the best long-term interests of the Group, and are aligned with the Group's long-term strategic objectives.	HUMAN CAPITAL INTELLECTUAL CAPITAL
4 **Nominations committee**	Responsible for identifying and evaluating suitable candidates for possible appointment to the Board to ensure that the Board is balanced and able to fulfil its functions.	HUMAN CAPITAL INTELLECTUAL CAPITAL
5 **Corporate finance committee**	Assists the Board in assessing investment opportunities for the Group.	FINANCIAL CAPITAL
6 **Corporate governance committee**	Reviews and evaluates the governance practices and structures of the Group, and recommends any changes to the Board for a decision.	SOCIAL AND RELATIONSHIP CAPITAL
7 **Social and ethics committee**	Aims to ensure that high ethical standards are applied in all areas of the business, and reviews and approves the policy, strategy and structure for managing social issues.	SOCIAL AND RELATIONSHIP CAPITAL NATURAL CAPITAL
8 **Group executive committee**	Manages the day-to-day business affairs of the various divisions of the Group. Consists of Richard Brasher, Richard van Rensburg and Bakar Jakoet.	NATURAL CAPITAL HUMAN CAPITAL FINANCIAL CAPITAL INTELLECTUAL CAPITAL MANUFACTURED CAPITAL SOCIAL AND RELATIONSHIP CAPITAL

BOARD OF DIRECTORS

Pick n Pay Stores Limited has a strong, experienced and diverse Board with a good balance of skills. Each director makes a valuable contribution relevant to their individual field of expertise, whether retail, finance, law, strategy or information technology.

CHAIRMAN

GARETH ACKERMAN (59)
BSocSci, CMS (Oxon)
Chairman

- Appointed 1990
- Corporate governance committee and nominations committee chairman

EXECUTIVE DIRECTORS

RICHARD BRASHER (55)
Bsc (Hons)
Chief Executive Officer

- Appointed 2013
- Years of service: 4

ABOUBAKAR (BAKAR) JAKOET (61)
CA(SA)
Chief Finance Officer

- Appointed 2011
- Years of service: 31

RICHARD VAN RENSBURG (56)
CA(SA)
Deputy Chief Executive Officer

- Appointed 2009
- Years of service: 8

SUZANNE ACKERMAN-BERMAN (54)
BA, Fellow: Aspen Business Institute; First Movers

- Appointed 2010
- Years of service: 22
- Social and ethics committee chairman

JONATHAN ACKERMAN (50)
BA Marketing

- Appointed 2010
- Years of service: 24

NON-EXECUTIVE DIRECTOR

DAVID ROBINS (63)
BBusSci

- Appointed 2002

COMPANY SECRETARY

DEBRA MULLER (55)
BA LLB

- Appointed 2010
- Years of service: 11

INDEPENDENT NON-EXECUTIVE DIRECTORS

HUGH HERMAN (76)
BA LLB, LLD (hc)

- Appointed 1976
- Lead independent non-executive director
- Remuneration committee chairman

Other listed company directorships:
Growthpoint Properties Limited

ALEX MATHOLE (44)
Bluris LLB

- Appointed 2016

AUDREY MOTHUPI (46)
BA (Hons)

- Appointed 2013

LORATO PHALATSE (55)
BA (Hons), MA

- Appointed 2010

Other listed company directorships:
The Bidvest Group Limited

JEFF VAN ROOYEN (67)
BCom (SA), Hons BCompt SA, CA(SA)

- Appointed 2007
- Audit, risk and compliance committee chairman

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

DAVID FRIEDLAND (63)
CA(SA)

- Appointed 2013

Other listed company directorships:
Investec Limited, Investec plc,
The Foschini Group Limited

HONORARY LIFE PRESIDENTS

RAYMOND ACKERMAN

Years of service: 50

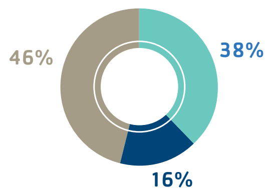
WENDY ACKERMAN

Years of service: 50

Member of the:

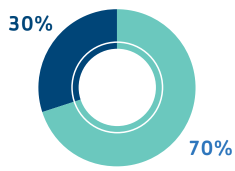
- Audit, risk and compliance committee
- Remuneration committee
- Nominations committee
- Corporate finance committee
- Corporate governance committee
- Social and ethics committee

DIRECTOR CLASSIFICATION



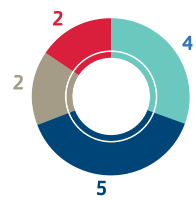
- Executive
- Non-executive
- Independent non-executive

GENDER DIVERSITY



- Male
- Female

DIRECTOR TENURE



- < 5 years
- < 5 – 10 years
- < 10 – 15 years
- < 15 years

REMUNERATION REPORT

Section 1: Chairman's statement

The Group has delivered solid progress against its strategic long-term plan, under the leadership of Richard Brasher and his senior management team. The business has improved its profit margin, strengthened its balance sheet and delivered compound annual growth in headline earnings per share of 24% over the past four years. The Group has invested more in skills development and training, improved its staff engagement and performance management, created more diversity in the workplace and continued to play an important role in job creation in South Africa.

Hugh Herman
Chairman: remuneration committee

The Group's long-term plan is organised around seven key business acceleration pillars, one of which sets out the plan for building a winning team. This recognises the pivotal role the Pick n Pay team will play in the effective execution of Group strategy and ultimately in the long-term sustainable success of Pick n Pay. The Group's remuneration philosophy and underlying policies support its ambition to build the most skilled and talented South African retail business, and is aimed at attracting, retaining and motivating employees, while aligning remuneration with shareholder interests and best practice.

The tough consumer environment has put increasing pressure on sales volumes. The team delivered positive profit growth in this tough environment, strengthening the trading profit margin from 2.1% of turnover to 2.3%, with headline earnings per share up 18.0% year-on-year. However, the 2017 financial result fell short of certain key internal performance indicators set for the team, particularly in respect of turnover growth and working capital targets. Accordingly, the remuneration committee has not awarded a short-term bonus to its senior group executive team this year. Discretionary bonuses have been awarded to key members of staff at lower levels of management in recognition of progress delivered during a more challenging year.

In addition to the short-term bonus decision, other key considerations for the remuneration committee during the year included:

- The third allocation of shares to senior management in terms of the Group's forfeitable share plan in August 2016
- Setting the remuneration packages of new key senior executives in line with market-related benefits
- Agreeing the overall salary increase for all personnel
- Ongoing talent management and succession planning

A highlight of the year was the securing of a three-year wage agreement with the Group's main labour partner. This demonstrated a commitment from both sides to establish a fair and competitive long-term wage rate for members, and to secure improvements in productivity, efficiency and flexibility to assure the long-term success of the Group. The agreement introduced a new starting level category of staff, with basic pay linked to the Government's minimum pay levels, clear progression in terms of annual increases and a comprehensive package of additional benefits. The agreement also introduced a minimum guarantee of 85 hours work per month for all employees, bringing an end to the insecurity of zero-hour contracts. The Group is confident of the opportunity to reduce labour costs as a percentage of sales over time, while providing employees with the dignity of a living wage, competitive benefits and certainty of work.

The Group purchased shares to the value of R345.4 million under its share incentive schemes, and delivered substantial wealth creation for 9 250 employees at all levels, who realised their share awards during the year. The increased take-up of share options was driven by the higher share price over the year, as well as increased engagement with employees over the time of the unbundling of Pick n Pay Holdings Limited RF Group.

It gives us enormous pride to have contributed so substantially to long-term wealth creation for employees. The success of the Group's employee share incentive schemes and the value shared with employees is testament to the unique values of Pick n Pay and the positive role the Group has played as a significant employer in South Africa.

The Group created 4 500 new positions this year and is committed to creating quality jobs across South Africa and beyond. The modernisation of the Group is key to achieving this goal, and to ensure that our job creation is sustainable. Improvements in productivity and cost-effectiveness enable the Group to be more competitive, offer better value, attract more customers and grow its footprint sustainably. It is against this background that Pick n Pay finalised a voluntary severance programme (VSP) in May 2017. Participation in the scheme was entirely voluntary, and acceptance of applications was at the Group's discretion. The programme enabled Pick n Pay to remove positions that were no longer required as a result of improved ways of working. By becoming more efficient and offering better value, the Group will sell more products and open more stores, creating more sustainable jobs in a strong and forward-looking business.

The remuneration committee is confident that the Group's remuneration policy achieved its stated objectives during the year. Senior management and staff have been remunerated fairly, commensurate with market best-practice, current achievements have been recognised and future performance incentivised in line with the objectives of the Group's long-term strategy and the interests of shareholders.

Sections 2 and 3 of the remuneration report (remuneration policy and the implementation thereof) will be tabled at the Group's 2017 AGM, on 31 July 2017 for a separate, non-binding advisory vote by shareholders.

The directors' fees for the 2017 financial period were approved by shareholders at the AGM held on 25 July 2016.

The shareholder votes received in respect of the directors' fees and remuneration report were as follows:

	FOR	AGAINST	ABSTAIN
Advisory vote	364 370 069	66 439 442	2 821 397
Remuneration report for the 2016 annual financial period	84.6%	15.4%	0.6%
Special resolution number 1	401 468 892	29 340 619	2 821 397
Directors' fees for the 2017 and 2018 annual financial periods	93.2%	6.8%	0.6%

The proposed directors' fees for the 2018 financial period will be submitted to shareholders for approval at the AGM to be held on 31 July 2017. Please refer to page 100 for further information.

Future areas of focus for the remuneration committee include talent management, succession planning and appropriate and effective long-term incentives to retain key skill over the long term. The remuneration committee looks forward to 2018, and is optimistic of the positive role Pick n Pay will play in the lives of its employees, and more broadly across all the communities it serves.

Hugh Herman
Chairman: remuneration committee

23 June 2017

Section 2: Overview of remuneration policy

ALIGNMENT WITH STRATEGIC OBJECTIVES

The Group's remuneration philosophy reflects the following principles:

Meritocracy – staff are recognised and advanced based on merit

Most talented SA retail business – we will attract, retain and develop the most talented staff in the retail industry

Effective lean organisation structure – we will create and reward a culture of productivity and efficiency

Diversity management – we will offer equal opportunities to people from all walks of life, and our team will reflect the communities we serve

Underlying remuneration policies support the development and retention of top talent, while attracting critical skills and experience in the retail industry:

- Remuneration at all levels is benchmarked against the remuneration policies and practices of comparable companies (both locally and internationally) to ensure that it is fair and reasonable, and key or scarce skills are remunerated in the upper quartile
- An independent expert assists the remuneration committee with benchmarking
- Remuneration is balanced between fixed remuneration and variable short-term and long-term incentives – applying a higher proportion of variable remuneration to senior management to drive performance, and placing a greater emphasis on fixed pay for middle and junior management
- Compliance with all applicable legislation
- Non-executive directors do not receive remuneration or incentive awards related to share price or corporate performance

The Group rewards employees for their individual contribution to the Group's strategic, operating and financial performance:

- The Group remuneration philosophy and underlying policies are aligned with the long-term strategic objectives of the Group, as set out in Stage 2 of the long-term turnaround plan
- Short-term and long-term incentives are linked to the achievement of key performance targets, and will contribute to building a winning team and long-term, sustainable value creation in the business

STAGE 1

STABILISE THE BUSINESS

STAGE 2

CHANGE THE TRAJECTORY

OBJECTIVES • Sales growth • Operating efficiency • Margin improvement

1 **Better for customers**
2 **A flexible and winning estate**
3 **Efficient and effective operations**
4 **Every product, every day**
5 **A winning team**
6 **Boxer – a national brand**
7 **Rest of Africa – a second engine of growth**

PERFORMANCE TARGETS include:

- Turnover growth
- Increased profit before tax and exceptional items (PBTAE)
- Improved profit margins
- Improved cost ratios, expressed as a percentage of turnover
- Stronger working capital management, specifically reduced days stock on hand

SHORT-TERM AND LONG-TERM VARIABLE INCENTIVES

STAGE 3

SUSTAINABLE LONG-TERM GROWTH

The remuneration committee assists the Board in meeting its responsibility for setting and administering appropriate remuneration policies which are in the best long-term interests of the Group, and are aligned with the Group's long-term strategic objectives. The committee considers and recommends remuneration policies for all levels of staff in the Group, with a particular focus on executive directors, senior management and non-executive directors. The remuneration committee meets at least twice a year, is chaired by an independent non-executive director and comprises only non-executive directors. The committee operates in terms of a Board-approved charter, which is reviewed annually by the Board.

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

Director	Attendance
Hugh Herman (Chairman)	2/2
Gareth Ackerman	2/2
Audrey Mothupi*	2/2
Jeff van Rooyen*	2/2

* *Audrey Mothupi and Jeff van Rooyen were appointed to the remuneration committee in April 2016, to replace John Gildersleeve and Ben van der Ross who retired during the 2016 financial year.*

OBJECTIVES AND ACTIVITIES 2017

- Reviewed the Group's remuneration philosophy and underlying policies to ensure alignment with the strategic objectives of the Group, and best practice in the market.
- Determined the remuneration packages of executive directors and reviewed the remuneration packages of senior management and key employees.
- Proposed fees for non-executive directors, for shareholder approval.
- Reviewed and approved performance-related short-term incentives as well as long-term share-based incentives.
- Determined the overall salary increase for salaried staff across the Group.
- Reviewed the principle and manner in which staff are rewarded for long service, with a view to modernising the benefits in a meaningful and relevant manner.
- Considered talent management and succession planning.

REMUNERATION STRUCTURE: EXECUTIVE DIRECTORS AND EMPLOYEES

Remuneration structure

- Fixed base salary and benefits
- Short-term variable incentives
- Long-term variable incentives

Remuneration objectives

- To ensure employees are fairly awarded for services rendered
- To recognise and reward outstanding individual performance
- To incentivise employees to meet short-term and long-term strategic objectives
- To encourage employees to grow and remain with the Group over the long term

1. FIXED BASED SALARY AND BENEFITS

EMPLOYEES		SALARY	FIXED BENEFITS					
GRADES	CATEGORY	FIXED BASE	13TH CHEQUE	RETIREMENT FUNDING	MEDICAL AID	MOTOR VEHICLE BENEFIT	LOW-INTEREST LOANS	LEAVE
A & B	Senior management	✓	–	✓	✓	✓	✓	✓
C & D	Middle management	✓	✓	✓	✓	✓	✓	✓
E & F	Junior management	✓	✓	✓	✓	–	✓	✓
G	Entry level, clerical and administration	✓	✓	✓	✓	–	✓	✓
NMBU	Permanent staff with non-management bargaining unit	✓	✓	✓	✓	–	✓	✓

FIXED BASE SALARY

Remuneration reflects the relative skill, experience, contribution and performance of the individual. Base salary is set at levels that are competitive with the rest of the market so that the Group can attract, motivate and retain the right calibre of people to achieve the Group's strategic business objectives. Remuneration is directly linked to annual performance assessments. Annual increases in base salary are determined with reference to the scope of the employee's role, the competence and performance of the employee, the projected consumer price index and comparable increases in the general and retail market.

FIXED BENEFITS

13th cheque

A 13th cheque is paid to qualifying employees in November each year. Variable-time employees[3] participate based on the average number of hours worked in a month. Employees must have been in the employ of the Group for at least three months to be eligible to receive this benefit.

Retirement funding

It is a condition of employment that all employees, including variable-time employees[3], are required to join one of the retirement funds provided by the Group. The Group contributes up to 8.7% of the individual employee's salary towards retirement funding, depending on the fund and the terms and conditions of employment.

Medical aid

Medical aid provisions are in place for all full-time[1], part-time[2] and variable-time employees[3]. The Group provides a number of medical aid schemes and membership is compulsory for all Pick n Pay employees on G-grade and above, unless they are covered by a third-party medical aid. Membership of the medical aids provided is optional for NMBU[4] employees. The Group contributes 50% of the medical aid contributions on behalf of employees.

The Group is committed to furthering the economic empowerment and wellbeing of its employees and as such, the provision of retirement and medical benefits to staff is a key part of the remuneration policy.

Motor vehicle benefit

Certain employees in middle management and above are entitled to a motor vehicle benefit. Depending on the requirements of their role, it may be in the form of a travel allowance or provision of a company car. This benefit may include payment of maintenance, fuel and insurance.

Low-interest loans

All employees have access to low-interest loans from the Group. The primary objective of this benefit is to assist employees with the acquisition of residential property. Loan values are capped at varying amounts, depending on the employee's position in the Group. Affordability tests are performed before any loan is granted, to ensure the employee does not experience financial strain. All housing loans are secured by the employee's retirement funding. No financial assistance is provided to assist employees to buy shares in the Group. For further details please refer to note 15 of the 2017 audited Group annual financial statements where employee loans are disclosed.

Leave

Annual leave accumulates from the date of starting employment for all employees and varies between three and four weeks per annum depending on the terms, conditions and length of employment. Variable-time employees[3] accumulate leave based on ordinary hours worked. The Group recognises long service with an additional allocation of leave, depending on the terms and conditions of employment, at five-year intervals. The Group also provides family responsibility and religious leave, where applicable.

Long-service awards

The Group has replaced its long-service share option scheme with a long-service cash award scheme where employees can redeem their award in Pick n Pay stores.

1. *Full-time employees have a fixed contract with the Group and work either 40 or 45 hours per week*
2. *Part-time employees have a fixed contract with the Group and work a maximum of 25 hours per week*
3. *Variable time employees have a variable contract with the Group, which guarantees either 85 hours per month, or a maximum of 40 hours per week*
4. *NMBU refers to our non-management bargaining unit*

2. SHORT-TERM AND LONG-TERM VARIABLE INCENTIVES

		SHORT-TERM	LONG-TERM			
EMPLOYEES			SHARE AWARDS			
GRADES	CATEGORY	INCENTIVE BONUS	STATUS	PERFORMANCE	RETENTION AND BINARY	FORFEITABLE SHARES
A & B	Senior management	✓	✓	✓	✓	✓
C & D	Middle management	✓	✓	✓	✓	–
E & F	Junior management	–	✓	–	–	–
G	Entry level, clerical and administration	–	–	–	–	–
NMBU	Permanent staff with non-management bargaining unit	–	–	–	–	–

SHORT-TERM VARIABLE INCENTIVE

The short-term incentive bonus is discretionary and is linked to the achievement of targets based on profit before tax and exceptional items (PBTAE), as set by the remuneration committee. Please refer to the five-year review on page 77 for further detail on the calculation of PBTAE. The bonus pool is self-funding and is created after the achievement of pre-defined targets, inclusive of the value of the incentive. The bonus pool increases in value as threshold, target or stretch targets are attained. Bonuses are paid as a multiple of basic monthly salary. Each individual's share of the bonus pool is dependent on the overall Group target being reached and on their own individual performance, as measured through the Group's annual performance appraisal process.

Bonuses are capped at the following multiples:

GRADES	CATEGORY	BONUS CAP
A	CEO	24 x basic monthly salary
A	Group Executive	12 x basic monthly salary
B	Senior management	6 x basic monthly salary
C & D	Middle management	4 x basic monthly salary

All bonuses paid are subject to approval by the remuneration committee and no bonuses are paid if the Group's PBTAE threshold target is not met. The bonus paid to middle management is reduced by the value of the fixed 13th cheque which is paid annually in November.

Other, more frequent incentive bonuses are paid to qualifying staff at store level. These incentives are linked directly to short-term store performance targets, including turnover, stockholdings, and shortages and waste.

LONG-TERM VARIABLE INCENTIVES

It is Group policy to maintain a broad-based share option scheme for employees. This is an integral part of our remuneration philosophy and ensures that the interests of staff are aligned with those of shareholders. It gives all levels of management the opportunity to acquire shares in the Group, affording them the opportunity for economic upliftment, and encourages employee retention. It is a key differentiator between the Group and other retail employers in South Africa.

The Group operates two share incentive schemes for the benefit of its employees:

1. The 1997 Employee Share Option Scheme; and
2. The forfeitable share plan (FSP).

Funding of share plans and dilutions

Shareholders have authorised the Board to utilise up to 63 892 444 shares of Pick n Pay Stores Limited for the purpose of managing the Group's share schemes. Both the Group's share schemes fall within this limit which means the aggregate number of shares that can be awarded under both schemes cannot exceed the authorised limits.

The two share schemes are further constrained by an aggregate limit of 5% of the issued share capital of Pick n Pay Stores Limited, in respect of the amount of new shares that can be issued to cover obligations under the employee share schemes. The Group has cumulatively issued 10.7 million shares in the past and is therefore able to issue a further 13.7 million shares or 2.8% of its issued share capital to fund future obligations under the share schemes. Please refer to note 5 of the 2017 audited Group annual financial statements for further details of the outstanding options and limits available under the schemes.

The 1997 Employee Share Option Scheme

The Group operates the 1997 Employee Share Option Scheme (the scheme) to facilitate broad employee share ownership, foster trust and loyalty among employees and reward performance. The scheme incentivises management and employees by providing them with an opportunity to acquire shares in the Group, thereby aligning interests with shareholders and encouraging employee retention. Furthermore, binary share options incentivise senior management to achieve specified market-related performance targets.

During the 2017 financial year, 3.4 million Pick n Pay Stores Limited (PIK) options were issued to employees in respect of their progress and performance. A total of 32.1 million PIK share options were held by employees at year-end, amounting to 6.6% of shares in issue. Please refer to note 5 of the 2017 audited Group annual financial statements for further information.

Status share options – service conditions attached

Status share options are granted to employees who attain grade F, and further options are granted at each promotion to higher levels of management. In order to encourage employee retention, status shares vest in three tranches (vesting periods) as follows:

- 40% after three years of service
- 30% after five years of service
- 30% after seven years of service

There are no other performance conditions attached to these share options. Vesting is only dependent on the employee remaining in the employ of the Group over the specified vesting period. If the employee leaves the employ of the Group before the end of a vesting period, unvested share options lapse.

Performance share options – service conditions attached

Middle management employees may be eligible for performance "top-up" share options, in recognition of their individual performance and contribution to the Group. These options vest in the same manner as status share options.

Retention share options – extended service conditions attached

These share options specifically encourage the retention of key individuals and have varying vesting periods that can be up to 10 years.

Binary share options – service and performance conditions attached

Binary share options are granted to employees in senior management positions. These three to five-year options may only be taken up when prescribed performance conditions linked to the growth of the PIK share price are met. Should further performance hurdles be achieved, discounted grant prices may apply. If the initial eligibility hurdle is not met, the options are forfeited.

(a) Binary share options issued to deputy CEO Richard van Rensburg

In October 2011, 400 000 binary share options were issued to deputy CEO Richard van Rensburg. The binary share options were issued at a grant price of R36.55, under the following terms:

If the 20-day VWAP up to and including 23 May 2016 was R73.11 or greater, the options could be exercised at the full grant price of R36.55. Should this 20-day VWAP be less than R73.11, then the options would lapse. Thereafter, if further performance hurdles were met, discounted grant prices would apply on exercise.

The salient features of the issue are summarised below:

Hurdles	Share price May 2016	Annual compound growth rate	Exercise price May 2016
Eligibility hurdle	R73.11	16%	R36.55
Performance hurdle 1	R93.07	23%	R18.28
Performance hurdle 2	R121.56	30%	R1.00

The 20-day VWAP up to and including 23 May 2016 was R73.79. As such the eligibility hurdle was met and the binary share options vested. Richard van Rensburg took up these shares at the grant price of R36.55, and elected to sell.

(b) Binary share options issued to CEO Richard Brasher

In November 2012, 1 000 000 binary share options were issued to Richard Brasher on his appointment as CEO. The binary share options were issued at a grant price of R42.24.

If the 20-day VWAP up to 14 November 2017 is R68.03 or greater, the options can be exercised at the full grant price of R42.24. Should this 20-day VWAP be less than R68.03, then the options will lapse. Thereafter, if performance hurdles are met, discounted grant prices will apply on exercise.

The salient features are summarised below:

Hurdles	Share price November 2017	Annual compound growth rate	Exercise price November 2017
Eligibility hurdle	R68.03	10%	R42.24
Performance hurdle 1	R84.96	15%	R21.12
Performance hurdle 2	R128.91	25%	R1.00

In addition to the terms above, if the 20-day VWAP up to 14 November 2017 is between R105.11 and R128.90 (representing an annual compound growth rate of 20% in the 20-day VWAP share price from grant date), a cash bonus of R10.6 million will be paid.

The future net realisable value of all outstanding share options for all participating Group employees:

	Average grant price 2017 R	52 weeks 26 February 2017 Number of options 000's	52 weeks 26 February 2017 Net realisable value Rm
Outstanding share options may be taken up during this following financial periods:			
Year			
2018	**32.78**	**17 249.6**	**405.7**
2019	**40.72**	**5 255.9**	**81.9**
2020	**42.05**	**3 518.5**	**50.1**
2021	**54.19**	**2 315.9**	**4.9**
2022 and after	**59.18**	**3 786.5**	**–**
		32 126.4	**542.6**

The net realisable value of outstanding share options was calculated using the prevailing market share price at the time of publication of R56.30 less the average grant price. Binary share options include performance hurdles that, if met, trigger discounted grant prices.

The forfeitable share plan (FSP)

The FSP recognises those key employees who have a significant role to play in delivering Group strategy and ensuring the growth and sustainability of the business in the future. The award of shares under the FSP recognises the valuable contribution of qualifying employees, and through the attachment of performance conditions, incentivises these employees to deliver earnings growth in the future. An award of shares may also be used to attract talented prospective employees.

An important feature of the FSP is that before employees are eligible to participate, they must first meet their annual individual key performance indicators, as set out in the strategic long-term plan. If an employee does not meet his or her individual performance targets and therefore is not awarded a short-term incentive bonus, the employee will not be eligible to receive an award of forfeitable shares.

The participant becomes the beneficial owner of the forfeitable shares on the date of the award. Beneficial ownership affords the employee full shareholder voting rights and full rights to any dividends declared.

The shares are held by a Central Securities Depository Participant (CSDP) on behalf of the employee during the time of the vesting period and the employee will not be able to dispose of the shares before the vesting date. If the employee leaves the employ of the Group before the completion of the vesting period (other than on normal retirement, disability or death) all shares will be forfeited.

The remuneration committee awards shares to participants. The actual number of shares awarded takes into account recognised market benchmarks, as well as each participant's individual performance, annual salary, employment grade and other relevant retention and attraction requirements. The performance conditions are linked to the financial performance of the Group, with headline earnings per share (HEPS) the preferred performance measure. Performance conditions are applied on a linear, rising scale, allowing for the vesting of an increasing number of shares, as earnings thresholds are met and exceeded.

It is important to note that all the growth thresholds detailed above are after recognising the applicable IFRS 2 expense, which is charged to the income statement over the vesting term of the forfeitable shares. The scheme is therefore self-funding.

To ensure the FSP is aligned with the best interests of the Group and its shareholders, the performance conditions are subject to an overriding condition that Pick n Pay's return on capital employed (ROCE) must be greater than its weighted average cost of capital (WACC) over the vesting period, before any FSP shares are allowed to vest. This is to ensure that the Group has generated a real return for shareholders before rewarding its management team.

There have been three share issues under the FSP:

FSP 1

The debut FSP share issue took place in August 2014 and was funded through a fresh issue of 6.9 million PIK shares. There have been some forfeitures in terms of the scheme and currently 6.4 million shares are held by a CSDP on behalf of 134 participants.

The following performance conditions apply for FSP 1:

52 WEEKS TO 2 MARCH 2014 BASELINE HEPS cents	THREE-YEAR COMPOUND ANNUAL GROWTH RATE %	52 WEEKS TO 26 FEBRUARY 2017 HEPS cents	PORTION OF SHARES WHICH VEST %	NUMBER OF SHARES WHICH VEST 000's	NET REALISABLE VALUE* Rm
138.51	< 10%	< 184.36	All forfeited	–	–
138.51	10%	184.36	30%	1 927.5	108.5
138.51	12%	194.60	65%	4 176.3	235.1
138.51	15%	210.66	100%	6 425.0	361.7

* *The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at the time of publication of R56.30.*

The Group delivered HEPS growth of 18.0% in 2017 to 264.35 cents per share, with cumulative HEPS growth over the last three years of 24.0%. The stretch HEPS growth target has been met. The total number of outstanding FSP 1 shares will fully vest in August 2017, provided that the three-year service requirement is met.

FSP 2

The second FSP share issue took place in August 2015 and was funded through a fresh issue of 1.1 million PIK shares and available treasury shares. A total of 1.2 million shares are currently held by a CSDP on behalf of 107 participants.

The following performance conditions apply for FSP 2:

52 WEEKS TO 1 MARCH 2015 BASELINE HEPS cents	THREE-YEAR COMPOUND ANNUAL GROWTH RATE %	52 WEEKS TO 25 FEBRUARY 2018 HEPS cents	PORTION OF SHARES WHICH VEST %	NUMBER OF SHARES WHICH VEST 000's	NET REALISABLE VALUE* Rm
177.26	< 10%	< 235.93	All forfeited	–	–
177.26	10%	235.93	30%	350.4	19.7
177.26	11%	242.43	65%	759.2	42.7
177.26	12%	249.04	100%	1 168.0	65.8

* *The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at the time of publication of R56.30.*

The strong compound annual growth in HEPS of 22% over the past two years has put the Group in a strong position to deliver the FSP 2 shares to participants in 2018.

FSP 3

The third FSP share issue took place in August 2016 and was funded partly through treasury shares held by the Group and partly through open market purchases. A total of 1.7 million shares are held by a CSDP on behalf of 117 participants.

The following performance conditions apply for FSP 3:

52 WEEKS TO 28 FEBRUARY 2016 BASELINE HEPS cents	THREE-YEAR COMPOUND ANNUAL GROWTH RATE %	52 WEEKS TO 3 MARCH 2019 HEPS cents	PORTION OF SHARES WHICH VEST %	NUMBER OF SHARES WHICH VEST 000's	NET REALISABLE VALUE* Rm
224.04	< 10%	< 298.20	All forfeited	–	–
224.04	10%	298.20	30%	523.1	29.5
224.04	12%	314.76	65%	1 133.3	63.8
224.04	14%	331.92	100%	1 743.5	98.2

* *The net realisable value of outstanding FSP shares was calculated using the prevailing market share price at the time of publication of R56.30.*

3. SERVICE CONTRACTS

Executive directors and senior management are employed in terms of the Group's standard contract of employment and are only employed under fixed-term contracts under specific circumstances. Senior management are required to give a reasonable notice period of their intention to terminate their services, which varies from one to 12 calendar months. The retirement age of the Group is 60 years, which applies to all employees. Employment contracts do not provide for any exceptional benefits or compensation on the termination of employment. Certain managers who are considered key in carrying out the Group's strategy are subject to contractual restraint of trade provisions and discretionary termination or restraint of trade payments may be made in this regard.

The Group's Chief Finance Officer, Bakar Jakoet, has reached retirement age and is now employed by the Group under a fixed-term contract. The terms of the contract dictate a notice period of at least 12 months.

REMUNERATION STRUCTURE: NON-EXECUTIVE DIRECTORS

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 for directors to undertake their duties, and must be approved by the Board and shareholders. Approved fees are set for the annual financial period, please refer to page 100 for more detail on the proposed fees for 2018. Fees are not subject to attendance at meetings as attendance at Board meetings is generally good.

Remuneration is not linked to the performance of the Group or the Group's share performance. Non-executive directors do not receive performance-related bonuses and are not granted any share awards.

When non-executive directors provide additional consultancy services to the Board and its committees the related fees are determined and approved by the remuneration committee on an *ad hoc* basis, taking into account the nature and scope of the services rendered.

Section 3: Implementation of remuneration policy

WORK PERFORMED AND DECISIONS TAKEN BY REMUNERATION COMMITTEE

The main items considered and approved by the remuneration committee during the 2017 financial period were as follows:

Executive director remuneration benchmarking, including a review of all benefits provided

The remuneration committee reviewed the fixed remuneration of executive directors, including all benefits, to ensure alignment with the Group's strategic objectives and best practice in the market. The remuneration is considered fair and competitive against market benchmarks and the role and performance of each individual executive director.

Reviewing and setting the annual compensation for the CEO

In setting Richard Brasher's annual base salary at R8.9 million, the remuneration committee considered his extensive experience in the retail industry and the progress he has delivered against the Group's long-term strategic plan. The Group has delivered strong and consistent profit growth over the last four years under Richard's stewardship. The remuneration committee benchmarked Richard's base salary against similar-sized South African companies and his salary is considered fair in relation to the market, his expertise and his contribution to date.

Annual increases in fixed remuneration for executive directors

The increase in total fixed base salary and benefits paid to executive directors is 6.7%, against an average for the Group of 7.0%, excluding employees governed by a labour union agreement (NMBU). The average annual increase for NMBU employees was between 7.0% and 8.0%. Increases are determined after detailed performance reviews undertaken in April each year. Annual increases are determined with reference to the scope of executives' roles, their performance against key performance indicators, as well as comparable increases in the general and retail market and the projected consumer price index.

Determining an appropriate short-term incentive bonus, and the reasonable allocation thereof to executive directors and qualifying employees

The remuneration committee sets annual performance targets (threshold, target and stretch) that must be achieved before a short-term incentive bonus will be payable. The targets are based on profit before tax and exceptional items (PBTAE), which is inclusive of the cost of the short-term incentive.

The Group delivered PBTAE of R1 761.5 million, a 17.0% increase on the prior period. This exceeds the remuneration committee's threshold target of 10.0%, but was short of its target and stretch ambitions of 20.0% and 25.0% respectively. The quantum of the bonus pool is at the discretion of the remuneration committee and is informed by the overall performance of the Group and the personal performances of the individual senior managers. While the target PBTAE was met, the 2017 financial result fell short of certain key internal performance indicators set for the team, particularly in respect of turnover growth and working capital targets. The remuneration committee therefore elected not to award a short-term bonus to its senior management team. Discretionary bonuses have been awarded to key members of staff at lower levels of management in recognition of progress delivered during a more challenging year.

The remuneration committee has set new and appropriate targets for the 2018 financial period.

Reviewing the Group's long-term share option incentive scheme, its alignment to long-term strategy and allocations to executive directors

The remuneration committee undertook a detailed review of all the share options held by the executive directors, including all the service and performance conditions attached. No new share options were granted to executive directors during the year.

Reviewing the Group's forfeitable share plan – setting appropriate performance conditions and allocating forfeitable shares to executive directors and qualifying senior management

The remuneration committee set the financial performance conditions to be attached to the third issue under the Group's forfeitable share plan and agreed on the 117 participants and the level at which each would participate, with particular focus on the allocations to executive directors.

For further information refer to pages 97 and 98 of this report.

Reviewing and recommending non-executive directors' fees for the 2018 financial period, for final approval by shareholders at the AGM

Fees (excluding value added tax) for the current and proposed periods are as follows:

	Proposed 2018 R	Actual 2017 R	% change
Chairman of the Board	**4 187 000**	3 913 000	7.0
Lead independent non-executive director of the Board	**130 000**	122 000	6.6
Non-executive director of the Board	**390 000**	364 000	7.1
Chairman of the audit, risk and compliance committee	**321 000**	300 000	7.0
Member of the audit, risk and compliance committee	**130 000**	122 000	6.6
Chairman of the remuneration committee	**171 000**	160 000	6.9
Member of the remuneration committee	**85 000**	80 000	6.3
Member of the nominations committee[1]	**80 000**	75 000	6.6
Member of the social and ethics committee[2]	**85 000**	80 000	6.3
Chairman of the corporate finance committee[3]	**182 000**	170 000	7.1
Member of the corporate finance committee[3]	**123 000**	115 000	7.0
Trustee of the employee share purchase trust	**38 000**	35 500	7.0

1. *The chairman of the nominations committee is the Chairman of the Board and does not receive an additional fee for chairing this committee.*
2. *The chairman of the social and ethics committee is an executive director and does not receive an additional fee for chairing this committee.*
3. *The corporate finance committee is an ad hoc committee. The fees payable are determined in relation to the number of meetings held during the financial period, but will not be more than the annual proposed fee. Two formal meetings were held during the 2017 financial period.*

Reviewing and recommending to the Board the overall compensation for the Chairman, for final approval by shareholders at the AGM

In setting the Chairman's proposed annual fee of R4.2 million, the remuneration committee (Gareth Ackerman recused himself from discussion) considered the active role he plays in the corporate governance of the Group and in formulating overarching strategy for the individual companies within the Group. Gareth does not play a day-to-day role in the executive management and administration of the business, but does make himself available to the executive team in an advisory capacity.

Reviewing and approving of the Group's remuneration policy and report

This report and the recommendations of the remuneration committee have been approved by the Board and will be submitted to shareholders for consideration at the annual general meeting to be held on 31 July 2017.

PAYMENTS, ACCRUALS AND AWARDS TO EXECUTIVE DIRECTORS

The Board is wholly responsible for the formulation, development and effective execution of Group strategy.

In turn, the Board delegates operational strategy implementation and general executive management of the business to its executive directors. As such, in terms of section 38 of the Companies Act 2008, the executive directors are identified as prescribed officers, and their remuneration is detailed in the table opposite.

The remuneration committee does not target an optimum level of fixed versus variable remuneration, although the scope and breadth of the strategic role performed by each executive director is considered when allocating long-term incentive share awards. The remuneration committee is in the process of developing formal guidelines in this regard.

Total fixed benefits include payments made and costs accrued in the current year, and variable incentives include the related cost of share awards issued in current and prior periods.

Total remuneration of executive directors

	Fees for board meetings R'000	Base salary† R'000	Retirement and medical contri-butions† R'000	Fringe and other benefits R'000	Total fixed remune-ration R'000	Short-term annual bonus^ R'000	Total remune-ration R'000	Long-term share awards expense# R'000
2017								
Executive directors								
Richard Brasher	1.5	8 945.9	781.7	302.7	10 031.8	–	10 031.8	23 754.3
Richard van Rensburg	1.5	4 027.2	350.1	328.2	4 707.0	–	4 707.0	6 794.1
Bakar Jakoet	1.5	3 892.7	587.1	324.2	4 805.5	–	4 805.5	6 001.0
Suzanne Ackerman-Berman	1.5	2 508.0	224.9	276.6	3 011.0	–	3 011.0	3 569.4
Jonathan Ackerman	1.5	2 282.7	401.7	282.7	2 968.6	–	2 968.6	3 560.8
Total remuneration	**7.5**	**21 656.5**	**2 345.5**	**1 514.4**	**25 523.9**	**–**	**25 523.9**	**43 679.6**
2016								
Executive directors								
Richard Brasher	1.5	7 863.0	1 303.4	287.5	9 455.4	15 000.0	24 455.4	20 233.6
Richard van Rensburg	1.5	3 709.4	600.3	312.0	4 623.2	2 500.0	7 123.2	8 448.9
Bakar Jakoet	1.5	3 213.0	552.0	302.9	4 069.4	2 500.0	6 569.4	5 436.2
Suzanne Ackerman-Berman	1.5	2 221.5	376.8	267.2	2 867.0	1 700.0	4 567.0	3 055.4
Jonathan Ackerman	1.5	2 221.5	401.5	272.5	2 897.0	1 700.0	4 597.0	3 055.4
Total remuneration	7.5	19 228.4	3 234.0	1 442.1	23 912.0	23 400.0	47 312.0	40 229.5

^ *No short-term annual bonus was paid to executive directors in respect of the 2017 financial year. Refer to page 99 for more detail.*

† *The structure of remuneration packages were adjusted during the year, and the year-on-year increase in base salary and decrease in retirement and medical contributions should be viewed together.*

The expense of the long-term share awards is determined in accordance with IFRS 2: Share-based Payments. The fair value is measured at grant date and the cost of the awards granted is spread over the period during which the employees become unconditionally entitled to the options (the vesting period). The amounts in the column represent the current year's charge, as recorded in the statement of comprehensive income and statement of changes in equity. The long-term share awards will vest in the future only if all the criteria set out in the rules of the 1997 Employee Share Option Scheme and Forfeitable Share Plan are met.

Total remuneration of non-executive directors

	Directors' fees R'000	Lead director R'000	Audit committee R'000	Remune-ration committee R'000	Nomina-tions committee R'000	Corporate finance committee R'000	Social and ethics committee R'000	Employee share trust R'000	Total R'000
2017									
Non-executive directors									
Gareth Ackerman	3 913.0	–	–	–	–	–	–	–	3 913.0
David Friedland	364.0	–	122.0	–	75.0	115.0	–	–	676.0
Hugh Herman	364.0	122.0	122.0	160.0	–	115.0	–	35.5	918.5
Alex Mathole*	125.0	–	–	–	–	–	–	–	125.0
Audrey Mothupi	364.0	–	122.0	80.0	–	115.0	–	35.5	716.5
Lorato Phalatse	364.0	–	–	–	75.0	115.0	80.0	–	634.0
David Robins	364.0	–	–	–	–	–	–	–	364.0
Jeff van Rooyen	364.0	–	300.0	80.0	–	170.0	–	35.5	949.5
Total remuneration	**6 222.0**	**122.0**	**666.0**	**320.0**	**150.0**	**630.0**	**80.0**	**106.5**	**8 296.5**
2016									
Non-executive directors									
Gareth Ackerman	3 657.0	–	–	–	–	–	–	–	3 657.0
David Friedland***	340.0	–	–	–	70.0	107.0	–	–	517.0
John Gildersleeve****	340.0	–	–	75.0	–	107.0	–	–	522.0
Hugh Herman	340.0	114.0	114.0	150.0	–	107.0	–	33.0	858.0
Audrey Mothupi	340.0	–	114.0	–	–	107.0	–	–	561.0
Lorato Phalatse	340.0	–	–	–	70.0	107.0	75.0	–	592.0
David Robins	340.0	–	–	–	–	–	–	–	340.0
Jeff van Rooyen	340.0	–	280.0	–	–	160.0	–	–	780.0
Ben van der Ross**	170.0	–	57.0	37.5	35.0	–	–	16.5	316.0
Total remuneration	6 207.0	114.0	565.0	262.5	175.0	695.0	75.0	49.5	8 143.0

* *Alex Mathole was appointed on 24 October 2016.*

** *Ben van der Ross resigned on 27 July 2015.*

*** *During the prior period David Friedland received consultancy fees of R114 000 for services rendered to the audit, risk and compliance committee.*

**** *John Gildersleeve resigned on 28 February 2016.*

REMUNERATION REPORT continued

Share awards granted to executive directors

	Calendar year granted	Award grant price R	Balance held at 28 February 2016	Granted/ (exercised) during the period	Converted on unbundling ***	**Balance held at 26 February 2017**	Available for take-up
2017							
Richard Brasher							
Share options	2012	42.24	1 000 000	–	–	**1 000 000**	Nov 2017
	2012	42.24	1 000 000*	–	–	**1 000 000***	Nov 2017
Forfeitable shares	2014	Nil	800 000	–	–	**800 000**	Aug 2017
	2015	Nil	220 000	–	–	**220 000**	Aug 2018
	2016	Nil	–	230 000	–	**230 000**	Aug 2019
			3 020 000	230 000	–	**3 250 000**	
Richard van Rensburg							
Share options	2011	36.55	400 000**	(400 000)	–	**–**	n/a
	2016	31.14	–	–	487 464	**487 464**	Now
Forfeitable shares	2014	Nil	250 000	–	–	**250 000**	Aug 2017
	2015	Nil	35 000	–	–	**35 000**	Aug 2018
	2016	Nil	–	45 000	–	**45 000**	Aug 2019
			685 000	(355 000)	487 464	**817 464**	
Bakar Jakoet							
Share options	2003	12.00	250 000	–	–	**250 000**	Now
	2005	23.59	–	–	195	**195**	Now
	2007	31.15	5 779	–	–	**5 779**	Now
	2008	23.24	–	–	293	**293**	Now
	2008	26.55	7 907	–	–	**7 907**	Now
	2008	26.14	150 000	–	–	**150 000**	Now
	2009	28.20	12 413	–	–	**12 413**	Now
	2010	32.82	–	–	195	**195**	Now
	2010	42.28	1 799	–	–	**1 799**	Now
	2011	41.70	500 000	–	–	**500 000**	Now
	2014	46.44	–	–	195	**195**	Now
Forfeitable shares	2014	Nil	250 000	–	–	**250 000**	Aug 2017
	2015	Nil	35 000	–	–	**35 000**	Aug 2018
	2016	Nil	–	45 000	–	**45 000**	Aug 2019
			1 212 898	45 000	878	**1 258 776**	
Suzanne Ackerman-Berman							
Share options	2008	26.14	50 000	–	–	**50 000**	Now
	2008	26.14	25 000	–	–	**25 000**	Aug 2017
	2008	26.14	25 000	–	–	**25 000**	Aug 2018
	2016	58.10	–	–	196	**196**	Now
Forfeitable shares	2014	Nil	150 000	–	–	**150 000**	Aug 2017
	2015	Nil	20 000	–	–	**20 000**	Aug 2018
	2016	Nil	–	25 000	–	**25 000**	Aug 2019
			270 000	25 000	196	**295 196**	
Jonathan Ackerman							
Share options	2008	26.14	50 000	–	–	**50 000**	Now
	2008	26.14	25 000	–	–	**25 000**	Aug 2017
	2008	26.14	25 000	–	–	**25 000**	Aug 2018
Forfeitable shares	2014	Nil	150 000	–	–	**150 000**	Aug 2017
	2015	Nil	20 000	–	–	**20 000**	Aug 2018
	2016	Nil	–	25 000	–	**25 000**	Aug 2019
			270 000	25 000	–	**295 000**	

* *The exercising of these binary options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option. If the share price performance criteria are not met, the options are forfeited. Refer to page 96 for more detail.*

** *The exercising of these binary options were subject to specific performance criteria relating to the Company's share price over the term of the option which were met during the period under review. Refer to page 96 for more detail.*

*** *As part of the unbundling of the Pick n Pay Holdings Limited RF Group, existing share options in Pick n Pay Holdings Limited RF shares were cancelled and replaced with share options in Pick n Pay Stores Limited shares. Refer to note 27 of the 2017 audited Group annual financial statements for more information.*

Directors' interest in Pick n Pay Stores Limited ordinary shares

	How held*	Balance held at 28 February 2016	Additions/ (disposals) during the period	Shares transferred on unbundling ***	**Balance held at 26 February 2017#**	Beneficial/ non-beneficial interest
2017						
Gareth Ackerman	Direct	43	–	266	**309**	Beneficial
	Indirect	–	23 467	1 629 733	**1 653 200**	Beneficial
	Indirect	–	–	19 762	**19 762**	Non-beneficial
Ackerman Investment Holdings Proprietary Limited**	Indirect	–	–	124 677 238	**124 677 238**	Non-beneficial
Richard Brasher	Direct – FSP	1 020 000	230 000	–	**1 250 000**	Beneficial
Richard van Rensburg	Direct	–	–	41 439	**41 439**	Beneficial
	Direct – FSP	285 000	45 000	–	**330 000**	Beneficial
Bakar Jakoet	Direct	500 000	–	121 880	**621 880**	Beneficial
	Direct – FSP	285 000	45 000	–	**330 000**	Beneficial
	Indirect	530	–	12 529	**13 059**	Non-beneficial
Suzanne Ackerman-Berman	Direct	2 500	–	118 028	**120 528**	Beneficial
	Direct – FSP	170 000	25 000	–	**195 000**	Beneficial
	Indirect	4 651	–	467 576	**472 227**	Beneficial
Jonathan Ackerman	Direct	43	–	122 845	**122 888**	Beneficial
	Direct – FSP	170 000	25 000	–	**195 000**	Beneficial
	Indirect	–	–	573 061	**573 061**	Beneficial
	Indirect	–	–	11 039	**11 039**	Non-beneficial
Jeff van Rooyen	Direct	3 800	(3 800)	–	**–**	Beneficial
David Friedland	Direct	–	–	31 688	**31 688**	Beneficial
David Robins	Direct	–	–	975	**975**	Beneficial
	Indirect	–	–	93 276	**93 276**	Non-beneficial
Ackerman Pick n Pay Foundation****	Indirect	30 000	–	–	**30 000**	Non-beneficial
	Indirect	71 900	–	–	**71 900**	Non-beneficial
The Mistral Trust*****	Indirect	–	–	2 700 967	**2 700 967**	Non-beneficial

* *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a trust of which the director is a trustee, or a spouse and minor children of directors.*

** *The non-beneficial interest in Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

*** *As part of the unbundling of the Pick n Pay Holdings Limited RF Group, shareholders of Pick n Pay Holdings Limited RF were granted a dividend in specie, made up of shares in Pick n Pay Stores Limited. Refer to note 27 of the 2017 audited Group annual financial statements for more information.*

**** *The indirect non-beneficial interest in the Ackerman Pick n Pay Foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman in their capacities as trustees.*

***** *The indirect non-beneficial interest in The Mistral Trust represents a portion of the holdings of Gareth Ackerman in his capacity as trustee.* .

There have been no changes in the director's interest in shares since 26 February 2017 up to the date of approval of the 2017 audited Group annual financial statements

Directors' interest in Pick n Pay Stores Limited B shares

	How held*	Balance held at 28 February 2016	Issued on unbundling**	**Balance held at 26 February 2017**	Beneficial/ non-beneficial interest
2017					
Gareth Ackerman	Direct	–	522	**522**	Beneficial
	Direct	–	3 227 861	**3 227 861**	Beneficial
	Indirect	–	39 140	**39 140**	Non-beneficial
Ackerman Investment Holdings Proprietary Limited***	Indirect	–	246 936 847	**246 936 847**	Non-beneficial
The Mistral Trust****	Indirect	–	5 349 559	**5 349 559**	Non-beneficial
Suzanne Ackerman-Berman	Direct	–	233 767	**233 767**	Beneficial
	Indirect	–	926 084	**926 084**	Beneficial
Jonathan Ackerman	Direct	–	243 307	**243 307**	Beneficial
	Indirect	–	1 135 009	**1 135 009**	Beneficial
	Indirect	–	21 862	**21 862**	Non-beneficial
David Robins	Direct	–	1 931	**1 931**	Beneficial
	Indirect	–	184 742	**184 742**	Non-beneficial

* *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a trust of which the director is a trustee, or a spouse and minor children of directors.*

** *As part of the unbundling of the Pick n Pay Holdings Limited RF Group, a new class of unlisted voting shares (B shares) in Pick n Pay Stores Limited was created (refer to note 19.2 of the 2017 audited Group annual financial statements). These shares were issued to existing controlling shareholders of Pick n Pay Holdings Limited RF so as to retain the control structure of the Group as before the unbundling. Refer to note 27 of the 2017 audited Group annual financial statements for more information.*

*** *The non-beneficial interest in Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

**** *The non-beneficial interest in The Mistral Trust represents a portion of the holdings of Gareth Ackerman in his capacity as trustee.*

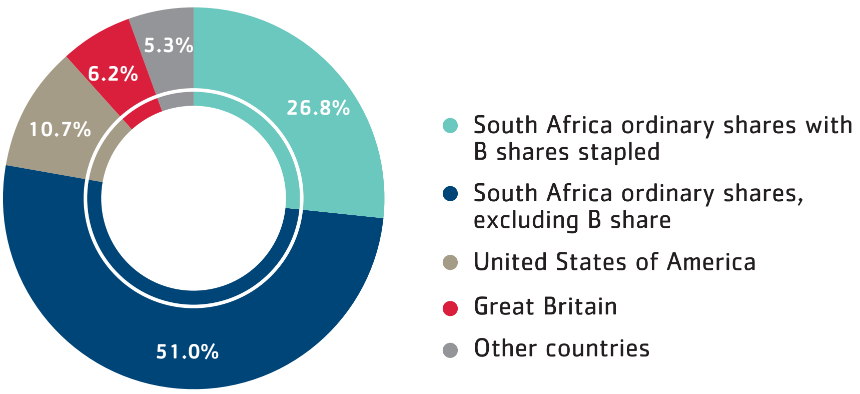
ANALYSIS OF ORDINARY SHAREHOLDERS

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	8 059	60.1	2 458 411	0.5
1 001 – 10 000 shares	3 910	29.2	12 711 866	2.6
10 001 – 100 000 shares	1 061	7.9	33 676 125	6.9
100 001 – 1 000 000 shares	321	2.4	94 181 119	19.3
1 000 001 shares and over	57	0.4	345 422 800	70.7
Total	**13 408**	**100.0**	**488 450 321**	**100.0**

Public/non-public shareholders	Number of shareholders	%	Number of shares	%
Non-public shareholders	**13**	**0.1**	**146 986 653**	**30.1**
Ackerman Investment Holdings Proprietary Limited	1		124 677 238	25.5
Ackerman Pick n Pay Foundation	1		101 900	0.0
Directors	7		3 638 195	0.8
The Mistral Trust	1		2 700 967	0.6
Shares held on behalf of FSP participants	1		9 336 500	1.9
Pick n Pay Retailers Proprietary Limited	1		153 500	0.0
Pick n Pay Employee Share Purchase Trust	1		6 378 353	1.3
Public shareholders	**13 395**	**99.9**	**341 463 668**	**69.9**
Total	**13 408**	**100.0**	**488 450 321**	**100.0**

Beneficial shareholders holding 1% or more	Number of shares	%
Ackerman Investment Holdings Proprietary Limited	124 677 238	25.5
Public Investment Corporation Limited	52 565 398	10.8
Investment Solutions Limited	12 676 145	2.6
Coronation Balanced Plus Fund	12 299 195	2.5
Liberty Life Association of Africa Limited	10 478 081	2.2
Shares held on behalf of FSP participants	9 336 500	1.9
GIC Private Limited	6 832 440	1.4
Pick n Pay Employee Share Purchase Trust	6 378 353	1.3
Vanguard Emerging Markets Stock Index Fund	6 323 862	1.3
Genesis Emerging Markets Investment Company	5 986 099	1.2
Genesis Group Trust for Employee Benefit Plans	5 925 705	1.2

Geographical spread of shareholders



ANALYSIS OF B SHAREHOLDERS

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	1	3.9	1 100	0.0
1 001 – 10 000 shares	7	26.9	52 868	0.0
10 001 – 100 000 shares	8	30.8	223 670	0.1
100 001 – 1 000 000 shares	5	19.2	1 582 276	0.6
1 000 001 shares and over	5	19.2	257 822 955	99.3
Total	**26**	**100.0**	**259 682 869**	**100.0**

Public/non – public shareholders	Number of shareholders	%	Number of shares	%
Non-public shareholders	**6**	**23.1**	**258 054 887**	**99.4**
Ackerman Investment Holdings Proprietary Limited	1	3.9	246 936 847	95.1
Directors	4	15.3	5 768 481	2.3
The Mistral Trust	1	3.9	5 349 559	2.1
Public shareholders	**20**	**76.9**	**1 627 982**	**0.6**
Total	**26**	**100.0**	**259 682 869**	**100.0**

Beneficial shareholders holding 1% or more	Number of shares	%
Ackerman Investment Holdings Proprietary Limited	246 936 846	95.1
The Mistral Trust	5 349 559	2.1
Gareth Ackerman	3 228 383	1.2

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits.

All B shares are stapled to certain ordinary shares and are held within South Africa. Refer to note 5.2 of the extract from Group annual financial statements on page 75 for more detail.

SHAREHOLDERS' INFORMATION

ANNUAL GENERAL MEETING – 31 JULY 2017

The 49th annual general meeting of shareholders of Pick n Pay Stores Limited (AGM) will be held at the Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Cape Town, 7708 on Monday, 31 July 2017.

Registration for the AGM will commence at 08:00.

The minutes of the previous year's AGM held on 25 July 2016 are available on our Pick n Pay investor relations website at www.picknpayinvestor.co.za.

DIVIDENDS

Pick n Pay Stores Limited JSE share code: PIK ISIN code: ZAE000005443

	Number	Amount (cents)	Last day of trade	Date of payment
Interim	93	19.60	5 December 2014	15 December 2014
Final	94	98.50	5 June 2015	15 June 2015
Interim	95	24.20	4 December 2015	14 December 2015
Final	96	125.20	3 June 2016	13 June 2016
Interim	97	29.90	6 December 2016	12 December 2016
Final	98	146.40	6 June 2017	12 June 2017
Interim	99		5 December 2017*	11 December 2017*
Final	100		5 June 2018*	11 June 2018*

RESULT ANNOUNCEMENTS

Interim to 28 August 2016:	October 2016
Final to 26 February 2017:	April 2017
Interim to 27 August 2017:	October 2017*
Final to 25 February 2018:	April 2018*

PUBLICATION OF ANNUAL FINANCIAL STATEMENTS

2017	May 2017
2018	May 2018*

PUBLICATION OF INTEGRATED ANNUAL REPORT AND CORPORATE GOVERNANCE REPORT

2017	June 2017
2018	June 2018*

PUBLICATION OF SUSTAINABILITY REPORT

2017	June 2017
2019	June 2019*

* *Estimated*

CORPORATE INFORMATION

PICK N PAY STORES LIMITED

Registration number: 1968/008034/06
JSE share code: PIK
ISIN: ZAE000005443

BOARD OF DIRECTORS

Executive
Richard Brasher (CEO)
Richard van Rensburg (Deputy CEO)
Aboubakar (Bakar) Jakoet (CFO)
Suzanne Ackerman-Berman
Jonathan Ackerman

Non-executive
Gareth Ackerman (Chairman)
David Robins

Independent non-executive
Alex Mathole*
Audrey Mothupi
David Friedland
Jeff van Rooyen
Hugh Herman
Lorato Phalatse

REGISTERED OFFICE

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

Tel +27 21 658 1000
Fax +27 21 797 0314

Postal address
PO Box 23087
Claremont
Cape Town 7735

REGISTRAR

Computershare Investor Services
Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196

Tel +27 11 370 5000
Fax +27 11 688 5248

Postal address
PO Box 61051
Marshalltown 2107

* *Appointed on 24 October 2016.*

JSE LIMITED SPONSOR

Investec Bank Limited
100 Grayston Drive
Sandton 2196

AUDITORS

Ernst & Young Inc.

ATTORNEYS

Edward Nathan Sonnenberg

PRINCIPAL TRANSACTIONAL BANKERS

Absa Limited
First National Bank

COMPANY SECRETARY

Debra Muller
Email: demuller@pnp.co.za

PROMOTION OF ACCESS TO INFORMATION ACT

Information Officer – Penny Gerber
Email: pgerber@pnp.co.za

INVESTOR RELATIONS

David North
Email: dnorth@pnp.co.za

Kerry Becker
Email: kerrybecker@pnp.co.za

WEBSITE

Pick n Pay: www.picknpay.co.za
Investor relations: www.picknpayinvestor.co.za

CUSTOMER CARELINE

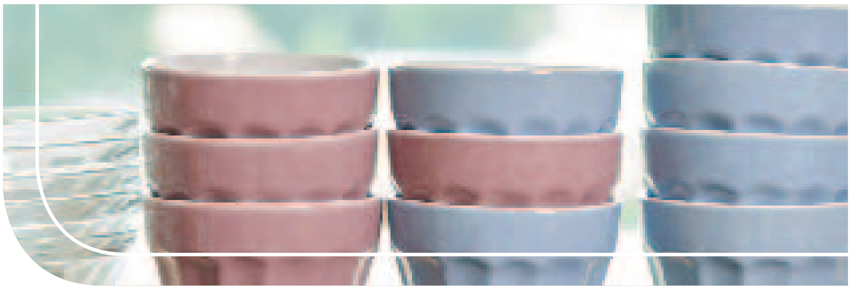
Tel +27 800 11 22 88
Email: customercare@pnp.co.za

ONLINE SHOPPING

Tel +27 860 30 30 30
www.picknpay.co.za

ENGAGE WITH US ON




AUDITED ANNUAL FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 26 FEBRUARY

2017

CONTENTS

PICK N PAY STORES LIMITED

GROUP ANNUAL FINANCIAL STATEMENTS

COMPANY ANNUAL FINANCIAL STATEMENTS

ADMINISTRATION

These Group and Company annual financial statements have been prepared by the Pick n Pay Finance Division under the supervision of the Chief Finance Officer (CFO), Bakar Jakoet, CA(SA).

DIRECTORS' **RESPONSIBILITY STATEMENT**

PICK N PAY STORES LIMITED AND ITS SUBSIDIARIES

The directors are responsible for the preparation and fair presentation of the Group annual financial statements and annual financial statements of Pick n Pay Stores Limited, comprising the statements of financial position at 26 February 2017, and the statements of comprehensive income, changes in equity and cash flows for the period then ended, and the notes to the annual financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these annual financial statements.

The directors have made an assessment of the ability of the Company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the period ahead.

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

Approval of Group annual financial statements and annual financial statements of the Company

The Group annual financial statements and annual financial statements of Pick n Pay Stores Limited, as identified in the first paragraph, were approved by the Board of directors on 18 April 2017 and signed by:

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

18 April 2017

COMPANY **SECRETARY'S CERTIFICATE**

PICK N PAY STORES LIMITED AND ITS SUBSIDIARIES

In my capacity as Company Secretary, I certify that for the period ended 26 February 2017, Pick n Pay Stores Limited and its subsidiaries has filed all returns and notices as required for a company in terms of section 88(2)(e) of the Companies Act, No 71 of 2008, as amended, and that such returns and notices are, to the best of my belief, true, correct and up to date.

Debra Muller
Company Secretary

18 April 2017

DIRECTORS' **REPORT**
for the period ended 26 February 2017

PICK N PAY STORES LIMITED AND ITS SUBSIDIARIES

Nature of business

The Company, which is domiciled and incorporated in the Republic of South Africa and listed on the JSE, a securities exchange in South Africa, is an investment holding company. The Group comprises subsidiaries and an associate that retail food, clothing, general merchandise, pharmaceuticals and liquor throughout Africa, both on an owned and franchise basis. The Group also acquires and develops strategic retail and distribution sites.

Significant subsidiaries held directly and indirectly are presented in note 27 of the Group annual financial statements.

Overview of financial results and activities

Refer to the review of operations on pages 9 to 14 for an overview of financial results and activities of the Group.

Audit and risk committee

We draw your attention to the audit and risk committee report on pages 7 and 8 where we set out the responsibilities of the committee and how it has discharged these responsibilities during the period.

Dividends declared

The directors have declared a final dividend (dividend 98) of 146.40 cents per share out of income reserves. Refer to page 15 for more information.

Share capital

At period-end, 6 531 853 shares (2016: 1 752 433 shares) of Pick n Pay Stores Limited were held within the Group. These shares are held to settle obligations of share options granted under the Group's employee share scheme.

In addition, 9 336 500 shares (2016: 7 923 000) of Pick n Pay Stores Limited are held within the Group in order to settle obligations under the Group's forfeitable share plan. Participants to the forfeitable share plan have non-forfeitable rights to the dividends on these shares.

Going concern

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

The Board of director (the Board) has performed a formal review of the Company and its subsidiaries' ability to continue trading as going concerns in the foreseeable future and, based on this review, considers that the presentation of the financial statements on this basis is appropriate.

The Group ensures that it complies with the liquidity and solvency requirements for any dividend payment and provision of financial assistance as per the requirements of the Companies Act, 2008.

Legal proceedings

The Company and its subsidiaries are not involved, and have not in the 2017 financial period been involved, in any legal or arbitration proceedings which may have or have had a material effect on the financial position of the Group, nor is the Company aware of any such proceedings that are pending or threatened.

Special resolutions

On 25 July 2016, the Company's shareholders approved the following special resolutions as tabled in the notice to the annual general meeting:

Directors' fees for the 2017 and 2018 annual financial period

Shareholders approved the directors' fees.

Provision of financial assistance to related or inter-related companies and others

The shareholders resolved, in terms of the provisions of section 45 of the Companies Act, 2008, that the Company may from time to time provide direct or indirect financial assistance to any director, prescribed officer, related company, inter-related company or member of a related or inter-related company on such terms and conditions as determined by the Board.

General approval to repurchase Company shares

Shareholders resolved that the Company or any of its subsidiaries may 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 Memorandum of Incorporation of the Company, the provisions of the Companies Act, 2008, and the Listings Requirements of JSE, provided further that acquisitions of shares in the Company by the Company and its subsidiaries may not, in the aggregate, exceed in any one financial year 5% of the Company's issued share capital.

Directors and secretary

Refer to note 4 of the Group annual financial statements for a list of directors of the Company for the 2017 financial year.

The non-executive directors listed below retire by rotation and they offer themselves for re-election:

- Gareth Ackerman
- Hugh Herman
- Jeff van Rooyen

In order to ensure that shareholder perceptions are aligned with the Board's view of the independence of long-serving directors, all non-executive directors who have served on the Board for more than nine years, serve one year term of office instead of the standard three-year term.

At the end of each term and upon mutual consent by the director and the chairman, such director is put forward for re-election by shareholders at the Company's annual general meeting for the further period of one year.

No director held any service contract with the Company during the current or prior period under review.

The Company Secretary is Debra Muller.

Directors' interest in shares

Refer to note 8 in the Company annual financial statements and note 4 in the Group annual financial statements for details of the directors' interest in shares.

Holding company

The Pick n Pay Holdings Limited RF Group included the ultimate holding company, Pick n Pay Holdings Limited RF, an investment holding company listed on the JSE (a stock exchange in South Africa). The Company was formed with the sole purpose of holding a controlling interest in Pick n Pay Stores Limited (and thereby the Pick n Pay Stores Group), resulting in a pyramid control structure.

During the period under review, at the General Meeting held on 25 July 2016, shareholders approved the unbundling of the Pick n Pay Holdings Limited RF Group in order to remove the existing pyramid control structure.

As a result of the unbundling, related party transactions occurred. This included a dividend *in specie* share distribution by Pick n Pay Holdings Limited RF, of R412.3 million, to entities within the Pick n Pay Stores Group who at the time held shares in Pick n Pay Holdings Limited RF. This dividend *in specie* consisted of shares in Pick n Pay Stores Limited. It also included the creation and issuance of a new class of unlisted voting shares (B shares) in Pick n Pay Stores Limited (refer to note 7.2 of the Company annual financial statements and note 19.2 of the Group annual financial statements). These were issued to the existing controlling shareholders of Pick n Pay Holdings Limited RF so as to retain the control structure of the Pick n Pay Stores Group as it was prior to the unbundling.

Borrowings

The Group's overall level of debt (including bank overdrafts and overnight borrowings) increased from R629.6 million to R1 933.2 million, as capital invested for expansion is funded by cost-effective short-term borrowings.

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

18 April 2017

INDEPENDENT **AUDITORS' REPORT**

TO THE SHAREHOLDERS OF PICK N PAY STORES LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of Pick n Pay Stores Limited set out on pages 16 to 85, which comprise the consolidated and separate statements of financial position as at 26 February 2017, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the period then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Pick n Pay Stores Limited as at 26 February 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of Pick n Pay Stores Limited in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing the audit of Pick n Pay Stores Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Pick n Pay Stores Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Unbundling of the Pick n Pay Holdings Limited RF Group	
As disclosed in note 27, at the General Meeting of Pick n Pay Stores Limited (Stores) Shareholders held on 25 July 2016, shareholders of both Pick n Pay Holdings Limited RF (Holdings) and Stores approved the unbundling of the Pick n Pay Holdings Group in order to collapse the existing Pyramid Control Structure. The unbundling resulted in the Stores Group receiving a dividend *in specie* share distribution from Holdings, of Stores shares valued at R412.3 million, resulting from Holdings shares held by the Stores Group. The unbundling also reduced the fair value of Holdings shares, which were delisted from the JSE Limited, held by the Stores Group. In addition newly created B Shares were issued to the Controlling Shareholders of Holdings, as reflected in the consolidated and separate financial statements. The unbundling transaction is not only quantitatively significant to the Stores Group but also required various regulatory and shareholder approvals. Therefore, this is considered a key audit matter.	Our procedures included, amongst others: • Inspecting the circular to shareholders to understand the terms of the unbundling; • Inspecting the shareholder approval; • Assessing that the accounting of the dividend *in specie* of Stores shares and issuance of B shares was in accordance with the circular to shareholders and International Financial Reporting Standards; and • Assessing that the unbundling is appropriately recorded and disclosed in the consolidated and separate financial statements for the period ended 26 February 2017.

Key audit matter	How the matter was addressed in the audit
Issue of Pick n Pay Stores Limited share options	
As disclosed in note 5, during the period the Stores Group issued 7.6 million Stores share options in terms of the employee incentive scheme to replace the Holdings share options which were cancelled, as a result of the unbundling transaction, as approved by shareholders at the General Meeting of 25 July 2016. Given the quantitative materiality of the share options issued and level of judgement involved in management estimates that are required to value the options at grant date, we consider the granting of these options to be a key audit matter.	Our procedures included, amongst others: • Understanding and confirming the terms of the replacement share options; • Assessing that the accounting of option cancellations and replacements were in accordance with International Financial Reporting Standards; • Assessing the methodology, model and assumptions employed by management and evaluating the fair value of these options at grant date, and • Considering the adequacy and accuracy of the related disclosures in the financial statements.
Provisions against inventory	
As disclosed in note 16, management have made provisions for shrinkage, obsolescence and mark downs against inventory. Obsolete, redundant and slow-moving inventory items are identified on a regular basis by management across the procurement and supply chain channel and are written down to their estimated net realisable values, including for shrinkage and anticipated mark downs. This requires significant management judgement based on past experience, changes in customer and market dynamics and future trading expectations. Given the level of judgement involved in management estimates that are required to determine these provisions and the quantitative materiality, we consider the provisions against inventory to be a key audit matter.	Our procedures included, amongst others: • Considering the methodology applied by management to determine the provisions and evaluating the reasonableness thereof; • Evaluating the assumptions and judgements applied by management in determining the shrinkage, obsolescence and mark down provisions, by reviewing and testing historical information, and assessing data trends and ageing profiles; and • Evaluating the overall reasonableness of the provisions by performing analytical procedures on provisioning levels, including against historical experience.

Other information

The directors are responsible for the other information. The other information comprises the Company Secretary's certificate, Directors' report and the Audit and risk committee report as required by the Companies Act of South Africa and the Directors' responsibility statement, Review of operations, Dividend declaration, and Administration, which we obtained prior to the date of this report, and the Integrated Annual Report and Corporate Governance Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the Integrated Annual Report and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Pick n Pay Stores Limited Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Pick n Pay Stores Limited Group or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Pick n Pay Stores Limited Group's or Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pick n Pay Stores Limited Group's or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated or separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Pick n Pay Stores Limited Group or Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pick n Pay Stores Limited Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Pick n Pay Stores Limited Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Pick n Pay Stores Limited for two years.

Ernst & Young Inc.
Director: Malcolm Rapson
Registered Auditor
Chartered Accountant (SA)

35 Lower Long Street
Cape Town

18 April 2017

AUDIT AND RISK **COMMITTEE REPORT**

PICK N PAY STORES LIMITED AND ITS SUBSIDIARIES

The Group operates in the fast-moving consumer goods industry in Africa and recognises that it will be exposed to certain risks in order to achieve sustainable growth. The focus of the Group's risk management is to ensure that an appropriate balance between risk and reward is maintained while protecting all stakeholders against avoidable risks, and mitigating the impact of unavoidable risks.

The Board is responsible for Group-wide risk governance by ensuring that adequate systems are in place to identify, evaluate and manage key business risks. The Board is assisted in this regard by the audit and risk committee, whose responsibility it is to develop, communicate and monitor the risk management process across all divisions in the Group. The audit and risk committee is integral to the risk management process, with specific oversight of financial, operational and information technology risks and the associated internal controls. The Chief Finance Officer serves as the Chief Risk Officer for the Group and attends all audit and risk committee meetings by invitation.

The day-to-day responsibility for identifying, evaluating and managing risk remains the responsibility of senior management, who are supported by the internal audit function. The internal audit function is independent of business operations and provides assurance on the adequacy and effectiveness of internal controls. In developing its annual combined assurance plan, the internal audit function follows a risk-based methodology to identify material business risks, which are then confirmed and addressed by the relevant managers. Currently, the combined assurance plan serves as the source for the Group's top-down risk management programme. These risks are typically strategic and operational, and are quantified by the finance function, where relevant.

The audit and risk committee is a statutory committee, as required by the Companies Act, and functions within a charter that is reviewed and approved annually by the Board.

ROLE OF THE COMMITTEE

The audit and risk committee has an independent role with accountability both to the Board and to shareholders. The committee's responsibilities include the statutory duties prescribed by the Companies Act, activities recommended by King III and the responsibilities assigned by the Board.

The committee's ongoing main responsibilities are as follows:

Integrated and financial reporting

- Review the annual financial statements, interim report, preliminary results announcement and summarised financial statements and ensure compliance with International Financial Reporting Standards and the Companies Act;
- Review and approve the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls;
- Perform a review of the Group's integrated reporting function and consider factors and risks that could impact on the integrity of the Integrated Annual Report;
- Review the sustainability disclosure in the Integrated Annual Report and ensure that it is consistent with financial information reported; and
- Recommend the Integrated Annual Report, Annual Financial Statements and Corporate Governance Report to the Board for approval.

Finance function

- Consider the expertise and experience of the Chief Finance Officer; and
- Consider the expertise, experience and resources of the Group's finance function.

Internal audit

- Review and approve the internal audit charter and audit plans;
- Evaluate the independence, effectiveness and performance of the internal audit function and compliance with its mandate;
- Review the Group's system of internal control, including financial controls, ensuring that management is adhering to and continually improving these controls;
- Review significant issues raised by the internal audit process; and
- Review policies and procedures for preventing and detecting fraud.

External audit

- Act as a liaison between the external auditors and the Board;
- Nominate the external auditor for appointment by shareholders;
- Determine annually the scope of audit and non-audit services which the external auditors may provide to the Group;
- Approve the remuneration of the external auditors and assess their performance; and
- Assess annually the independence of the external auditors.

Risk management

- Ensure that management's processes and procedures are adequate to identify, assess, manage and monitor enterprise-wide risks; and
- Review tax and technology risks, in particular how they are managed.

General

- Receive and deal appropriately with any complaint relating to the accounting practice and internal audit of the Group or to the content or auditing of its annual financial statements, or to any related matter; and
- Perform other functions as determined by the Board.

COMPOSITION OF THE COMMITTEE

The audit and risk committee is chaired by and comprises only independent non-executive directors. In accordance with the requirements of the Companies Act, members of the committee are appointed annually by the Board for the ensuing financial year and in compliance with King III, are elected by shareholders at the annual general meeting.

Composition of the committee, frequency of meetings and activities in the period under review

Members	Attendance	Activities 2017
Jeff van Rooyen (Chairman)	2/2	• Reviewed and recommended the half-year and full-year financial results, annual financial statements and integrated annual report to the Board for approval • Reviewed the internal audit coverage plan and ensured continued progress in integrating with the combined assurance model • Reviewed and approved the accounting and disclosure policies and the effectiveness of internal financial controls • Reviewed the external audit coverage plan • Pre-approved all non-audit services provided by the Group's external auditors • Met separately with the internal auditors and the external auditors to confirm that they received the full co-operation of management • Met with management to review their progress on identifying and addressing material risk areas within the business • Reviewed the sustainability disclosure in the integrated annual report and ensured that it was consistent with financial information reported • Chairman met regularly with key management to keep abreast of relevant emerging issues • Discharged all audit committee responsibilities to all the subsidiary companies within the Group • Reviewed the findings of the financial review committees of all the material operating divisions of the Group. The financial review committees are chaired by the CFO and, together with the external auditors and management of the respective operating divisions, review the results of the material operating divisions • Reviewed and considered representations by management on the going-concern statement for the Group and recommended the adoption of the going-concern concept to the Board • Recommended approval of the reappointment of Ernst & Young Inc. as external auditors.
Hugh Herman	2/2	
David Friedland	2/2	
Audrey Mothupi	2/2	

INDEPENDENCE OF EXTERNAL AUDITORS

The committee met with management, independently of the auditors, to discuss issues relevant to the audit and for purposes of evaluating the quality and effectiveness of the external audit function. The committee was satisfied as to the independence of the Group's external auditors, Ernst & Young Inc. and its respective audit partners.

The committee confirmed its satisfaction with the performance and level of service rendered by the external auditor, Ernst & Young Inc., for the 2017 financial year.

POLICY ON NON-AUDIT SERVICES

All non-audit services provided by the Group's external auditors, Ernst & Young Inc., were pre-approved by the audit committee. The total fee for non-audit services provided did not exceed 50% of the total auditors' remuneration.

EXPERTISE AND EXPERIENCE OF CHIEF FINANCE OFFICER AND FINANCE FUNCTION

The committee together with the lead external audit partner has considered and confirmed the composition, experience, resources and skills of the finance function. The committee is satisfied that Bakar Jakoet has the appropriate expertise and experience for his position of Chief Finance Officer of the Group. In addition, the committee is satisfied that the composition, experience and skills of the finance function meet the Group's requirements.

APPROVAL OF THE AUDIT AND RISK COMMITTEE REPORT

The committee confirms that it functioned in accordance with its charter for the 2017 financial year and that its report to shareholders was approved by the Board.

Jeff van Rooyen
Chairman

18 April 2017

REVIEW OF **OPERATIONS**

PICK N PAY STORES GROUP

KEY FINANCIAL INDICATORS

	52 weeks to 26 February 2017	52 weeks to 28 February 2016	% change
Turnover	**R77.5 billion**	R72.4 billion	7.0
Gross profit margin	**18.0%**	17.9%	
Trading expenses margin	**17.1%**	17.2%	
Trading profit	**R1 773.8 million**	R1 516.3 million	17.0
Trading profit margin	**2.3%**	2.1%	
Profit before tax (before capital items)	**R1 761.5 million**	R1 506.1 million	17.0
Profit before tax margin (before capital items)	**2.3%**	2.1%	
Basic earnings per share (EPS)	**256.67 cents**	219.11 cents	17.1
Headline earnings per share (HEPS)*	**264.35 cents**	224.04 cents	18.0
Diluted headline earnings per share (DHEPS)*	**257.69 cents**	219.90 cents	17.2
Total annual dividend per share	**176.30 cents**	149.40 cents	18.0

** Headline earnings per share and diluted headline earnings per share exclude capital items, which accounts for the difference in the year-on-year increase between EPS and HEPS.*

RESULT SUMMARY

The Group delivered growth in headline earnings per share of 18.0% for the 2017 financial year, maintaining the positive momentum achieved over each of the past four years. Turnover growth of 7.0% reflects the difficult consumer environment in South Africa.

The Group progressed in a number of key areas over the year. A stronger gross profit margin and well-controlled costs demonstrate the value of the Group's increasingly centralised supply chain and greater operating efficiency in a low-growth environment. Labour costs in particular were contained well below inflation.

Profit before tax (before capital items) was up 17.0% year-on-year to R1 761.5 million, more than double the profit of four years ago. The profit before tax (before capital items) margin has improved from 1.2% in 2013 to 2.3% today. The Group's core South African operations delivered growth in profit before tax (before capital items) of 20.0%, with tough trading conditions in Zambia constraining growth in the Rest of Africa division.

The Group is now well advanced on its journey to restore the business to a sustainable profit margin, with a cost-effective and efficient engine and effective platforms for long-term growth.

REVIEW OF EARNINGS PERFORMANCE

The Group modernised its control ownership structure in the first half of the year, with the unbundling of the Pick n Pay Holdings Limited RF Group. Although there were material non-recurring movements on certain individual categories of other trading income and trading expenses, the transaction had no impact on trading profit or headline earnings. Please refer to the table at the conclusion of this review of operations for further detail.

The financial review provided below, excludes the material non-recurring items included in trading profit related to the unbundling transaction.

Turnover

Group turnover increased 7.0% to R77.5 billion, with like-for-like turnover growth of 3.4%. On a constant currency basis, Group turnover was up 7.1%. Throughout the year, customers faced growing pressure on their household budgets, resulting from high food inflation, rising utility and transport costs, and stagnating real incomes. By buying better and running a more efficient business, the Group was able to provide meaningful support for customers, restricting its selling price inflation to 6.1% for the year, well below published food inflation of 11.0%.

More value for customers

Customers across all socio-economic groups are consistently seeking lower prices and better value. The Group is much better placed to respond to customers' changing needs than it was four years ago. Brand Match has given Pick n Pay, and its customers, confidence in the competitiveness of its pricing across 2 000 branded grocery lines. In March 2017, the Group signalled its intention to accelerate progress in its turnaround, in particular through a commitment to lower prices across fresh, perishable and grocery lines. The Group announced in March 2017 an investment of R500 million in lower prices, beginning with reductions in price across 1 300 grocery lines, with a particular focus on fresh meat, fruit and vegetables.

Rewarding loyalty

Pick n Pay's Smart Shopper programme, with 7 million active members in 2017, and 20 swipes at till every second, was once again recognised as South Africa's favourite loyalty programme. Responding to customer demand for more immediate support, the Group announced a more rewarding and more personal Smart Shopper programme in March 2017. It includes weekly personalised discounts for each Smart Shopper, tailored specifically to each customer on the basis of their actual shopping habits. The Group will continue to modernise and enhance the programme through ongoing innovation in both technology and reward, to ensure it remains relevant and fresh for customers.

Stronger offer

The Group improved its fresh offer by broadening its range, delivering better freshness and longer shelf-life, and by running promotions on staple commodities, including through bulk buys and combination offers. Pick n Pay expanded its private label offer across convenience, perishable and grocery lines. Customers responded positively, and private label contributed 18.0% of total turnover. The Group delivered its best availability in over four years, with on-shelf stock availability consistently maintained at 96% over the year.

Boxer delivered strong turnover growth in a depressed and highly contested area of the market. The Boxer team was able to invest meaningfully in the price of basic commodities, while strengthening its fresh meat, fruit and vegetable offer over the year.

The Pick n Pay clothing business again delivered strong double-digit growth, as customers sought long-lasting quality at great value. The Group's liquor business grew 15%, with solid market share growth across a number of key lines. The Group added 24 clothing stores and 46 liquor stores in 2017.

Online turnover growth remains strong, with more customers turning to the trusted convenience offered by Pick n Pay online. Online turnover in the Western Cape grew 30% year-on-year, driven by the success of the dedicated online picking warehouse situated at the Brackenfell Hypermarket near Cape Town. Following the success of this warehouse, the Group opened a second online warehouse, outside Johannesburg, in December 2016. Online shoppers in Gauteng will benefit from a broader range, improved availability and lower prices.

Better stores

The Group refurbished 62 stores over the course of the year and closed 12 under-performing stores, including five franchise and four Boxer stores. The resulting disruption to trade had some negative impact on turnover growth. However, the improvement in the estate is a valuable investment in the future.

The Group now has 106 next generation supermarkets across its Pick n Pay and Boxer brands. These stores are now the model for all new and refurbished stores, and are providing customers with a better shopping experience and a stronger customer offer, particularly in fresh and convenience categories. Next generation stores also provide a more efficient and cost-effective operating model for the business.

Wider reach

The Group opened 68 new Pick n Pay company-owned stores and 25 new Boxer stores across all formats over the year, including 14 Pick n Pay Local convenience stores. This growth delivered on the Group's intention to open new stores in communities which it had not previously served, and to respond to the growing demand for convenience. New stores contributed 3.6% to turnover growth.

The Group opened 70 Pick n Pay franchise stores over the period, including 32 Pick n Pay Express stores on BP forecourts. There are now 111 Pick n Pay Express stores, more than double the number of two years ago. Our franchise partners continue to be a key growth opportunity for Pick n Pay and the Group strengthened its support of franchisees during the year by delivering more competitive prices, improving availability and by expanding its administrative and operational support.

Gross profit

Gross profit at R13.9 billion increased 7.5% on last year. The gross profit margin improved 0.1 percentage point to 18.0% of turnover, with progress across its procurement and supply chain channel.

As a greater proportion of goods were brought into its centralised supply chain, the Group improved the efficiency and cost-effectiveness of its distribution centres and lowered the cost per case delivered. The Group also improved its management of shrink and waste through a dedicated management programme and increased security measures.

Boxer in particular delivered a stronger gross profit margin performance, driven by greater participation of its butchery, fresh produce and value-added convenience categories.

Stronger central supply chain

The Group increased its centralised supply to 60% of total volume, with 73% centralised supply in the Western Cape and 62% in the Inland region of South Africa (Gauteng and surrounds). The Group has achieved substantial progress in the centralisation of its grocery supply over the last few years, with groceries 87% centralised in the Western Cape and 68% in Inland. The Group brought an additional 140 suppliers into its centralised supply chain. This included 80 new wine suppliers and eight new suppliers from its own supplier development and business incubator initiatives. Issues out of Group distribution centres were up 20% year-on-year, with a 21% increase out of Longmeadow. More than 2.0 million cases were distributed every week out of this facility.

Progress on fresh

The Group progressed on perishables during the year, establishing a new fresh distribution facility at its Philippi distribution centre in Cape Town, and completing the centralisation of its main dairy suppliers in KwaZulu-Natal. The Philippi and Longmeadow distribution centres have delivered a reduction in waste across all fresh categories, alongside ongoing improvements at store level.

More efficiency

The Group completed the implementation of its supply chain management system (SAP EWM) across all its distribution centres. This has improved operational efficiency, transport management and reporting capability across the supply chain channel. Progress on the central supply chain in the Western Cape enabled Pick n Pay to bring the management of its Philippi distribution centre in-house, which will realise further cost savings in the future. The Group has recently secured additional supply chain capacity in KwaZulu-Natal, to further its progress on centralisation in the region.

Other trading income

Other trading income increased 12.6% to R1 093.3 million.

Franchise fee income is up 10.5% to R349.8 million, reflecting the 70 new franchise stores opened over the last 12 months and an improved franchise turnover performance.

Operating lease income increased 4.9% to R345.3 million, with a number of non-strategic head leases not renewed this year. Excluding this impact, operating lease income increased 7.4%, in line with annual escalations.

Commissions, dividends received and other income grew 22.3% to R398.2 million. Our value-added service business is maturing into an important part of our customer offer, with a solid performance across all categories of value-added services, including strong double digit growth in commission income from prepaid electricity, third party bill payments, ticketing and financial services. The Group launched a new money transfer service in partnership with the Commonwealth Bank of Australia this year. The service has been used by more than 100 000 customers in just five months. The service is integrated with our Smart Shopper loyalty programme, is entirely digitised, and enables a customer to execute a money transfer easily and quickly from any Pick n Pay till point.

Trading expenses

Trading expenses increased 6.7% to R13.3 billion, notwithstanding the addition of a net 86 company-owned stores over the year. This is a commendable performance in an inflationary environment, with like-for-like trading expenses up only 3.0% on the previous year.

Employee costs – increased 5.8% on last year to R6 414.0 million, and improved 0.1 percentage point to 8.3% of turnover. The like-for-like increase of 3.3% was supported by a more efficient store operating model and ongoing improvements in labour scheduling.

The Group concluded a new three-year wage agreement with its main labour union. It introduced a new category of staff with basic pay set at a competitive level. The Group also introduced a guaranteed minimum of 85 hours work per month for all employees. As well as delivering a fair and competitive package for employees, the new agreement will enable the Group to achieve further improvements in cost and labour productivity over the coming years.

The Group purchased shares to the value of R345.4 million under its share incentive schemes during the year, and delivered substantial wealth creation for 9 250 employees at all levels, who realised their share awards during the period. The increased take-up of employee share awards was driven by the higher share price over the year, as well as increased communication with employees during the unbundling of Pick n Pay Holdings Limited RF.

The success of the Group's employee share incentive schemes is testament to the values of Pick n Pay and the positive role the Group has played as a progressive and responsible employer. The Group created 4 500 new jobs during the year, principally through its store opening programme.

The Group remains committed to creating quality jobs across South Africa and beyond. The modernisation of the Group is key to achieving this goal, and to ensuring that the jobs created are sustainable. Improvements in productivity and cost-effectiveness enable the Group to be more competitive, offer better value, attract more customers and grow its footprint sustainably. It was against this background that Pick n Pay launched a voluntary severance programme (VSP) in March 2017, that is expected to be finalised by the end of April 2017. Participation in the scheme is entirely voluntary, and acceptance of applications is at the Group's discretion. The programme will enable Pick n Pay to remove positions that are no longer required as a result of improved ways of working. By becoming more efficient and offering better value, the Group will sell more products and open more stores, creating more sustainable jobs in a strong and forward-looking business.

Occupancy costs – are up 14.6% on last year to R2 678.9 million, and up 0.2 percentage points to 3.4% of turnover, driven by new stores. The like-for-like increase in occupancy costs of 7.2% is largely in line with annual escalations, however, this category of expense continues to trend upwards, driven by high regulated increases in rates and increased security costs. Increased security measures have mitigated the cost of shrink and theft in the business.

Operations costs – are up 4.0% on last year to R2 961.7 million, with like-for-like operations costs up 1.5%. The biggest benefits this year came from well managed electricity and repairs and maintenance costs and tightly controlled depreciation and amortisation. Energy-saving initiatives and investment in better refrigeration and lighting has reduced energy usage by 14% over the last five years, contributing to well managed energy costs.

Merchandising and administration costs – grew 1.9% on last year to R1 201.6 million. The Group continues to tightly manage the cost of its professional, legal and other support services. This category of expense also includes fair value adjustments related to the Group's forward exchange contracts and foreign exchange differences. The strengthening of the South African rand over the year, saw the Group expense R29.9 million in foreign exchange and related fair value losses, compared to profits of R8.2 million in the prior year.

Trading profit

Trading profit increased by 17.0% to R1 773.8 million. The trading profit margin improved by 0.2 percentage points, from 2.1% to 2.3% of turnover.

Net interest

Net interest paid of R92.5 million increased 65.0% on last year, as a result of increased gearing over the year. Net cash balances reflect the Group's ongoing investment in capital and inventory related to its store opening, refurbishment and centralisation programmes, and increased share buy-backs related to its employee share incentive schemes. Higher interest rates payable on overnight borrowings also had an impact on the total net interest bill over the period.

Losses on capital items

The Group incurred R46.3 million of capital losses. The losses include a R13.9 million impairment loss incurred by a subsidiary company in respect of its investment in Pick n Pay Holdings Limited RF, as a result of the unbundling transaction. The remaining R32.4 million relates to the impairment and disposal of assets mainly due to the Group's refurbishment programme, compared with R32.6 million in the prior year. Capital items are added back in the calculation of headline earnings.

Profit before tax

Profit before tax is up 16.4% to R1 715.2 million, representing a margin improvement from 2.0% to 2.2%. Profit before tax excluding capital items, is up 17.0%, with the underlying margin improving from 2.1% to 2.3% of turnover.

Rest of Africa segment

Segmental revenue for the Rest of Africa division, in constant currency terms, increased 8.7%, with like-for-like revenue retraction of 0.4%. Reported segmental revenues were up 7.7% (like-for-like revenue retraction of 2.3%), with local currency weakness in Zambia having a negative impact on translation. Profit before tax for this division was down 0.3% to R225.5 million.

In Zambia, the impact of drought and related water and power outages, coupled with the low copper price, continued to dampen economic growth across the region. The team responded to the low growth environment with strong discipline on cost. Notwithstanding current economic headwinds, the Group remains positive of its long-term position and opportunity in the region.

The Group's franchise businesses in Namibia, Botswana, Swaziland and Lesotho continued to trade well. The Group opened its first new supermarket and liquor stores in Botswana in five years, and is looking forward to working with a new franchisee in Swaziland, who has bought six of the 10 Pick n Pay franchise stores in the region, with plans for expansion and a revitalised offer.

The Group opened 12 new supermarkets outside South Africa during the year, three in Namibia, six in Zambia, one in Zimbabwe and two in Botswana. The Group plans to open its first stores in Ghana and Nigeria over the next two years.

Share of associate's income – the Group's associate in Zimbabwe, TM Supermarkets (TM), delivered a strong performance in a tough macroeconomic environment, characterised by liquidity constraints, rising unemployment and falling consumer confidence. The Group's share of TM's earnings grew 74.7% on last year to R80.2 million, representing growth in local currency terms of 71.8%. The team benefited from increased operational collaboration with Pick n Pay, and strong trade from the rebranded Pick n Pay stores in the region. TM was once again recognised as Retailer of the Year in Zimbabwe by the Confederation of Zimbabwe Retailers. TM Supermarkets now has 56 stores in Zimbabwe, 16 of which trade under the Pick n Pay banner.

Tax

The effective tax rate of 27.5% is marginally down on the 27.7% of last year, as a result of the Group's increased profitability, with no corresponding change in the level of non-deductible expenditure.

Earnings per share

Basic earnings per share (EPS) – increased 17.1% from 219.11 to 256.67 cents per share.

Headline earnings per share (HEPS) – increased 18.0% from 224.04 to 264.35 cents per share.

The difference between the growth in basic earnings per share and headline earnings per share relates to the effect of losses of a capital nature in the calculation of headline earnings. Capital losses of R37.2 million, net of tax, were taken into account in the calculation of headline earnings in the current period, against R23.3 million in the prior period.

Diluted headline earnings per share (DHEPS) – increased 17.2% from 219.90 to 257.69 cents per share. DHEPS reflects the dilution effect of share options held by participants in the Group's employee share schemes.

The dilution increased marginally over the period due to the unbundling of Pick n Pay Holdings Limited RF, with employees that had previously held share options in Pick n Pay Holdings Limited RF (dilutive at PWK level) receiving replacement share options in Pick n Pay Stores Limited.

REVIEW OF FINANCIAL POSITION

The increase in the Group's assets reflects its ongoing investment in its turnaround strategy, including investment in its store opening and refurbishment programme, its centralised supply chain and systems infrastructure. The fair value of financial instruments held by the Group decreased year-on-year, in line with the increase in treasury shares, with the Group's investment in the equity of Pick n Pay Holdings Limited RF being replaced with unbundled treasury shares in Pick n Pay Stores Limited, to the same value.

Working capital

The financial calendar cut-off, in particular the timing of creditor payments over the financial year-end, had a substantive impact on the movement in the Group's reported working capital balances in 2017, against that of 2016. Further information is provided below.

Inventory

Inventory increased 16.4% on last year to R5 994.6 million, impacted by the 151 net new stores (excluding TM Supermarkets) opened over the last 12 months, and increased levels of centralisation in the short term. Removing the impact of new stores and inflation, inventory is up 5.2% year-on-year. The Group also increased its value of investment buys at year-end, to support customers ahead of supplier price increases. The Group is confident of the opportunity to reduce stock levels in the business through targeted assortment management, keener forecast and replenishment and a stronger promotional calendar. This is a key focus area for the 2018 financial year.

Trade and other receivables

Trade and other receivables increased 3.6% on last year to R3 445.1 million, with 65 net new franchise stores added over the year. Franchise debt remains well controlled, with the impairment allowance at 3.5% of the value of the debtors book in line with last year.

Trade and other payables

Trade and other payables is flat on last year at R10 490.2 million, largely due to the positive impact of the financial calendar cut-off in the prior year of R1.2 billion. On a comparable basis, trade and other payables increased 12.1% year-on-year.

Cash and cash equivalents

	2017 Rm	2016 Rm
Cash balances	**961.9**	982.9
Bank overdraft and overnight borrowings	**(1 800.0)**	(100.0)
Cash and cash equivalents	**(838.1)**	882.9
Total borrowings	**(133.2)**	(529.6)
Net funding position	**(971.3)**	353.3

The timing of the Group's financial calendar cut-off can have a substantive impact on reported working capital and cash balances, depending on the timing of creditor payments over financial year-end. The decrease in funding from net working capital of R986.3 million, and the related decrease in cash balances at year-end, reflects the reversal of an estimated R1.2 billion positive calendar impact in 2016. The Group remains cash-generative, with cash generated before movements in working capital up 14% on last year. Net working capital funding increased by R230 million on a comparable basis.

The Group paid R753.5 million in dividends to shareholders (up 27.8% on last year), invested R1.9 billion in improving the quality of its estate, invested R345.4 million in its employee share incentive schemes and repaid R445.1 million of long-term structured debt. These important outlays, together with increased inventory balances in line with the Group's plan to improve on-shelf availability across the business, resulted in increased gearing over the 2017 year and an increased interest bill.

Capital investment

Capital expenditure related to the Group's capital investment programme at R1.9 billion, was in line with last year. The Group continues to commit the majority of its capital investment on expansion and refurbishment in order to improve the customers' shopping experience. The Group plans to invest a further R1.8 billion in its store opening and store improvement programme next year. The Group is confident of its ability to meet its investment requirements through internal cash-generation and cost-effective short-term borrowings. The Group's liquidity position remains strong, with 25% of available borrowing facilities utilised at year-end.

The Group delivered return on capital employed of 31.3% (2016: 29.3%). The net asset value per share increased from 910.0 cents per share to 979.5 cents per share.

Shareholder distribution

The Board declared a final dividend of 146.40 cents per share, bringing the total annual dividend for the year to 176.30 cents per share, 18.0% up on last year and maintaining a dividend cover of 1.5 times headline earnings per share.

THE UNBUNDLING OF PICK N PAY HOLDINGS LIMITED RF GROUP

The unbundling of the Pick n Pay Holdings Limited RF Group had no impact on trading profit or headline earnings. The material non-recurring items related to the unbundling transaction are detailed overleaf.

Summary of non-recurring items included in trading profit:

	As reported 52 weeks to 26 February 2017 Rm	Non-recurring items 52 weeks to 26 February 2017 Rm	Excluding non-recurring items 52 weeks to 26 February 2017 Rm	% of turnover	% change	As reported 52 weeks to 28 February 2016 Rm	% of turnover
Revenue	**79 117.8**	412.3	**78 705.5**		7.1	73 477.3	
Turnover	**77 486.1**		**77 486.1**		7.0	72 445.1	
Cost of merchandise sold	**(63 549.4)**		**(63 549.4)**			(59 474.8)	
Gross profit	**13 936.7**		**13 936.7**	18.0	7.5	12 970.3	17.9
Other trading income	**1 505.6**	412.3	**1 093.3**	1.4	12.6	971.3	1.3
Dividend in specie	**412.3**	412.3	**–**			–	
Franchise fee income	**349.8**		**349.8**	0.5	10.5	316.7	0.4
Operating lease income	**345.3**		**345.3**	0.4	4.9	329.1	0.5
Commissions, dividends received and other income	**398.2**		**398.2**	0.5	22.3	325.5	0.4
Trading expenses	**(13 668.5)**	(412.3)	**(13 256.2)**	17.1	6.7	(12 425.3)	17.2
Employee costs	**(6 619.8)**	(205.8)	**(6 414.0)**	8.3	5.8	(6 060.6)	8.4
Occupancy	**(2 678.9)**		**(2 678.9)**	3.4	14.6	(2 337.6)	3.2
Operations	**(2 961.7)**		**(2 961.7)**	3.8	4.0	(2 848.1)	3.9
Merchandising and administration	**(1 408.1)**	(206.5)	**(1 201.6)**	1.5	1.9	(1 179.0)	1.6
Trading profit	**1 773.8**	–	**1 773.8**	2.3	17.0	1 516.3	2.1

Other trading income – includes a dividend *in specie* of R412.3 million, representing the value of the Pick n Pay Stores Limited shares (now held as treasury shares) received by the Group on the unbundling of Pick n Pay Holdings Limited RF (PWK).

Employee costs – the Group operates an employee share incentive scheme where eligible employees were granted share options in PWK. These share options were cancelled and replaced with Pick n Pay Stores Limited share options, in terms of the shareholder approval received at the extraordinary General Meeting held on 25 July 2016.

Employee costs include the share-based payment expense related to the increase in the market value of PWK share options prior to the unbundling, as well as the cancellation and replacement cost of these options.

Merchandising and administration costs – include a net fair value loss of R206.5 million in respect of the Group's investment in Pick n Pay Holdings Limited RF. This fair value movement was as a result of the increased market value of PWK shares prior to the unbundling, and the subsequent write-off of the investment on the receipt of the dividend *in specie* distribution.

The dividend *in specie*, increased share-based payment costs and related fair value adjustments detailed above, had no impact on trading profit or headline earnings.

Losses on capital items – include an impairment loss incurred by a subsidiary company in respect of its investment in Pick n Pay Holdings Limited RF of R13.9 million. The loss is added back for the purposes of calculating headline earnings per share.

ACCELERATING THE TURNAROUND

Fifty years ago this year, Raymond Ackerman bought three small stores in Cape Town, and began to pursue his goal: to fight high prices and bring South Africans the best prices and best service of any retailer in South Africa. The Group's turnaround plan has essentially been about returning Pick n Pay to its roots as a discounter and consumer champion.

Over each of the past four years, the Group has improved its customer offer, modernised its stores, centralised its supply chain, and firmly controlled its costs. The result has been eight consecutive periods of double-digit profit growth, and an improvement in trading profit margin to 2.3%.

However, conditions for consumers have become progressively more challenging. Customers at all levels are demanding consistently lower prices and better value. This is a worldwide phenomenon, and is firmly evident in South Africa. In a low-growth economy, competition for hard-pressed and cost-conscious customers is going to be the new normal. Pick n Pay is determined to succeed in this new normal by accelerating the pace of its plan, in particular by reducing its costs further in order to create additional headroom to deliver lower prices and better value for customers.

The Group has made a strong start on this accelerated plan at the beginning of the 2018 financial year with the introduction of permanently lower prices on 1 300 lines and a modernised Smart Shopper loyalty scheme. It will build on this throughout the year as it accelerates progress towards a better Pick n Pay – better for customers, better for colleagues and better for shareholders.

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

18 April 2017

DIVIDEND **DECLARATION**

PICK N PAY STORES LIMITED – TAX REFERENCE NUMBER: 9275/141/71/2

Number of ordinary shares in issue: 488 450 321

Notice is hereby given that the directors have declared a final gross dividend (number 98) of 146.40 cents per share out of income reserves.

The dividend declared is subject to dividend withholding tax at 20%.

The tax payable is 29.28000 cents per share, leaving shareholders who are not exempt from dividends tax with a net dividend of 117.12000 cents per share.

DIVIDEND DATES

The last day of trade in order to participate in the dividend (CUM dividend) will be Tuesday, 6 June 2017.

The shares will trade EX dividend from the commencement of business on Wednesday, 7 June 2017 and the record date will be Friday, 9 June 2017. The dividends will be paid on Monday, 12 June 2017.

Share certificates may not be dematerialised or rematerialised between Wednesday, 7 June 2017 and Friday, 9 June 2017, both dates inclusive.

On behalf of the Board of directors

Debra Muller
Company Secretary

18 April 2017

GROUP STATEMENT OF **COMPREHENSIVE INCOME**

for the period ended

	Note	**52 weeks 26 February 2017 Rm**	52 weeks 28 February 2016 Rm
Revenue	2	**79 117.8**	73 477.3
Turnover	2	**77 486.1**	72 445.1
Cost of merchandise sold		**(63 549.4)**	(59 474.8)
Gross profit		**13 936.7**	12 970.3
Other trading income	2	**1 505.6**	971.3
Trading expenses		**(13 668.5)**	(12 425.3)
Employee costs	3	**(6 619.8)**	(6 060.6)
Occupancy		**(2 678.9)**	(2 337.6)
Operations		**(2 961.7)**	(2 848.1)
Merchandising and administration		**(1 408.1)**	(1 179.0)
Trading profit		**1 773.8**	1 516.3
Finance income	2	**126.1**	60.9
Finance costs	3	**(218.6)**	(117.0)
Share of associate's income	14	**80.2**	45.9
Profit before tax before capital items		**1 761.5**	1 506.1
Losses on capital items		**(46.3)**	(32.6)
Loss on sale of property, plant and equipment		**(20.4)**	(24.0)
Impairment loss on property, plant and equipment	10	**(5.9)**	–
Impairment loss on intangible assets	9	**(6.1)**	(8.6)
Impairment loss on available-for-sale financial instruments		**(13.9)**	–
Profit before tax	3	**1 715.2**	1 473.5
Tax	6	**(471.7)**	(408.1)
Profit for the period		**1 243.5**	1 065.4
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss		**1.5**	14.8
Remeasurement in retirement scheme assets	22	**2.1**	20.5
Tax on remeasurement in retirement scheme assets	13	**(0.6)**	(5.7)
Items that may be reclassified to profit or loss		**(96.9)**	59.4
Foreign currency translations		**(64.4)**	58.1
Fair value gain on available-for-sale financial instruments		**(32.5)**	1.3
Total comprehensive income for the period		**1 148.1**	1 139.6
		Cents	Cents
Earnings per share			
Basic	7	**256.67**	219.11
Diluted	7	**250.20**	215.05

GROUP STATEMENT OF **FINANCIAL POSITION**

	Note	**As at 26 February 2017 Rm**	As at 28 February 2016 Rm
ASSETS			
Non-current assets			
Property, plant and equipment	10	**5 583.6**	4 950.9
Intangible assets	9	**984.3**	1 004.9
Operating lease assets	11	**198.3**	171.6
Financial instruments at fair value through profit or loss	28	**13.7**	232.1
Available-for-sale financial instruments	28	**–**	46.4
Investment in associate	14	**309.7**	285.5
Participation in export partnerships	12	**–**	14.1
Loans	15	**85.1**	96.4
Retirement scheme assets	22	**95.3**	90.8
Deferred tax assets	13	**218.0**	225.1
		7 488.0	7 117.8
Current assets			
Inventory	16	**5 994.6**	5 152.0
Trade and other receivables	17	**3 445.1**	3 326.2
Cash and cash equivalents	18	**961.9**	982.9
Derivative financial instruments	28	**–**	6.0
		10 401.6	9 467.1
Non-current asset held for sale	10	**212.8**	–
Total assets		**18 102.4**	16 584.9
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**6.0**	6.0
Treasury shares	20	**(554.3)**	(63.5)
Fair value reserve		**–**	32.5
Retained earnings		**4 652.1**	3 882.9
Foreign currency translation reserve		**(24.5)**	39.9
Total equity		**4 079.3**	3 897.8
Non-current liabilities			
Borrowings	21	**84.0**	83.0
Operating lease liabilities	11	**1 398.6**	1 239.6
Deferred tax liabilities	13	**14.6**	9.5
		1 497.2	1 332.1
Current liabilities			
Trade and other payables	23	**10 490.2**	10 500.6
Share-based payment liability	5	**–**	124.6
Bank overdraft and overnight borrowings	18	**1 800.0**	100.0
Borrowings	21	**49.2**	446.6
Current tax liabilities	6	**174.8**	183.0
Provisions	24	**–**	0.2
Derivative financial instruments	28	**11.7**	–
		12 525.9	11 355.0
Total equity and liabilities		**18 102.4**	16 584.9

GROUP STATEMENT OF **CHANGES IN EQUITY**

for the period ended

	Note	Share capital Rm	Treasury shares Rm	Fair value reserve Rm	Retained earnings Rm	Foreign currency translation reserve Rm	Total equity Rm
At 1 March 2015		6.0	(60.1)	31.2	3 302.9	(18.2)	3 261.8
Total comprehensive income for the period		–	–	1.3	1 080.2	58.1	1 139.6
Profit for the period		–	–	–	1 065.4	–	1 065.4
Remeasurement in retirement scheme assets		–	–	–	14.8	–	14.8
Foreign currency translations		–	–	–	–	58.1	58.1
Fair value gain on available-for-sale financial instruments		–	–	1.3	–	–	1.3
Transactions with owners		–	(3.4)	–	(500.2)	–	(503.6)
Dividends paid		–	–	–	(589.5)	–	(589.5)
Share purchases	20	–	(126.2)	–	–	–	(126.2)
Net effect of settlement of employee share options	20	–	122.8	–	(87.2)	–	35.6
Share-based payments expense	3	–	–	–	176.5	–	176.5
At 28 February 2016		**6.0**	**(63.5)**	**32.5**	**3 882.9**	**39.9**	**3 897.8**
Total comprehensive income for the period		**–**	**–**	**(32.5)**	**1 245.0**	**(64.4)**	**1 148.1**
Profit for the period		**–**	**–**	**–**	**1 243.5**	**–**	**1 243.5**
Remeasurement in retirement scheme assets		**–**	**–**	**–**	**1.5**	**–**	**1.5**
Foreign currency translations		**–**	**–**	**–**	**–**	**(64.4)**	**(64.4)**
Fair value gain on available-for-sale financial instruments		**–**	**–**	**26.6**	**–**	**–**	**26.6**
Reclassification to profit or loss		**–**	**–**	**(59.1)**	**–**	**–**	**(59.1)**
Transactions with owners		**–**	**(490.8)**	**–**	**(475.8)**	**–**	**(966.6)**
Dividends paid		**–**	**–**	**–**	**(753.5)**	**–**	**(753.5)**
B share capital issued	19	**–**	**–**	**–**	**–**	**–**	**–**
Shares received upon unbundling	27	**–**	**(412.3)**	**–**	**–**	**–**	**(412.3)**
Share purchases	20	**–**	**(345.4)**	**–**	**–**	**–**	**(345.4)**
Net effect of settlement of employee share options	20	**–**	**266.9**	**–**	**(259.5)**	**–**	**7.4**
Share-based payments expense	3	**–**	**–**	**–**	**537.2**	**–**	**537.2**
At 26 February 2017		**6.0**	**(554.3)**	**–**	**4 652.1**	**(24.5)**	**4 079.3**

GROUP STATEMENT OF **CASH FLOWS**

for the period ended

	Note	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
Cash flows from operating activities			
Trading profit		**1 773.8**	1 516.3
Adjusted for dividend income	2	**(18.0)**	–
Adjusted for non-cash items		**1 356.7**	1 220.0
Amortisation	9	**160.6**	162.5
Depreciation	10	**820.9**	778.4
Equity-settled share-based payment expense	3	**537.2**	176.5
Cash-settled share-based payment (gain)/expense	3	**(124.6)**	13.0
Movement in net operating lease liabilities		**132.3**	79.3
Movement in provisions		**(0.2)**	(0.8)
Fair value loss on financial instruments at fair value through profit or loss		**242.8**	11.1
Dividend *in specie* received upon unbundling	27	**(412.3)**	–
Cash generated before movements in working capital		**3 112.5**	2 736.3
Movements in working capital		**(986.3)**	728.7
Movements in trade and other payables		**(28.1)**	1 610.9
Movements in inventory		**(839.3)**	(492.4)
Movements in trade and other receivables		**(118.9)**	(389.8)
Cash generated from trading activities		**2 126.2**	3 465.0
Interest received	2	**126.1**	60.9
Interest paid	3	**(218.6)**	(117.0)
Cash generated from operations		**2 033.7**	3 408.9
Dividends received	2	**18.0**	–
Dividends paid		**(753.5)**	(589.5)
Tax paid	6	**(469.2)**	(335.8)
Cash generated from operating activities		**829.0**	2 483.6
Cash flows from investing activities			
Investment in intangible assets	9	**(134.0)**	(85.7)
Investment in property, plant and equipment	10	**(1 736.0)**	(1 623.1)
Investment in financial instruments at fair value		**(6.7)**	(16.1)
Purchase of operations	29	**1.8**	(87.6)
Proceeds on disposal of property, plant and equipment		**49.8**	40.0
Loans repaid		**11.3**	4.2
Participation in export partnership		**14.1**	9.3
Retirement obligation		**(2.4)**	(0.2)
Cash utilised in investing activities		**(1 802.1)**	(1 759.2)
Cash flows from financing activities			
Borrowings raised		**48.7**	–
Repayment of borrowings		**(445.1)**	(254.7)
Share purchases	20	**(345.4)**	(126.2)
Proceeds from employees on settlement of share options		**8.0**	0.3
Cash utilised in financing activities		**(733.8)**	(380.6)
Net (decrease)/increase in cash and cash equivalents		**(1 706.9)**	343.8
Net cash and cash equivalents at beginning of period		**882.9**	524.5
Foreign currency translations		**(14.1)**	14.6
Net cash and cash equivalents at end of period	18	**(838.1)**	882.9
Consisting of:			
Cash and cash equivalents		**961.9**	982.9
Bank overdraft and overnight borrowings		**(1 800.0)**	(100.0)

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Reporting entities

The consolidated financial statements for the 52 weeks ended 26 February 2017 (2016: 52 weeks ended 28 February 2016) comprise Pick n Pay Stores Limited and its subsidiaries and associate referred to as "the Group". Pick n Pay Stores Limited is referred to as the Company.

1.2 Statement of compliance

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa.

1.3 Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except where stated otherwise in the accounting policies below.

The Group manages its retail operations on a 52-week trading calendar where the reporting period will always end on a Sunday. To ensure calendar realignment, a 53rd-week of trading is required approximately every six to seven years.

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements and to all companies in the Group, except where the Group has adopted IFRS and IFRIC interpretations and amendments that became effective during the year. These interpretations and amendments had no material impact on the reported results.

1.4 Foreign currency transactions and translations

Functional and presentation currency

The consolidated annual financial statements are presented in South African rand, which is the Company's functional currency. All financial information has been rounded to the nearest million, unless otherwise stated. Certain individual companies (foreign operations) in the Group have functional currencies different to that of the Group and are translated on consolidation.

Transactions and balances

Transactions denominated in currencies other than South African rand (foreign currencies) are translated to the respective functional currencies of the Group entities at the rates of exchange ruling on the dates of the transactions. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to South African rand at the rates of exchange ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to South African rand at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of 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 are translated at the relevant foreign exchange rates ruling at the reporting date to the presentation currency of the Group. The income and expenses of foreign operations are translated to the presentation currency of the Group at the weighted-average rate of exchange for the period. Profits or losses arising on the translation of assets and liabilities of foreign operations are recognised in other comprehensive income and presented within equity in a foreign currency translation reserve.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains or losses arising from such a monetary item are considered to form part of a net investment in a foreign operation, are recognised in other comprehensive income (OCI) and presented in a foreign currency translation reserve.

1.5 Use of estimates, judgements and assumptions

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. Actual results may differ from these estimates. The uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.5 Use of estimates, judgements and assumptions continued

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The assumptions and estimates used in the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include the following, but are not limited to:

Measurements of share-based payments

Various assumptions are applied in determining the fair value of share awards granted to employees such as expected volatility, expected dividend yield, and the expected life of the option. Judgement, informed by terms and conditions of the grant, is used to determine the valuation model to be used. The key assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 5.

Accrual for rebates and incentives

The Group enters into various agreements with suppliers providing for inventory purchase rebates. The Group accrues the receipt of supplier rebates as part of its cost of merchandise sold taking into consideration the cumulative purchases of inventory to date. Consequently the rebates actually received may vary from that accrued in the financial statements.

Income and deferred taxes

The Group is subject to income tax in numerous jurisdictions. Significant judgement is required in determining the provision for tax as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of the taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income.

Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted. Refer to notes 6 and 13.

Inventory net realisable value allowances

The Group evaluates its inventory to ensure that it is carried at the lower of cost or net realisable value. Allowances are made against slow moving, obsolete and damaged items. Damaged inventories are identified and written down through inventory verification processes.

Allowance for slow moving and obsolete inventories are assessed continuously. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales taking into account factors existing at the reporting date. Refer to note 16.

Measurements of the recoverable amounts of cash-generating units

Determining the recoverable amount of cash-generating units (CGU) containing goodwill was determined by calculating the value in use. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, future cash flows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for CGUs are disclosed in note 9.

Estimates of useful lives and residual values of intangible assets

Intangible assets are amortised over their useful lives taking into account applicable residual values. Useful lives and residual values are reviewed at each reporting date taking into account factors such as the manner of recovery, innovation in technology and relevant market information.

Estimates of useful lives and residual values of property, plant and equipment

Property, plant and equipment are depreciated over their useful lives taking into account applicable residual values. Useful lives and residual values are reviewed at each reporting date taking into account factors such as the manner of recovery and relevant market information.

Classification of leases

Judgements are applied when determining whether the risks and rewards of the underlying asset have been transferred in order to classify leases as either a finance lease or an operating lease, and are applied when assessing whether an arrangement should be treated as a lease. Refer to notes 11 and 21.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.5 Use of estimates, judgements and assumptions continued

The impairment reviews undertaken in respect of equity-accounted investees

The recoverable amount of all equity-accounted investees is determined as the higher of fair value less costs of disposal and value in use. Estimates of the future cash inflows are used in the value-in-use calculation. Judgement is required in determining whether indicators of impairment exist, which include consideration of currency repatriation out of Zimbabwe taking into account the recently issued USD bond notes by the government in the country.

The estimation of the impairment allowance for loans and trade and other receivables

The recoverable amount of loans and trade and other receivables is estimated as the present value of future cash inflows discounted at a market-related interest rate. The Group makes allowance for specific trade receivables which have clearly indicated financial difficulty and the likelihood of repayment has become impaired. Estimation is required in the determination of future cash flows and the likelihood of repayment. Refer to note 17.

Measurements of post-retirement defined-benefit obligations

The Group operates post-retirement defined-benefit schemes. Actuarial valuations are performed to assess the financial position of these various schemes and are based on assumptions such as the discount rate, future salary increases, future pension increases and increases in healthcare rates. Refer to note 22.

Recognition of deferred revenue in respect of customer loyalty programme

Estimates are used in the measurement of deferred revenue. The consideration allocated to the award credits is measured by reference to their fair value which is calculated as the amount for which the award credits could be separately sold, adjusted for an expected forfeiture rate. The expected forfeiture rate (conversely the redemption rate) is based on historical experience and is subject to uncertainty. Refer to notes 2 and 23.

Consolidation of the Group's share trust

The Group operates an employee share option scheme through the Employee Share Purchase Trust. In management's judgement, the Group controls the trust as it has exposure or rights to variable returns from its involvement with the investee and has the ability to affect returns from the trust through its power over the trust. The Group has therefore consolidated the trust into its results. Refer to notes 19 and 20.

1.6 Basis of consolidation

Investment in subsidiaries

The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All inter-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Interest in equity-accounted investees

The Group's interest in equity-accounted investees comprises its interests in associates.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of comprehensive income reflects the Group's share of the results of operations of the associate. Where there are changes recognised directly in the OCI or equity of those investees, the Group recognises its share of any changes, when applicable, in the statement of other comprehensive income and statement of changes in equity respectively.

Unrealised gains or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income and represents profit or loss after tax and after non-controlling interests in the subsidiaries of the associate. Any dividends received by the Group is credited against the investment in associate.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.6 Basis of consolidation continued

***Interest in equity-accounted investees** continued*

The financial statements of the associate are prepared for the same reporting period as the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

1.7 Property, plant and equipment

Property, plant and equipment are tangible assets held by the Group for use in the supply of goods or for administrative purposes and are expected to be used for more than one financial period. Property, plant and equipment are initially recognised at cost if it is probable that associated future economic benefits will flow to the Group and the cost can be measured reliably. All property, plant and equipment are subsequently measured at cost less accumulated depreciation and impairment losses, with the exception of land. Land is measured at cost less impairment losses as it has an indefinite life and is not depreciated.

Cost

The cost of property, plant and equipment 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.

The Group recognises in the carrying amount of property, plant and equipment subsequent expenditure, including 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, such as day-to-day servicing costs, are recognised in the statement of comprehensive income as an expense as incurred.

Depreciation

Depreciation is based on the cost of an asset, less its residual value, over its useful life. The residual value is the estimated amount that the Group would receive from the disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and the condition expected at the end of its useful life.

Management determines the depreciation methods, useful lives and residual values at acquisition and these are reviewed at each reporting date and adjusted, if appropriate. Any adjustments are accounted for prospectively as a change in estimate.

Depreciation is recognised as an expense in the statement of comprehensive income, within operational expenses, on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date that they are available for use. Leasehold improvements 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.

Where significant components of an item of property, plant and equipment have different useful lives they are depreciated separately.

Useful lives

The estimated useful lives, per category of plant, property and equipment are as follows:

Property	
• Land	Indefinite
• Buildings and major components	10 to 40 years
Furniture, fittings, equipment and vehicles	
• Furniture and fittings	5 to 14 years
• Equipment	2 to 15 years
• Vehicles	4 to 5 years
Leasehold improvements	3 to 8 years
Aircraft and major components	7 to 20 years

Impairment

Property, plant and equipment are assessed for impairment as non-financial assets as per note 1.13.

Derecognition

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to flow to the Group from either their use or disposal.

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

1.8 Intangible assets

Intangible assets are held by the Group for use in the supply of goods or for administrative purposes and are expected to be used for more than one financial period. Intangible assets acquired are initially recognised at cost, if it is probable that associated future economic benefits will flow to the Group and the cost can be measured reliably.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.8 Intangible assets continued

If the intangible assets are acquired via a business combination, initial recognition is at fair value.

Intangible assets that are developed are initially recognised at cost if the cost can be measured reliably, the intangible assets are technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete the development.

If not, then the development expenses are recognised in the statement of comprehensive income when they are incurred.

Intangible assets are subsequently measured at cost less accumulated amortisation and impairment losses, with the exception of goodwill. Goodwill is measured at cost less impairment losses as it has an indefinite useful life and is not amortised.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised, but expensed in the statement of comprehensive income when they are incurred.

Cost

The cost of intangible assets includes expenditure that is directly attributable to the acquisition of the intangible asset. The cost of developed intangible assets includes the cost of materials, direct labour and any overhead costs directly attributable to preparing the intangible asset for its intended use.

The Group recognises in the carrying amount of intangible assets subsequent expenditure when that cost is incurred, if it is probable that the future economic benefits will flow to the Group and the cost can be measured reliably. All other costs, such as costs associated with the implementation or maintenance of intangible assets, are recognised in the statement of comprehensive income as an expense as incurred.

Goodwill is acquired through business combinations and initially measured at 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Amortisation

Amortisation is calculated on the cost of an intangible asset, less its residual value over its useful life. The residual value is the estimated amount that the Group would receive from the disposal of the intangible asset, after deducting the estimated costs of disposal, if the intangible asset was already of the age and the condition expected at the end of its useful life.

Management determines the amortisation methods, useful lives and residual values at acquisition and these are reviewed at each reporting date and adjusted, if appropriate. Any adjustments are accounted for prospectively as a change in estimate.

Amortisation is recognised as an expense in the statement of comprehensive income on a straight-line basis over the estimated useful life of each intangible asset from the date that it is available for its intended use.

Useful lives

The estimated useful lives, per category of intangible assets, are as follows:

Goodwill	Indefinite
Systems development	7 years
Licences	5 to 10 years

Impairment

Intangible assets are assessed for impairment as non-financial assets as per note 1.13.

Derecognition

Intangible assets are derecognised upon disposal or when no future economic benefits are expected to flow to the Group from either their use or disposal. Gains or losses on derecognition of an intangible asset are determined by comparing the proceeds from disposal, if applicable, with the carrying amount of the intangible asset and are recognised directly in the statement of comprehensive income.

1.9 Leases

Finance leases

A lease is classified at the inception date as a finance lease or an operating lease. 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.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.9 Leases continued

***Finance leases** continued*

Finance leases are capitalised at the commencement of the lease at the lower of the inception date fair value of the leased assets and the present value of the minimum lease payments, calculated using the interest rate implicit in the lease 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 charges are recognised in finance costs in the statement of comprehensive income.

Finance lease assets are carried at the initial recognised amount less accumulated depreciation and impairment losses. Any initial direct costs incurred are added to the amount recognised as an asset. Finance lease assets are depreciated over the shorter of the useful life of the asset and the lease term.

Finance lease liabilities are classified as non-current liabilities, with the exception of the portion with a maturity date of less than 12 months of the reporting date which is disclosed as current liabilities.

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. The Group acts as both lessee and lessor. Rentals payable or receivable under operating leases are charged or credited to the statement of comprehensive income on a straight-line basis over the term of the relevant lease. This results in the raising of a liability for future lease expenses and an asset for future lease income on the statement of financial position. These operating lease assets and liabilities are classified as non-current assets or liabilities, with the exception of the portion with a maturity date of less than 12 months of the reporting date which are disclosed as current assets or liabilities and are included under trade and other receivables and trade and other payables respectively.

This liability and asset reverses during the latter part of each lease term when the actual cash flow exceeds the straight-lined lease expense/income included in the statement of comprehensive income.

1.10 Inventory

Inventory comprises merchandise for resale and consumables. Inventory is measured at the lower of cost and net realisable value, and is classified as a current asset as it is expected to be sold within the Group's normal operating cycle.

Cost is calculated on the weighted-average basis and includes expenditure incurred in acquiring the inventory and bringing them to their existing location and condition, including distribution costs, and is stated net of relevant purchase incentives.

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

The carrying amount of inventories sold is recognised as an expense in the period in which the related revenue is recognised.

1.11 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate and are classified as current or non-current liabilities depending on the underlying contractual maturities.

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.

1.12 Financial instruments

Initial recognition and measurement

The Group classifies its financial instruments into the following categories: loans and receivables; financial instruments at fair value through profit or loss, available-for-sale financial assets and financial liabilities measured at amortised cost. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification at initial recognition and re-evaluates the designations when circumstances indicate that reclassification is required.

A financial instrument is recognised on trade date when the Group becomes a party to the contractual provisions of the instrument. These financial instruments are initially recognised at fair value, plus transaction costs for financial instruments not measured at fair value through profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.12 Financial instruments continued

Initial recognition and measurement *continued*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value of quoted instruments traded in an active market is determined with reference to closing prices at close of business at period-end. When there is no active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Derecognition

Financial assets (or where applicable, a part of a financial asset of part or a group of similar 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, are discharged or cancelled. The resulting differences between the carrying values on derecognition of the financial instrument and the amount received or paid is recognised in the statement of comprehensive income.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, when the Group has a legally enforceable right to offset the recognised amounts, and intends either to settle on a net basis, or to realise the net assets and settle the liability simultaneously.

Subsequent measurement

Loans and receivables and financial liabilities measured at amortised cost.

Cash and cash equivalents and bank overdrafts

Cash and cash equivalents and bank overdrafts are measured at amortised cost, using the effective interest method, less accumulated impairments. The effective interest rate amortisation is included in finance income or costs in the statement of comprehensive income. Cash and cash equivalents comprise cash on hand and amounts held on short-term deposit at financial institutions. Bank overdrafts and overnight borrowings include short-term borrowings repayable on demand.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Trade and other receivables and loans

Trade and other receivables and loans are subsequently measured at amortised cost, using the effective interest method, less impairment losses. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. Trade and other receivables mainly comprise franchisee receivables and are mainly short term in nature. Loans mainly comprise housing and other employee loans with maturity dates of more than 12 months after the reporting date.

Borrowings

Borrowings are measured at amortised cost using the effective interest method. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income. The maturity date of each financial liability is dependent on the contractual terms of the related borrowing.

Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest method.

The effective interest rate amortisation is included in finance costs in the statement of comprehensive income. Trade and other payables mainly comprise trade payables for merchandise for resale and are all short term in nature.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.12 Financial instruments continued

Financial instruments at fair value through profit or loss

Financial instruments are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the statement of comprehensive income.

Financial instruments designated at fair value through profit or loss

During the prior year, and prior to the unbundling of the Pick n Pay Holdings Limited RF Group, the Group had an investment in the equity of Pick n Pay Holdings Limited RF (PWK). The investment was held for the purposes of settling obligations under the Group's share incentive scheme. These share-based payment arrangements were classified as cash settled and the remeasurement of the underlying share-based payment liability was recognised in the statement of comprehensive income. The investment in PWK shares was designated as a financial asset at fair value through profit or loss on initial recognition as this designation eliminated or significantly reduced a recognition inconsistency. Fair value gains or losses as a result of subsequent measurement were recognised in profit or loss. Subsequent to the unbundling of the Pick n Pay Holdings Limited RF Group during the current period, the investment was impaired and the share-based payment liability released to the statement of comprehensive income. Refer to note 27.

The Group's investment in an insurance cell captive is designated as a financial asset at fair value through profit or loss, on initial recognition, as the Group manages this investment and evaluates performance based on its fair value in accordance with the Group's documented risk management or investment strategy. Any fair value gains or losses as a result of subsequent measurement are recognised in profit or loss.

Financial guarantee contracts issued by the Group are those contracts that require 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. The maturity date is dependent on the contractual maturity of the relevant contract. Financial guarantee contracts are initially recognised at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation and included under trade and other payables in the statement of financial position.

Derivative financial instruments

Derivative financial instruments, being forward foreign exchange rate contracts (FECs) classified as held for trading, are measured at fair value with changes in fair value recognised in the statement of comprehensive income. The fair value is determined using market rates at the reporting date.

The Group holds derivative financial instruments to hedge its foreign currency and market risk exposures. Attributable transaction costs are recognised in the statement of comprehensive income when incurred. The maturity date is dependent on the remaining contractual maturity of the individual contracts. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The Group does not apply hedge accounting.

Available-for-sale financial assets

Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and recorded in the fair value reserve in the statement of changes in equity. When the investment is derecognised, the cumulative gain or loss is recognised in the statement of the comprehensive income. When the investment is determined to be impaired, the cumulative loss is reclassified from the fair value reserve to the statement of comprehensive income.

1.13 Impairment of assets

The determination of whether an asset is impaired requires management judgement. Among others the following factors will be considered: estimated profit and cash forecasts, discount rates; duration and extent of the impairment; regional economic factors and geographical and sector performance.

Financial assets

The carrying amounts of financial assets not carried at fair value through profit or loss 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 (loss events) have had a negative effect on the estimated future cash flows of the asset. Examples of loss events include financial difficulty and default on payment by the counterparty.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.13 Impairment of assets continued

***Financial assets** continued*

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. Impairment losses are recognised in the statement of comprehensive income.

Individually significant financial assets are tested for impairment on an individual basis. All the remaining financial assets are tested for impairment on an individual or collective basis. If no evidence of impairment exists for an individually assessed financial asset, whether significant or not, the financial asset is then included in a group of financial assets with similar credit risk characteristics and tested collectively.

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. The reversal is recognised in the statement of comprehensive income. Impairment losses for financial assets recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

Non-financial assets

The carrying amounts of non-financial assets (other than inventory, defined-benefit assets 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 non-financial assets, such as goodwill, which have indefinite useful lives and are not subject to depreciation or amortisation, or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset 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 units (CGUs) to which the asset belongs. A CGU is the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets.

Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination and, for the purposes of impairment testing, are evaluated at the lowest level at which goodwill is monitored for internal reporting purposes. The units or group of units cannot be larger than the operating segments identified by the Group.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. The carrying amount is impaired and the non-financial asset is written down to its recoverable amount with the related impairment loss recognised in the statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs (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.

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.

Impairment losses for non-financial assets recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

1.14 Share capital

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

1.15 Treasury shares

Own equity instruments held by group entities are classified as treasury shares in the consolidated financial statements. 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.

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 retained earnings.

Dividends received on treasury shares are eliminated on consolidation.

1.16 Revenue

Revenue is measured at the fair value of consideration received or receivable and is stated net of related rebates and discounts granted.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.16 Revenue continued

Turnover

Revenue from the sale of goods comprises retail sales to customers and wholesale sales to franchisees through the Group's supply arrangements and is defined as turnover. All turnover is stated exclusive of value added tax. Revenue from the sale of goods is measured at the fair value of consideration received or receivable, net of returns, trade discounts, loyalty discounts and volume rebates. Turnover is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, 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 turnover 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.

The Group has a customer loyalty programme in South Africa, Smart Shopper, whereby customers are rewarded with Smart Shopper points (reward credits) which are effectively used as cash back against future purchases.

The fair value of the consideration received, under the Smart Shopper programme, is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value which is calculated as the amount for which the award credits could be separately sold, adjusted for an expected forfeiture rate. Such consideration is not recognised as revenue at the time of the initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled. Deferred revenue is also released to revenue in the statement of comprehensive income when it is no longer considered probable that the points will be redeemed, based on management's judgement of expected redemption rates.

Finance income

Finance income is recognised as it accrues in the statement of comprehensive income, using the effective interest method, by reference to the principal amounts outstanding and at the interest rate applicable.

Other trading income

Franchise fee income: Income from franchisees, calculated as a percentage of franchise turnover in accordance with the substance of the relevant agreement, is recognised when the sale which gives rise to the income takes place.

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

Commissions and other income: The Group acts as a payment office for the services provided by a variety of third parties to the Group's customers. The related agent's commissions received are recognised as income.

Commissions relating to third-party services are recognised based on the stage of completion by reference to services performed to date as a percentage of the total services to be performed.

Commissions relating to third-party products are recognised when the underlying third-party payments take place.

Dividend income: Dividend income is recognised when the shareholders' right to receive payment is established.

1.17 Borrowing costs

Borrowing costs incurred are recognised as an expense in the statement of comprehensive income and are accrued on an effective interest method basis by reference to the principal amounts outstanding and at the interest rate applicable.

1.18 Taxes

Income tax on the profit or loss for the period 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 in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

Current tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the period using tax rates enacted or substantively enacted at the reporting date and any adjustment of tax payable for previous periods.

Deferred tax

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of the assets and liabilities at the reporting date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting nor taxable profit; and investments in subsidiaries to the extent that the holding company has the ability to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.18 Taxes continued

***Deferred tax** continued*

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 reporting date.

Deferred tax is recognised in the statement of comprehensive income, except to the extent that it relates to a transaction that is recognised directly in equity or other comprehensive income, or a business combination. 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 recognised in other comprehensive income or directly to equity, in which case it is recognised in other comprehensive income or directly in 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 reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividends withholding tax

Dividends withholding tax is a tax levied on shareholders and is applicable on dividends declared. The Company withholds dividends tax on behalf of their shareholders at a rate of 20% on dividends declared for shareholders that are not exempt from this tax.

1.19 Employee benefits

Short-term employee benefits

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

Accruals for employee entitlements to wages, salaries, bonuses and annual leave represent the amount which the Group has a present obligation to pay as a result of employees' services provided up to the reporting date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

Share-based payment transactions

The share ownership programme enables Group employees to acquire shares in Pick n Pay Stores Limited (PIK).

The fair value of awards granted, on the Group's own equity instruments, is recognised as an employee cost expense in the statement of comprehensive income with a corresponding increase in equity for these equity-settled share-based payments. The fair value is measured at grant date and the cost of the awards granted is spread over the period during which the employees become unconditionally entitled to the awards (the vesting period).

The fair value of the awards granted is measured using an actuarial binomial option pricing model, taking into account the terms and conditions upon which the awards are granted. Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No cumulative expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Prior to the unbundling of the Pick n Pay Holdings Limited RF Group, and in the prior year, the Group granted employees options for Pick n Pay Holdings Limited RF shares under its employee share incentive scheme.

These were classified and accounted for as cash-settled. The related share-based payment liability was remeasured to fair value at each reporting date up to, and including the exercise date, with changes in fair value recognised in employee benefits expense in the statement of comprehensive income. Subsequent to the unbundling, and due to the nature of the unbundling transaction, the Group had no further obligation and released the share-based liability to the statement of comprehensive income. Refer to note 27.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.19 Employee benefits continued

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.

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 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 period when the services have been rendered.

Contributions to a defined-contribution plan that are made more than 12 months after the end of the period in which the employees render the services are discounted to their present value.

Defined-benefit plans

A defined-benefit plan is a post-employment benefit plan other than 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 the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined-benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined-liability or assets, which comprise actuarial gains or losses, the return on plan assets (excluding amounts included in net interest on the net defined-benefit liability) and the effect of the asset ceiling (if any, excluding amounts included in net interest on the net defined-benefit liability) are recognised immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined-benefit liability or asset for the period by applying the discount rate used to measure the defined-benefit obligation at the beginning of the period to the then net defined-benefit liability or asset, taking into account any changes in the net defined-benefit liability or asset during the period as a result of contributions and benefit payments. Net interest expense or income and other expenses related to defined-benefit plans are recognised in the statement of comprehensive income.

When the benefits of a plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the statement of comprehensive income.

The Group recognises gains or losses on the settlement of a defined-benefit plan when the settlement occurs.

1.20 Expenses

Expenses, other than those dealt with under a specific accounting policy note, are recognised in the statement of comprehensive income when it is probable that an outflow of economic benefits associated with the transaction will occur and that it can be measured reliably.

1.21 Dividends distributed to shareholders

Dividends are accounted for in the period that they have been declared by the Company and are directly charged to equity.

1.22 Operating segments

The Group discloses segmental financial information which is used internally by the entity's Chief Operating Decision-Maker (CODM) in order to assess performance and allocate resources. The Group annually performs a detailed review of the executives, or group of executives, that could be considered the appropriate and relevant CODM of the Group. During the current and prior period under review, the CODM of the Group comprised the Group executive committee, which consisted of Richard Brasher (CEO), Richard van Rensburg (deputy CEO) and Bakar Jakoet (CFO).

Operating segments are individual components of an entity that engages 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. The CODM evaluates segmental performance based on 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. Operating segments that display similar economic characteristics are aggregated for reporting purposes.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.22 Operating segments continued

The Group has two operating segments, namely South Africa and Rest of Africa with no individual customer accounting for more than 10% of turnover. South Africa operates in various formats under the Pick n Pay and Boxer brands in South Africa. The Rest of Africa segment is responsible for the Group's expansion into the rest of Africa.

Segmental profit before tax is the reported measure used for evaluating the Group's operating segments' performance. On an overall basis the segmental profit before tax is equal to the Group's reported profit before tax. The Rest of Africa segment's segmental profit before tax comprises the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental cost incurred by the South African segment relating to the Rest of Africa segment.

1.23 Net asset value per share

Net asset value per share is calculated by taking the total equity value of the Group, adjusted with the differential between the carrying value and market value of property, divided by the number of shares held outside of the Group.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
2.	**REVENUE**		
	Turnover	**77 486.1**	72 445.1
	Finance income	**126.1**	60.9
	Bank balances and investments	**81.4**	30.0
	Trade and other receivables	**40.3**	27.3
	Staff loans and other	**4.4**	3.6
	Other trading income	**1 505.6**	971.3
	Dividend *in specie* received upon unbundling (note 27)	**412.3**	–
	Dividends received	**18.0**	–
	Franchise fee income	**349.8**	316.7
	Operating lease income (note 11)	**345.3**	329.1
	Commissions and other income	**380.2**	325.5
		79 117.8	73 477.3

The Group has a customer loyalty programme, Smart Shopper, whereby customers are rewarded with Smart Shopper points (reward credits) which are effectively redeemed as cash against future purchases. At period-end, the Group had deferred revenue of R137.4 million (2016: R123.9 million) which represents the fair value of the Smart Shopper points granted and yet to be redeemed, adjusted for an expected forfeiture rate of 15.9% (2016: 18.6%) (refer to note 23).

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
3.	**PROFIT BEFORE TAX**		
	Profit before tax is stated after taking into account the following expenses:		
3.1	**Employee costs**		
	Salaries and wages	**5 597.1**	5 169.8
	Staff benefits and training	**322.5**	307.9
	Net expense recognised on defined-benefit plan (note 22.1)	**7.2**	13.3
	Contributions to defined-contribution plans (note 22.2)	**239.6**	341.8
	Equity-settled share-based payment expense	**537.2**	176.5
	Cash-settled share-based payment (gain)/expense	**(124.6)**	13.0
	Leave pay	**40.8**	38.3
		6 619.8	6 060.6
3.2	**Auditors' remuneration**		
	Assurance services – current year	**7.6**	6.1
	Assurance services – prior period under provision	**1.6**	–
	Other services	**0.4**	0.1
		9.6	6.2
3.3	**Finance costs**		
	Finance leases	**8.9**	8.2
	Bank overdrafts	**189.4**	58.5
	Borrowings	**20.3**	50.3
		218.6	117.0
3.4	**Foreign exchange gain/(loss)**	**29.9**	(8.2)

4. DIRECTORS' REMUNERATION AND INTEREST IN SHARES

4.1 Directors' remuneration

	Fees for board meetings R'000	Fees for committee and other work R'000	Base salary† R'000	Retirement and medical contri-butions† R'000	Fringe and other benefits R'000	Total fixed remune-ration R'000	Short-term annual bonus R'000	Total remune-ration R'000	Long-term share awards expense# R'000
2017									
Non-executive directors	6 222.0	2 074.5	–	–	–	8 296.5	–	8 296.5	–
Gareth Ackerman	3 913.0	–	–	–	–	3 913.0	–	3 913.0	–
Alex Mathole*	125.0	–	–	–	–	125.0	–	125.0	–
Audrey Mothupi	364.0	352.5	–	–	–	716.5	–	716.5	–
David Friedland	364.0	312.0	–	–	–	676.0	–	676.0	–
David Robins	364.0	–	–	–	–	364.0	–	364.0	–
Jeff van Rooyen	364.0	585.5	–	–	–	949.5	–	949.5	–
Hugh Herman	364.0	554.5	–	–	–	918.5	–	918.5	–
Lorato Phalatse	364.0	270.0	–	–	–	634.0	–	634.0	–
Executive directors	7.5	–	21 656.5	2 345.5	1 514.4	25 523.9	–	25 523.9	43 679.6
Richard Brasher	1.5	–	8 945.9	781.7	302.7	10 031.8	–	10 031.8	23 754.3
Richard van Rensburg	1.5	–	4 027.2	350.1	328.2	4 707.0	–	4 707.0	6 794.1
Bakar Jakoet	1.5	–	3 892.7	587.1	324.2	4 805.5	–	4 805.5	6 001.0
Suzanne Ackerman-Berman	1.5	–	2 508.0	224.9	276.6	3 011.0	–	3 011.0	3 569.4
Jonathan Ackerman	1.5	–	2 282.7	401.7	282.7	2 968.6	–	2 968.6	3 560.8
Total remuneration	6 229.5	2 074.5	21 656.5	2 345.5	1 514.4	33 820.4	–	33 820.4	43 679.6
2016									
Non-executive directors	6 207.0	1 936.0	–	–	–	8 143.0	–	8 143.0	–
Gareth Ackerman	3 657.0	–	–	–	–	3 657.0	–	3 657.0	–
Audrey Mothupi	340.0	221.0	–	–	–	561.0	–	561.0	–
Ben van der Ross**	170.0	146.0	–	–	–	316.0	–	316.0	–
David Friedland***	340.0	177.0	–	–	–	517.0	–	517.0	–
David Robins	340.0	–	–	–	–	340.0	–	340.0	–
Jeff van Rooyen	340.0	440.0	–	–	–	780.0	–	780.0	–
John Gildersleeve****	340.0	182.0	–	–	–	522.0	–	522.0	–
Hugh Herman	340.0	518.0	–	–	–	858.0	–	858.0	–
Lorato Phalatse	340.0	252.0	–	–	–	592.0	–	592.0	–
Executive directors	7.5	–	19 228.4	3 234.0	1 442.1	23 912.0	23 400.0	47 312.0	40 229.5
Richard Brasher	1.5	–	7 863.0	1 303.4	287.5	9 455.4	15 000.0	24 455.4	20 233.6
Richard van Rensburg	1.5	–	3 709.4	600.3	312.0	4 623.2	2 500.0	7 123.2	8 448.9
Bakar Jakoet	1.5	–	3 213.0	552.0	302.9	4 069.4	2 500.0	6 569.4	5 436.2
Suzanne Ackerman-Berman	1.5	–	2 221.5	376.8	267.2	2 867.0	1 700.0	4 567.0	3 055.4
Jonathan Ackerman	1.5	–	2 221.5	401.5	272.5	2 897.0	1 700.0	4 597.0	3 055.4
Total remuneration	6 214.5	1 936.0	19 228.4	3 234.0	1 442.1	32 055.0	23 400.0	55 455.0	40 229.5

* *Alex Mathole was appointed on 24 October 2016.*
** *Ben van der Ross resigned on 27 July 2015.*
*** *During the prior period David Friedland received consultancy fees of R114 000 for services rendered to the audit and risk committee.*
**** *John Gildersleever resigned on 28 February 2016.*
† *The structure of remuneration packages were adjusted during the year, and the year-on-year increase in base salary and decrease in retirement and medical contributions should be viewed together.*
# *The expense of the long-term share awards is determined in accordance with IFRS 2: Share-based Payments. The fair value is measured at grant date and the cost of the awards granted is spread over the period during which the employees become unconditionally entitled to the options (the vesting period). The amounts in the column represent the current year's charge, as recorded in the statement of comprehensive income and statement of changes in equity. The long-term share awards will vest in the future only if all the criteria set out in the rules of the 1997 Employee Share Option Scheme and Forfeitable Share Plan are met.*

4. DIRECTORS' REMUNERATION AND INTEREST IN SHARES continued

4.2 Directors' interest in Pick n Pay Stores Limited ordinary shares

	How held*	Balance held at 28 February 2016	Additions/ (disposals) during the period	Shares transferred on unbundling ***	Balance held at 26 February 2017#	Beneficial/ non-beneficial interest
2017						
Gareth Ackerman	Direct	43	–	266	309	Beneficial
	Indirect	–	23 467	1 629 733	1 653 200	Beneficial
	Indirect	–	–	19 762	19 762	Non-beneficial
Ackerman Investment Holdings Proprietary Limited**	Indirect	–	–	124 677 238	124 677 238	Non-beneficial
Richard Brasher	Direct – FSP	1 020 000	230 000	–	1 250 000	Beneficial
Richard van Rensburg	Direct	–	–	41 439	41 439	Beneficial
	Direct – FSP	285 000	45 000	–	330 000	Beneficial
Bakar Jakoet	Direct	500 000	–	121 880	621 880	Beneficial
	Direct – FSP	285 000	45 000	–	330 000	Beneficial
	Indirect	530	–	12 529	13 059	Non-beneficial
Suzanne Ackerman-Berman	Direct	2 500	–	118 028	120 528	Beneficial
	Direct – FSP	170 000	25 000	–	195 000	Beneficial
	Indirect	4 651	–	467 576	472 227	Beneficial
Jonathan Ackerman	Direct	43	–	122 845	122 888	Beneficial
	Direct – FSP	170 000	25 000	–	195 000	Beneficial
	Indirect	–	–	573 061	573 061	Beneficial
	Indirect	–	–	11 039	11 039	Non-beneficial
Jeff van Rooyen	Direct	3 800	(3 800)	–	–	Beneficial
David Friedland	Direct	–	–	31 688	31 688	Beneficial
David Robins	Direct	–	–	975	975	Beneficial
	Indirect	–	–	93 276	93 276	Non-beneficial
Ackerman Pick n Pay Foundation****	Indirect	30 000	–	–	30 000	Non-beneficial
	Indirect	71 900	–	–	71 900	Non-beneficial
Mistral Trust*****	Indirect	–	–	2 700 967	2 700 967	Non-beneficial

* *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a trust of which the director is a trustee, or a spouse and minor children of directors.*

** *The non-beneficial interest in Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

*** *As part of the unbundling of the Pick n Pay Holdings Limited RF Group, shareholders of Pick n Pay Holdings Limited RF were granted a dividend in specie, made up of shares in Pick n Pay Stores Limited. Refer to note 27 for more information.*

**** *The indirect non-beneficial interest in the Ackerman Pick n Pay Foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman in their capacities as trustees.*

***** *The indirect non-beneficial interest in the Mistral Trust represents a portion of the holdings of Gareth Ackerman in his capacity as trustee.*

There have been no changes in the director's interest in shares since 26 February 2017 up to the date of approval of the 2017 audited Group annual financial statements.

4. DIRECTORS' REMUNERATION AND INTEREST IN SHARES continued

4.2 Directors' interest in Pick n Pay Stores Limited ordinary shares continued

	How held*	Balance held at 2 March 2015	Additions during the period	Balance held at 28 February 2016	Beneficial/ non-beneficial interest
2016					
Gareth Ackerman	Direct	43	–	43	Beneficial
Richard Brasher	Direct – FSP	800 000	220 000	1 020 000	Beneficial
Richard van Rensburg	Direct – FSP	250 000	35 000	285 000	Beneficial
Bakar Jakoet	Direct	500 000	–	500 000	Beneficial
	Direct – FSP	250 000	35 000	285 000	Beneficial
	Indirect	530	–	530	Non-beneficial
Suzanne Ackerman-Berman	Direct	2 500	–	2 500	Beneficial
	Direct – FSP	150 000	20 000	170 000	Beneficial
	Indirect	4 651	–	4 651	Beneficial
Jonathan Ackerman	Direct	43	–	43	Beneficial
	Direct – FSP	150 000	20 000	170 000	Beneficial
Jeff van Rooyen	Direct	3 800	–	3 800	Beneficial
Ackerman Pick n Pay Foundation**	Indirect	30 000	–	30 000	Non-beneficial
	Indirect	71 900	–	71 900	Non-beneficial

* *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a trust of which the director is a trustee, or a spouse and minor children of directors.*

** *The indirect non-beneficial interest in the Ackerman Pick n Pay Foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman in their capacities as trustees.*

4.3 Directors' interest in Pick n Pay Stores Limited B shares

	How held*	Balance held at 28 February 2016	Issued on unbundling**	Balance held at 26 February 2017	Beneficial/ non-beneficial interest
2017					
Gareth Ackerman	Direct	–	522	**522**	Beneficial
	Direct	–	3 227 861	**3 227 861**	Beneficial
	Indirect	–	39 140	**39 140**	Non-beneficial
Ackerman Investment Holdings Proprietary Limited***	Indirect	–	246 936 847	**246 936 847**	Non-beneficial
Mistral Trust****	Indirect	–	5 349 559	**5 349 559**	Non-beneficial
Suzanne Ackerman-Berman	Direct	–	233 767	**233 767**	Beneficial
	Indirect	–	926 084	**926 084**	Beneficial
Jonathan Ackerman	Direct	–	243 307	**243 307**	Beneficial
	Indirect	–	1 135 009	**1 135 009**	Beneficial
	Indirect	–	21 862	**21 862**	Non-beneficial
David Robins	Direct	–	1 931	**1 931**	Beneficial
	Indirect	–	184 742	**184 742**	Non-beneficial

* *Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a trust of which the director is a trustee, or a spouse and minor children of directors.*

** *As part of the unbundling of the Pick n Pay Holdings Limited RF Group, a new class of unlisted voting shares (B shares) in Pick n Pay Stores Limited was created (refer to note 19.2). These shares were issued to existing controlling shareholders of Pick n Pay Holdings Limited RF so as to retain the control structure of the Group as before the unbundling. Refer to note 27 for more information.*

*** *The non-beneficial interest in Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

**** *The non-beneficial interest in the Mistral Trust represents a portion of the holdings of Gareth Ackerman in his capacity as trustee.*

4. DIRECTORS' REMUNERATION AND INTEREST IN SHARES continued

4.4 Pick n Pay Stores Limited share awards granted to directors

	Calendar year granted	Award grant price R	Balance held at 28 February 2016	Granted/ (exercised) during the period	Exercise price R	Converted on unbundling ***	Balance held at 26 February 2017	Available for take-up
2017								
Richard Brasher								
Share options	2012	42.24	1 000 000	–	–	–	**1 000 000**	Nov 2017
	2012	42.24	1 000 000*	–	–	–	**1 000 000***	Nov 2017
Forfeitable shares	2014	Nil	800 000	–	–	–	**800 000**	Aug 2017
	2015	Nil	220 000	–	–	–	**220 000**	Aug 2018
	2016	Nil	–	230 000	–	–	**230 000**	Aug 2019
			3 020 000	230 000		–	**3 250 000**	
Richard van Rensburg								
Share options	2011	36.55	400 000**	(400 000)	73.79	–	**–**	n/a
	2016	31.14	–	–	–	487 464	**487 464**	Now
Forfeitable shares	2014	Nil	250 000	–	–	–	**250 000**	Aug 2017
	2015	Nil	35 000	–	–	–	**35 000**	Aug 2018
	2016	Nil	–	45 000	–	–	**45 000**	Aug 2019
			685 000	(355 000)		487 464	**817 464**	
Bakar Jakoet								
Share options	2003	12.00	250 000	–	–	–	**250 000**	Now
	2005	23.59	–	–	–	195	**195**	Now
	2007	31.15	5 779	–	–	–	**5 779**	Now
	2008	23.24	–	–	–	293	**293**	Now
	2008	26.55	7 907	–	–	–	**7 907**	Now
	2008	26.14	150 000	–	–	–	**150 000**	Now
	2009	28.20	12 413	–	–	–	**12 413**	Now
	2010	32.82	–	–	–	195	**195**	Now
	2010	42.28	1 799	–	–	–	**1 799**	Now
	2011	41.70	500 000	–	–	–	**500 000**	Now
	2014	46.44	–	–	–	195	**195**	Now
Forfeitable shares	2014	Nil	250 000	–	–	–	**250 000**	Aug 2017
	2015	Nil	35 000	–	–	–	**35 000**	Aug 2018
	2016	Nil	–	45 000	–	–	**45 000**	Aug 2019
			1 212 898	45 000		878	**1 258 776**	
Suzanne Ackerman-Berman								
Share options	2008	26.14	50 000	–	–	–	**50 000**	Now
	2008	26.14	25 000	–	–	–	**25 000**	Aug 2017
	2008	26.14	25 000	–	–	–	**25 000**	Aug 2018
	2016	58.10	–	–	–	196	**196**	Now
Forfeitable shares	2014	Nil	150 000	–	–	–	**150 000**	Aug 2017
	2015	Nil	20 000	–	–	–	**20 000**	Aug 2018
	2016	Nil	–	25 000	–	–	**25 000**	Aug 2019
			270 000	25 000		196	**295 196**	
Jonathan Ackerman								
Share options	2008	26.14	50 000	–	–	–	**50 000**	Now
	2008	26.14	25 000	–	–	–	**25 000**	Aug 2017
	2008	26.14	25 000	–	–	–	**25 000**	Aug 2018
Forfeitable shares	2014	Nil	150 000	–	–	–	**150 000**	Aug 2017
	2015	Nil	20 000	–	–	–	**20 000**	Aug 2018
	2016	Nil	–	25 000	–	–	**25 000**	Aug 2019
			270 000	25 000		–	**295 000**	

* *The exercising of these binary options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option. If the share price performance criteria are not met, the options are forfeited.*

** *The exercising of these binary options were subject to specific performance criteria relating to the Company's share price over the term of the option which were met during the period under review.*

*** *As part of the unbundling of the Pick n Pay Holdings Limited RF Group, existing share options in Pick n Pay Holdings Limited RF shares were cancelled and replaced with share options in Pick n Pay Stores Limited shares. Refer to note 27 for more information.*

4. DIRECTORS' REMUNERATION AND INTEREST IN SHARES continued

4.4 Pick n Pay Stores Limited share awards granted to directors continued

	Calendar year granted	Award grant price R	Balance held at 2 March 2015	Granted/ (exercised) during the period	Exercise price R	Balance held at 28 February 2016	Available for take-up
2016							
Richard Brasher							
Share options	2012	42.24	1 000 000	–	–	1 000 000	Nov 2017
	2012	42.24	1 000 000*	–	–	1 000 000*	Nov 2017
Forfeitable shares	2014	Nil	800 000	–	–	800 000	Aug 2017
	2015	Nil	–	220 000	–	220 000	Aug 2018
			2 800 000	220 000		3 020 000	
Richard van Rensburg							
Share options	2011	36.55	400 000*	–	–	400 000*	May 2016
Forfeitable shares	2014	Nil	250 000	–	–	250 000	Aug 2017
	2015	Nil	–	35 000	–	35 000	Aug 2018
			650 000	35 000		685 000	
Bakar Jakoet							
Share options	2003	12.00	250 000	–	–	250 000	Now
	2007	31.15	5 779	–	–	5 779	Now
	2008	26.55	7 907	–	–	7 907	Now
	2008	26.14	150 000	–	–	150 000	Now
	2009	28.20	12 413	–	–	12 413	Now
	2010	42.28	1 799	–	–	1 799	Now
	2011	41.70	200 000	–	–	200 000	Now
	2011	41.70	300 000	–	–	300 000	Aug 2016
Forfeitable shares	2014	Nil	250 000	–	–	250 000	Aug 2017
	2015	Nil	–	35 000	–	35 000	Aug 2018
			1 177 898	35 000		1 212 898	
Suzanne Ackerman-Berman							
Share options	2004	21.00	10 000	(10 000)	58.71	–	n/a
	2006	31.15	122 408	(122 408)	58.71	–	n/a
	2008	26.56	4 519	(4 519)	58.71	–	n/a
	2008	26.14	25 000	–	–	25 000	Now
	2008	26.14	25 000	–	–	25 000	Aug 2016
	2008	26.14	25 000	–	–	25 000	Aug 2017
	2008	26.14	25 000	–	–	25 000	Aug 2018
	2009	28.20	8 867	(8 867)	58.71	–	n/a
	2010	42.27	1 421	(1 421)	58.71	–	n/a
Forfeitable shares	2014	Nil	150 000	–	–	150 000	Aug 2017
	2015	Nil	–	20 000	–	20 000	Aug 2018
			397 215	(127 215)		270 000	
Jonathan Ackerman							
Share options	2005	20.70	6 441	(6 441)	58.71	–	n/a
	2006	28.00	14 286	(14 286)	58.71	–	n/a
	2007	31.15	14 446	(14 446)	58.71	–	n/a
	2008	26.56	9 414	(9 414)	58.71	–	n/a
	2008	26.14	25 000	–	–	25 000	Now
	2008	26.14	25 000	–	–	25 000	Aug 2016
	2008	26.14	25 000	–	–	25 000	Aug 2017
	2008	26.14	25 000	–	–	25 000	Aug 2018
	2009	28.20	8 867	(8 867)	58.71	–	n/a
	2010	42.27	1 560	(1 560)	58.71	–	n/a
Forfeitable shares	2014	Nil	150 000	–	–	150 000	Aug 2017
	2015	Nil	–	20 000	–	20 000	Aug 2018
			305 014	(35 014)		270 000	

* *The exercising of these binary options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option. If the share price performance criteria are not met, the options are forfeited.*

4. DIRECTORS' REMUNERATION AND INTEREST IN SHARES continued

4.5 Pick n Pay Holdings Limited RF share awards granted to directors

	Calendar year granted	Award grant price R	Balance held at 28 February 2016	Converted on unbundling*	Balance held at 26 February 2017
2017					
Richard van Rensburg	2011	15.18	1 000 000	(1 000 000)	–
			1 000 000	(1 000 000)	–
Bakar Jakoet	2005	11.50	400	(400)	–
	2008	11.33	600	(600)	–
	2010	16.00	400	(400)	–
	2014	22.64	400	(400)	–
			1 800	(1 800)	–
Suzanne Ackerman-Berman	2016	28.32	400	(400)	–
			400	(400)	–

	Calendar year granted	Award grant price R	Balance held at 2 March 2015	Granted/ (exercised) during the period	Exercise price R	Balance held at 28 February 2016	Available for take-up
2016							
Richard van Rensburg	2011	15.18	1 000 000	–	–	1 000 000	Now
			1 000 000	–		1 000 000	
Bakar Jakoet	2005	11.50	400	–	–	400	Now
	2008	11.33	600	–	–	600	Now
	2010	16.00	400	–	–	400	Now
	2014	22.64	400	–	–	400	Now
			1 800	–		1 800	
Suzanne Ackerman-Berman	2011	15.35	400	(400)	26.68	–	n/a
	2016	28.32	–	400	–	400	Now
			400	–		400	
Jonathan Ackerman	2010	16.00	1 000	(1 000)	26.68	–	n/a
	2012	20.03	400	(400)	26.68	–	n/a
			1 400	(1 400)		–	

* *As part of the unbundling of the Pick n Pay Holdings Limited RF Group, existing share options in Pick n Pay Holdings Limited RF shares were cancelled and replaced with share options in Pick n Pay Stores Limited shares. Refer to note 27 for more information.*

5. SHARE-BASED PAYMENTS

The Group operates an employee share incentive scheme, the 1997 Employee Share Option Scheme (the Scheme), for the benefit of its executive directors, senior management and employees. The Scheme incentivises its executive directors, senior management and employees by providing them with an opportunity to acquire shares in the Group, thereby aligning interests with shareholders and encouraging employee retention.

The Scheme is administered by the Employee Share Purchase Trust (the share trust) and its Board of Trustees. All options are granted in accordance with the rules of the Scheme, which have been approved by shareholders and the Johannesburg Stock Exchange (JSE).

All share options are granted at the volume weighted average market price (VWAP) for the 20 trading days preceding the option grant date. No discount is applied.

All share options granted after 11 June 2008 will, at the time of exercise by the employee, be automatically net-settled. 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 (gross settle).

The Group modernised its control ownership structure in the first half of the year, with the unbundling of the Pick n Pay Holdings Limited RF Group (PWK). All outstanding PWK share options granted in terms of the Group's share incentive scheme were cancelled and replaced with Pick n Pay Stores Limited share options, in terms of the shareholder approval received at the General Meeting held on 25 July 2016. As the Group had no further obligation in terms of outstanding PWK share options, the share-based payment liability previously recognised was released to the statement of comprehensive income. For more information, refer to note 27.

The directors have received shareholder approval to utilise up to 63 892 844 (2016: 63 892 844) shares of the issued share capital of Pick n Pay Stores Limited (PIK) for settling obligations under the employee share schemes.

The following share options have been issued to employees:

Long-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. There are no vesting conditions as long-service share options may be taken up immediately on granting.

Status share options – are granted to employees who attain manager grade and further options are granted at each promotion to higher levels of management. In order to encourage employee retention, status shares vest in three instalments (vesting periods) as follows:

- 40% after three years
- 30% after five years
- 30% after seven years

There are no performance conditions attached to these share options. Vesting is only dependent on the employee meeting the service requirement of remaining in the employ of the Group over the specified vesting period. If the employee leaves before the vesting period is complete, all the unvested share options will lapse.

Retention share options – these share options specifically encourage the retention of key individuals and have longer vesting periods of up to 10 years.

Performance top-up options – employees may be eligible for a performance "top-up", as recognition of their valuable contribution to the Group. These options vest in the same manner as status share options.

Binary share options (share options with performance conditions) – these are granted to key executives. These three to five-year options may only be taken up when prescribed performance conditions linked to the growth of the PIK 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.

Forfeitable share plan

The forfeitable share plan (FSP) recognises those key senior management who have a significant role to play in delivering the Group's strategy and ensuring the growth and sustainability of the business in the future.

The award of shares under the FSP recognises the valuable contribution of existing senior management or the potential of prospective employees, and through the attachment of performance conditions, incentivises management to deliver earnings growth in the future.

Shares awarded under the FSP will always have performance conditions attached as well as a three-year service period. Performance conditions include a three-year compound annual growth rate of the Group's headline earnings per share (HEPS). If the performance conditions are not met within the specified time period (the vesting period), the employee will forfeit the shares.

	52 weeks 26 February 2017 Number of options PIK 000's	52 weeks 28 February 2016 Number of options PIK 000's	52 weeks 26 February 2017 Number of options PWK 000's	52 weeks 28 February 2016 Number of options PWK 000's
5. SHARE-BASED PAYMENTS continued				
5.1 Outstanding share options				
Movement in the total number of share options granted is as follows:				
At beginning of period	**30 562.8**	33 874.6	**16 136.2**	16 635.5
New options granted	**3 441.5**	2 358.4	**–**	1 196.7
Options taken up	**(7 908.5)**	(4 407.9)	**–**	(1 695.8)
Options forfeited	**(1 534.7)**	(1 262.3)	**–**	(0.2)
Options converted upon unbundling*	**7 565.3**	–	**(16 136.2)**	–
At end of period	**32 126.4**	30 562.8	**–**	16 136.2
The weighted average grant price of share options are as follows:				
At beginning of period	**R37.51**	R36.46	**R16.40**	R14.41
New options granted	**R64.48**	R55.88	**–**	R25.38
Options taken up	**R35.24**	R34.37	**–**	R17.40
Options forfeited	**R43.81**	R42.51	**–**	R3.25
Options converted upon unbundling*	**R33.65**	–	**R16.40**	–
At end of period	**R39.75**	R37.51	**–**	R16.40

** As part of the unbundling of the Pick n Pay Holdings Limited RF Group, on the date of the unbundling, all outstanding PWK share options were converted to share options in PIK shares. Refer to note 27.*

Outstanding share options may be taken up during the following financial periods:

Year	Average grant price	52 weeks 26 February 2017 Number of options PIK 000's	52 weeks 28 February 2016 Number of options PIK 000's
2018	R32.78	**17 249.6**	17 891.5
2019	R40.72	**5 255.9**	5 479.5
2020	R42.05	**3 518.5**	3 423.2
2021	R54.19	**2 315.9**	1 574.8
2022 and thereafter	R59.18	**3 786.5**	2 193.8
		32 126.4	30 562.8
Number of outstanding options as a percentage of issued shares		**6.6%**	6.3%

5. SHARE-BASED PAYMENTS continued

5.2 Outstanding forfeitable shares

	52 weeks 26 February 2017 Number of forfeitable shares PIK 000's	52 weeks 28 February 2016 Number of forfeitable shares PIK 000's
Movement in the total number of forfeitable shares granted is as follows:		
At beginning of period	**7 923.0**	6 925.0
Share awards granted	**1 763.5**	1 243.0
Issue of shares by Pick n Pay Stores Limited	**–**	1 128.0
Shares purchased during the year	**1 417.0**	–
Utilisation of existing shares held within the Group	**346.5**	115.0
Share awards forfeited	**(350.0)**	(245.0)
At end of period	**9 336.5**	7 923.0
Rights to FSP shares are issued with a grant price of zero. The fair value of these rights is the market price of the share on grant date.		
Outstanding forfeitable shares vest during the following financial periods:		
Year		
2018*	**6 425.0**	6 700.0
2019	**1 168.0**	1 223.0
2020	**1 743.5**	–
	9 336.5	7 923.0
Number of forfeitable shares as a percentage of issued shares	**1.9%**	1.6%

* *Performance hurdles relating to these forfeitable shares were met as at 26 February 2017. These will become unconditional when the service period condition is met during August 2017.*

5.3 Total outstanding share awards

	52 weeks 26 February 2017 Number of share awards PIK 000's	52 weeks 28 February 2016 Number of share awards PIK 000's
Share options	**32 126.4**	30 562.8
Forfeitable shares	**9 336.5**	7 923.0
Total	**41 462.9**	38 485.8
Number of share awards as a percentage of issued shares	**8.5%**	7.9%

	000's	000's
Total shares authorised to be utilised, from issued share capital, for settling obligations under the employee share schemes	**63 892.8**	63 892.8
Shares remaining for utilisation under current authorisations	**22 429.9**	25 407.0

Refer to note 4 for details of share options held by directors and forfeitable share plan shares issued to directors.

	52 weeks 26 February 2017 Number of share awards 000's	52 weeks 28 February 2016 Number of share awards 000's
5. SHARE-BASED PAYMENTS continued		
5.4 Share held within the Group, reflected as treasury shares (note 20)		
As hedge against shares issued under forfeitable share plan	**9 336.5**	7 923.0
As hedge against share options granted	**6 531.8**	1 752.4
	15 868.3	9 675.4

5.5 Fair value of equity-settled share options

The fair value of equity-settled share options granted to employees are valued at the grant date and expensed through profit or loss over the vesting period of the option.

The fair value of each option granted in Pick n Pay Stores Limited (PIK) and previously in Pick n Pay Holdings Limited RF (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 period are as follows:

Financial period of grant	Options granted	Number of options granted 000's	Number of options converted upon unbundling 000's	Expected life of options years	Share price at grant date	Grant price	Expected volatility*	Expected dividend yield**	Risk-free rate***
2016	PWK	1 196.7	–	1	R21.00 – R29.23	R21.64 – R28.36	22.29 – 26.94	1.99 – 2.19	6.17 – 9.58
2016	PIK	2 358.4	–	3 – 7	R54.05 – R68.31	R53.06 – R66.58	22.84 – 25.71	1.80 – 1.84	7.37 – 9.63
2017	**PIK**	**3 441.5**	**7 565.3**	**0 – 7**	**R55.25 – R84.24**	**R26.62 – R79.86**	**18.82 – 29.88**	**1.79 – 4.33**	**5.65 – 10.33**

* *The expected volatility is determined based on the rolling historical volatility over the expected option term that prevailed at the grant date.*

** *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 two-year period preceding the grant, equal to the vesting period of the grant. For the forfeitable share plan the expected dividend yield is zero as all participants have an unforfeitable right to future dividends.*

*** *The risk-free rate is the yield on the zero-coupon Swap Curve, as compiled by the JSE, with a term corresponding with the estimated life time of the option.*

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
6.	**INCOME TAX**		
6.1	**Tax recognised in profit or loss**		
	Normal tax	**457.2**	429.3
	Current period	**425.2**	436.9
	Prior period under/(over) provision	**32.0**	(7.6)
	Deferred tax (note 13)	**14.5**	(21.2)
		471.7	408.1
6.2	**Tax recognised directly in statement of changes in equity**		
	Tax effect of share transactions recorded directly in equity	**0.6**	(35.3)
6.3	**Tax paid**		
	Owing – beginning of period	**183.0**	126.8
	Recognised in profit or loss	**457.2**	429.3
	Purchase of operations (note 29)	**3.6**	–
	Foreign currency translations	**(0.4)**	(2.0)
	Recognised in statement of changes in equity	**0.6**	(35.3)
	Owing – end of period	**(174.8)**	(183.0)
	Total tax paid	**469.2**	335.8
		%	%
6.4	**Reconciliation of effective tax rate**		
	South African statutory tax rate	**28.0**	28.0
	Exempt income – dividend *in specie*	**(6.7)**	–
	Exempt income – dividends received	**(0.3)**	(0.2)
	Exempt income – other	**(0.8)**	–
	Impact of foreign tax rates	**0.2**	(1.0)
	Impact of fair value adjustments	**3.7**	(0.1)
	Non-deductible impairment loss on intangible assets	**0.3**	0.2
	Non-deductible leasehold improvement and property depreciation	**2.0**	1.4
	Non-deductible share options expense	**0.3**	0.9
	Other non-deductible expenditure	**0.1**	–
	Utilisation of previously unrecognised deferred tax	**(0.3)**	(0.8)
	Net prior year under/(over) provisions	**1.0**	(0.9)
	Capital gains tax	**–**	0.2
	Effective tax rate	**27.5**	27.7

		52 weeks 26 February 2017 Cents per share	52 weeks 28 February 2016 Cents per share
7.	**EARNINGS PER SHARE**		
	Basic	**256.67**	219.11
	Diluted	**250.20**	215.05
	Headline	**264.35**	224.04
	Diluted headline	**257.69**	219.90
		Rm	Rm
7.1	**Basic and headline earnings**		
	Reconciliation between basic and headline earnings:		
	Profit for the period	**1 243.5**	1 065.4
	Profit attributable to forfeitable share plan shares	**(5.7)**	(16.2)
	Basic earnings for the period	**1 237.8**	1 049.2
	Adjustments:	**37.2**	23.3
	Loss on sale of property, plant and equipment	**20.4**	24.0
	Tax effect of loss on sale of property, plant and equipment	**(5.7)**	(6.8)
	Impairment loss on property, plant and equipment	**5.9**	–
	Tax effect of impairment loss on property, plant and equipment	**(1.7)**	–
	Impairment loss on intangible assets	**6.1**	8.6
	Tax effect of impairment loss on intangible assets	**(1.7)**	(2.5)
	Impairment loss on available-for-sale financial instruments	**13.9**	–
	Adjustments attributable to forfeitable share plan shares	**(0.2)**	0.4
	Headline earnings	**1 274.8**	1 072.9
		000's	000's
7.2	**Number of ordinary shares**		
	Number of ordinary shares in issue (note 19)	**488 450.3**	488 450.3
	Weighted average number of shares (excluding treasury shares)	**482 237.5**	478 873.4
	Diluted weighted average number of ordinary shares in issue	**494 709.6**	487 894.0
	Reconciliation of weighted average number of shares to diluted weighted average number of shares:		
	Weighted average number of shares (excluding treasury shares)	**482 237.5**	478 873.4
	Dilutive effect of share awards	**12 472.1**	9 020.6
	Diluted weighted average number of ordinary shares in issue	**494 709.6**	487 894.0

The outstanding forfeitable shares, granted in terms of the employee share scheme, that have not met performance hurdles, had no dilutive impact on the weighted average number of shares for the current and prior period.

		52 weeks 26 February 2017 Cents per share	52 weeks 28 February 2016 Cents per share
8.	**DIVIDENDS**		
8.1	**Dividends paid**		
	Number 96 – declared 25 April 2016 – paid 13 June 2016 (2016: Number 94 – declared 20 April 2015 – paid 15 June 2015)	**125.2**	98.5
	Number 97 – declared 17 October 2016 – paid 12 December 2016 (2016: Number 95 – declared 12 October 2015 – paid 14 December 2015)	**29.9**	24.2
	Total dividends per share for the period	**155.1**	122.7
8.2	**Dividends declared**		
	Interim dividend – number 97 (2016: number 95)	**29.9**	24.2
	Final dividend – number 98 (2016: number 96)	**146.4**	125.2
		176.3	149.4

The directors have declared a final dividend (dividend 98) of 146.40 cents per share out of income reserves. The dividend is subject to dividend withholding tax at 20%, where shareholders are subject to this tax. The last day to trade in order to participate in the dividend (CUM dividend) will be Tuesday, 6 June 2017. The shares will trade EX dividend from the commencement of business on Wednesday, 7 June 2017 and the record date will be Friday, 9 June 2017. The dividends will be paid on Monday, 12 June 2017.

9. INTANGIBLE ASSETS

	Goodwill Rm	Systems development Rm	Licences Rm	Total Rm
52 weeks to 26 February 2017				
Carrying value	**372.1**	**548.3**	**63.9**	**984.3**
Cost	**407.1**	**1 081.9**	**181.1**	**1 670.1**
Accumulated amortisation and impairment losses	**(35.0)**	**(533.6)**	**(117.2)**	**(685.8)**
Reconciliation of carrying value				
Carrying value at beginning of period	**372.0**	**575.9**	**57.0**	**1 004.9**
Additions	**–**	**118.0**	**16.0**	**134.0**
Expansion of operations	**–**	**107.1**	**16.0**	**123.1**
Maintaining operations	**–**	**10.9**	**–**	**10.9**
Amortisation	**–**	**(144.5)**	**(16.1)**	**(160.6)**
Impairment	**(5.4)**	**–**	**(0.7)**	**(6.1)**
Purchase of operations (note 29)	**5.5**	**–**	**7.7**	**13.2**
Foreign currency translations	**–**	**0.1**	**–**	**0.1**
Reclassifications to property, plant and equipment	**–**	**(1.2)**	**–**	**(1.2)**
Carrying value at end of period	**372.1**	**548.3**	**63.9**	**984.3**
52 weeks to 28 February 2016				
Carrying value	372.0	575.9	57.0	1 004.9
Cost	401.6	1 018.9	157.4	1 577.9
Accumulated amortisation and impairment losses	(29.6)	(443.0)	(100.4)	(573.0)
Reconciliation of carrying value				
Carrying value at beginning of period	313.5	625.9	70.8	1 010.2
Additions	–	84.6	1.1	85.7
Expansion of operations	–	28.3	1.1	29.4
Maintaining operations	–	56.3	–	56.3
Amortisation	–	(134.2)	(28.3)	(162.5)
Impairment	(8.6)	–	–	(8.6)
Purchase of operations (note 29)	67.1	–	9.9	77.0
Foreign currency translations	–	(0.4)	–	(0.4)
Reclassifications	–	–	3.5	3.5
Carrying value at end of period	372.0	575.9	57.0	1 004.9

Cash-generating units (CGUs) to which goodwill has been allocated have been identified as trading sites or clusters. The recoverable amount for each CGU was determined based on value-in-use calculations. The value-in-use calculations discount cash flow forecasts at an appropriate pre-tax rate that reflects the specific risks of the relevant CGU. Cash flow forecasts are based on financial budgets (informed by past experience and the expected performance on the retail market in the relevant areas) approved by management.

Goodwill that is significant in comparison to the Group's total carrying amount of goodwill, with a carrying value of R135.0 million (2016: R135.0 million), relates to the CGU trading as Boxer. This CGU contains goodwill of R38.5 million (2016: R33.0 million) that relates to the purchase of various store operations, none of which is significant in comparison to the total carrying amount of goodwill for the Boxer CGU. The value-in-use was determined based on cash flow projections approved by management covering a two-year reporting period. Cash flows beyond these planning periods were extrapolated using an estimated growth rate of 5.0% (2016: 5.0%), derived from industry retail sales growth. The growth rate does not exceed the long-term average growth rate for the business units in which this CGU operates. The pre-tax discount rate applied to cash flow projections was 13.0% (2016: 10.8%). Management believes that any reasonably possible change in the key assumptions on which this CGU's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

9. INTANGIBLE ASSETS continued

The remaining goodwill, with a carrying value of R237.1 million (2016: R237.0 million), relates to various acquisitions or conversions of franchise stores to owned stores, none of which is significant in comparison to the Group's total carrying amount of goodwill. These CGUs have no other intangible assets with indefinite useful lives. The value-in-use was determined based on cash flow projections approved by management covering the relevant CGU's refurbishment cycles, which averages between five and seven years. Cash flows beyond these planning periods were not extrapolated as significant cash investments in the CGUs would likely be required to generate future cash inflows. The pre-tax discount rate applied to these cash flow projections was 15.0% (2016: 15.0%). Management believes that any reasonable possible change in key assumptions on which these CGU's recoverable amounts are based would not result in any additional significant impairment losses.

The impairment charge in the current financial year of R6.1 million (2016: R8.6 million) arose in three CGU's (2016: two CGU's) in the South Africa operating segment. These CGU's are all individual owned stores, none of which are material to the Group's overall portfolio of stores. This impairment was as a result of a significant reduction in the future expected revenue of these CGU's due to a weakening in the general economic conditions in which these CGU's operate.

10. PROPERTY, PLANT AND EQUIPMENT

	Property Rm	Furniture, fittings, equipment and vehicles Rm	Leasehold improvements Rm	Aircraft Rm	Total Rm
52 weeks to 26 February 2017					
Carrying value	**1 334.6**	**3 374.5**	**861.4**	**13.1**	**5 583.6**
Cost	1 667.4	6 508.2	1 193.0	32.0	9 400.6
Accumulated depreciation and impairment losses	(332.8)	(3 133.7)	(331.6)	(18.9)	(3 817.0)
Reconciliation of carrying value					
Carrying value at beginning of period	1 518.8	2 764.8	652.6	14.7	4 950.9
Additions	31.6	1 361.0	343.4	–	1 736.0
Expansion of operations	2.8	602.5	59.9	–	665.2
Maintaining operations	28.8	758.5	283.5	–	1 070.8
Depreciation	(11.0)	(676.0)	(132.3)	(1.6)	(820.9)
Impairment	–	(2.3)	(3.6)	–	(5.9)
Disposals	(0.4)	(69.5)	(0.3)	–	(70.2)
Purchase of operations (note 29)	–	3.0	–	–	3.0
Reclassifications	8.4	(8.8)	1.6	–	1.2
Transfer to non-current assets held for sale	(212.8)	–	–	–	(212.8)
Foreign currency translations	–	2.3	–	–	2.3
Carrying value at end of period	**1 334.6**	**3 374.5**	**861.4**	**13.1**	**5 583.6**

10. PROPERTY, PLANT AND EQUIPMENT continued

	Property Rm	Furniture, fittings, equipment and vehicles Rm	Leasehold improvements Rm	Aircraft Rm	Total Rm
52 weeks to 28 February 2016					
Carrying value	1 518.8	2 764.8	652.6	14.7	4 950.9
Cost	1 850.5	5 627.0	952.6	32.0	8 462.1
Accumulated depreciation and impairment losses	(331.7)	(2 862.2)	(300.0)	(17.3)	(3 511.2)
Reconciliation of carrying value					
Carrying value at beginning of period	1 513.4	2 290.9	366.4	16.3	4 187.0
Additions	55.8	1 200.7	366.6	–	1 623.1
Expansion of operations	43.7	542.9	24.0	–	610.6
Maintaining operations	12.1	657.8	342.6	–	1 012.5
Depreciation	(38.0)	(650.8)	(88.0)	(1.6)	(778.4)
Disposals	(0.4)	(59.2)	(4.4)	–	(64.0)
Purchase of operations (note 29)	–	5.5	–	–	5.5
Reclassifications	(12.0)	(3.5)	12.0	–	(3.5)
Foreign currency translations	–	(18.8)	–	–	(18.8)
Carrying value at end of period	1 518.8	2 764.8	652.6	14.7	4 950.9

Property includes land with an indefinite useful life, with a carrying value of R343.4 million (2016: R556.2 million).

Property with a carrying value of R64.3 million (2016: R600.1 million) is provided as security for long-term borrowings (refer to note 21).

Included in the carrying value of furniture, fittings, equipment and vehicles is leased vehicles with a carrying value of R122.2 million (2016: R107.3 million) secured by lease liabilities (refer to note 21).

Non-current asset held for sale

Land, with a carrying value of R212.8 million previously disclosed under property, plant and equipment, has been reclassified to non-current assets held for sale as it is in the process of being sold. The Group has entered into final negotiations with the purchaser, however, transfer of the land has not yet been effected. The land is expected to be transferred within the next 12 months. At year-end, the land is recognised at the lower of its carrying value and fair value less costs to sell and forms part of the South Africa operating segment. The reclassification had no impact on the statement of comprehensive income.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
11.	**OPERATING LEASES**		
	The Group has entered into various operating lease agreements as the lessee of premises. Leases on premises are contracted for periods of between one and 20 years (2016: one and 20 years) with renewal options for a further one and 20 years (2016: one and 20 years). Rentals comprise minimum monthly payments and additional payments based on turnover levels. Turnover rentals, where applicable, average 1.5% (2016: 1.5%) of turnover. Rental escalations vary, averaging 6.5% (2016: 6.5%) per annum.		
	Property – minimum lease payments	**1 997.9**	1 777.8
	– turnover rental payments	**11.6**	19.2
	Operating lease charges recognised in the statement of comprehensive income	**2 009.5**	1 797.0
	The Group has entered into various operating lease agreements as the lessor of premises. Leases on premises are contracted for periods of between one and 20 years (2016: one and 20 years). Rentals comprise mainly minimum monthly payments. Rental escalations vary between 6.5% and 10.0% (2016: 6.5% and 10.0%) per annum.		
	Operating lease income recognised in the statement of comprehensive income (note 2)	**345.3**	329.1
11.1	**Operating lease assets**		
	At beginning of period	**171.6**	149.8
	Accrual	**26.7**	21.8
	At end of period	**198.3**	171.6
	At end of the period, future minimum rentals receivable from non-cancellable sublease contracts amount to:		
	Cash flow due within one year	**378.3**	308.7
	Cash flow due after one year but not more than five years	**1 264.4**	1 017.5
	Cash flow due after more than five years	**1 024.8**	771.4
	Total future cash flows	**2 667.5**	2 097.6
	Less: Operating lease assets	**(198.3)**	(171.6)
	Total operating lease receivables still to be recognised	**2 469.2**	1 926.0
11.2	**Operating lease liabilities**		
	At beginning of period	**1 239.6**	1 138.5
	Accrual	**159.0**	101.1
	At end of period	**1 398.6**	1 239.6
	At end of the period, future non-cancellable minimum lease rentals are payable during the following financial periods:		
	Cash flow due within one year	**1 949.7**	1 694.3
	Cash flow due after one year but not more than five years	**6 919.4**	6 092.4
	Cash flow due after more than five years	**7 012.5**	6 498.4
	Total future cash flows	**15 881.6**	14 285.1
	Less: Operating lease liabilities	**(1 398.6)**	(1 239.6)
	Total operating lease commitments still to be recognised	**14 483.0**	13 045.5

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
12.	**PARTICIPATION IN EXPORT PARTNERSHIPS**		
	Total	–	18.6
	Less: Current portion included in trade and other receivables	–	(4.5)
	Non-current portion	–	14.1
13.	**DEFERRED TAX**		
	Deferred tax assets	**218.0**	225.1
	Deferred tax liabilities	**(14.6)**	(9.5)
	Net deferred tax assets	**203.4**	215.6
	The movement in net deferred tax assets are as follows:		
	At beginning of period	**215.6**	198.8
	Recognised in profit or loss (note 6)	**(14.5)**	21.2
	Participation in export partnerships	**18.9**	4.9
	Property, plant and equipment and intangible assets	**(39.6)**	(35.8)
	Net operating lease liabilities	**29.5**	17.0
	Retirement benefits and actuarial gains	**(0.7)**	–
	Prepayments	**0.2**	(0.8)
	Allowance for impairment losses	**(0.1)**	(14.8)
	Estimated accumulated tax losses	**7.9**	–
	Deferred revenue	**4.8**	21.3
	Income received in advance	**1.6**	1.0
	Income and expense accruals	**(37.0)**	28.4
	Recognised in other comprehensive income	**2.3**	(4.4)
	Tax effect of remeasurement of retirement scheme assets	**(0.6)**	(5.7)
	Foreign currency translations	**2.9**	1.3
	At end of period	**203.4**	215.6
	Comprising of:		
	Participation in export partnerships	–	(18.9)
	Property, plant and equipment and intangible assets	**(223.6)**	(184.0)
	Net operating lease liabilities	**297.8**	268.3
	Retirement benefits and actuarial gains	**(26.7)**	(25.4)
	Prepayments	**(6.0)**	(6.2)
	Allowance for impairment losses	**29.6**	29.7
	Estimated accumulated tax losses	**7.9**	–
	Deferred revenue	**36.0**	31.2
	Income received in advance	**10.9**	9.3
	Income and expense accruals	**77.5**	111.6
		203.4	215.6
	Calculated temporary differences on consolidation associated with investments in subsidiaries and associate for which deferred tax liabilities have not been recognised	–	8.8

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
14.	**INVESTMENT IN ASSOCIATE**		
	The Group has a 49% investment in TM Supermarkets (Pvt) Limited, a private company incorporated in Zimbabwe which operates supermarkets throughout Zimbabwe. The company has a functional currency of US Dollars. At year-end, there are no restrictions in place that would prevent the Group from realising its investment in TM Supermarkets.		
	At beginning of period	**285.5**	180.2
	Share of associate's income	**80.2**	45.9
	Foreign currency translations	**(56.0)**	59.4
	At end of period	**309.7**	285.5
14.1	**Related party transactions**		
	Sale of inventory	**21.3**	19.9
	During the financial year the Group sold inventory to its associate. These purchases are on the same terms and conditions as those entered into by other group customers.		
	Trade receivable balances outstanding at the end of the period	**10.4**	6.2
	The outstanding balances are priced on an arm's length basis and are to be settled in cash. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owing by the associate.		
	Fair value of financial guarantee	**–**	2.8
	The Group entered into a financial guarantee contract that provided security for an overdraft facility of its associate, which was repaid by the associate during the period under review and consequently the financial guarantee was cancelled.		
14.2	**Summary financial information of associate**		
	The summary financial information has been presented in South African rand, the presentation currency of the Group.		
	Statement of comprehensive income (100%)		
	Revenue	**5 801.0**	5 462.0
	Profit for the period	**163.9**	93.6
	Attributable to other owners of the Company	**83.5**	47.0
	Attributable to the Group	**80.2**	45.9
	Non-controlling interest	**0.2**	0.7
	Statement of financial position (100%)		
	Total assets	**1 177.8**	1 334.5
	Current assets	**461.7**	542.0
	Non-current assets	**716.1**	792.5
	Total liabilities	**479.6**	698.7
	Current liabilities	**420.5**	638.7
	Non-current liabilities	**59.1**	60.0
	Net assets (100%)	**698.2**	635.8
	Attributable to other owners of the Company	**322.3**	297.1
	Attributable to the Group	**309.7**	285.5
	Non-controlling interest	**66.2**	53.2

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
15.	**LOANS**		
	Employees	**80.2**	90.7
	Executive directors	**0.4**	0.4
	Other employees	**79.8**	90.3
	Other	**4.9**	5.7
		85.1	96.4

Loans to directors and employees bear interest at varying rates averaging at a rate of 4.6% (2016: 3.7%) per annum and have varying repayment terms. At period-end, R61.4 million (2016: R68.3 million) of employee loans were secured.

Other loans relates to bridging finance for landlords and franchisees with repayment terms between two and five years and average interest rates linked to the South African prime rate. These are unsecured.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
16.	**INVENTORY**		
	Merchandise for resale	**6 090.5**	5 240.4
	Provision for shrinkage, obsolescence and mark down of inventory	**(157.8)**	(147.7)
	Consumables	**61.9**	59.3
		5 994.6	5 152.0

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
17.	**TRADE AND OTHER RECEIVABLES**		
	Trade and other receivables	**3 569.9**	3 448.1
	Allowance for impairment losses	**(124.8)**	(121.9)
		3 445.1	3 326.2
	Gross trade and other receivables not impaired		
	Within payment terms	**2 797.4**	2 648.5
	Exceeding payment terms by less than 14 days	**81.8**	71.0
	Exceeding payment terms by more than 14 days	**254.9**	284.4
		3 134.1	3 003.9
	Gross trade and other receivables with impairments		
	Within payment terms	**131.4**	177.3
	Exceeding payment terms by less than 14 days	**32.7**	36.1
	Exceeding payment terms by more than 14 days	**271.7**	230.8
		435.8	444.2
	The movement in the allowance for impairment of trade and other receivables during the period was as follows:		
	Balance at the beginning of the period	**121.9**	197.6
	Irrecoverable debts written off	**(41.1)**	(93.7)
	Additional impairment losses recognised	**59.9**	33.5
	Prior allowances for impairment reversed	**(15.9)**	(15.5)
	At end of period	**124.8**	121.9

Trade and other receivables are interest-free unless overdue, and have payment terms ranging between 10 and 35 days.

The Group makes allowance for specific trade debtors which have clearly indicated financial difficulty and where the likelihood of repayment has become impaired. Such indicators include the inability to recover long overdue accounts and liquidity problems experienced by debtors. More than 78% (2016: 77%) of the balance relates to customers that have not been impaired and meet their obligations within the Group's payment terms.

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. Impairment losses have been included in the statement of comprehensive income.

The carrying value of trade and other receivables approximate their fair value due to the short-term nature of the receivables.

Refer to note 28.2 for information on the credit risk of trade and other receivables.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
18.	**CASH AND CASH EQUIVALENTS**		
	Cash and cash equivalents	**961.9**	982.9
	Bank overdraft and overnight borrowings	**(1 800.0)**	(100.0)
	Cash and cash equivalents at end of period	**(838.1)**	882.9

Cash and cash equivalents

Cash and cash equivalents includes cash floats at stores as well as the Group's current account balance. The Group's primary bankers, which at period-end had long-term credit ratings of AA (zaf), facilitates the collection of cash at stores, provides general banking facilities and facilitates the payment of suppliers via an electronic banking platform. The interest rate on the current account varied between 6.1% and 6.3% per annum (2016: 5.1% and 5.6% per annum). The interest rate on cash invested in money market accounts varied between 7.6% and 7.8% per annum (2016: 6.5% and 6.9% per annum). Refer to note 28.4.

Bank overdraft

The Group utilised its bank overdraft during the period. The overdraft rate varied between 8.8% and 9.0% per annum (2016: 7.8% and 8.8% per annum).

Overnight bank borrowings

The Group utilised overnight bank borrowings during the period. Interest rates varied between 7.3% and 8.2% per annum (2016: 6.3% and 7.7% per annum).

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
19.	**SHARE CAPITAL**		
19.1	**Ordinary share capital**		
	Authorised		
	800 000 000 (2016: 800 000 000) ordinary shares of 1.25 cents each	**10.0**	10.0
	Issued		
	488 450 321 (2016: 488 450 321) ordinary shares of 1.25 cents each	**6.0**	6.0
		000's	000's
	The number of shares in issue at end of period is made up as follows:		
	Treasury shares held by the Group (note 20)	**6 531.8**	1 752.4
	Treasury shares allocated under the forfeitable share plan (note 5.3)	**9 336.5**	7 923.0
	Shares held outside the Group	**472 582.0**	478 774.9
		488 450.3	488 450.3

The Company can issue new shares to settle the Group's obligations under its employee share schemes, but issues in this regard are limited, in aggregate, to 5% of total issued share capital or 24 422 516 (2016: 24 422 516) shares. To date, 10 743 000 (2016: 10 743 000) shares have been issued, resulting in 13 679 516 (2016: 13 679 516) shares remaining for this purpose.

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.

Certain ordinary shares are stapled to B shares and are subject to restrictions upon disposal. Refer to note 19.2.

Refer to note 4 for details of directors' interest in shares.

Refer to note 5 for details of share-based payments granted by the Group.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
19.	**SHARE CAPITAL** continued		
19.2	**B share capital**		
	Authorised		
	1 000 000 000 (2016: nil) unlisted, non-convertible, non-participating, no par value B shares	**–**	–
	Issued		
	259 682 869 (2016: nil) unlisted, non-convertible, non-participating, no par value B shares	**–**	–

The Pick n Pay Holdings Limited RF Group included the ultimate holding company, Pick n Pay Holdings Limited RF, an investment holding company listed on the JSE. The Company was formed with the sole purpose of holding a controlling interest in Pick n Pay Stores Limited resulting in a pyramid control structure.

During the period under review, a new class of shares was created as a result of the unbundling of the Pick n Pay Limited RF Holdings Group, as approved by shareholders on 25 July 2016. A total of 259 682 869 B shares were issued to existing controlling shareholders of Pick n Pay Holdings Limited RF, and are stapled to such ordinary shares and cannot be traded separately from each other. Stapled ordinary shares, together with B shares, are subject to restrictions upon disposal. Refer to note 27 for further information.

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits.

Refer to note 4 for details of directors' interest in B shares.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
20.	**TREASURY SHARES**		
	At beginning of period	**63.5**	60.1
	Share purchases	**345.4**	126.2
	Take-up of share options by employees	**(266.9)**	(122.8)
	Shares received upon unbundling (note 27)	**412.3**	–
	At end of period	**554.3**	63.5
		000's	000's
	The movement in the number of treasury shares held is as follows:		
	At beginning of period	**9 675.4**	8 671.9
	Shares purchased during the period	**4 332.7**	2 220.2
	Shares sold during the period pursuant to the take-up of share options by employees	**(4 016.5)**	(2 344.7)
	Shares allocated under forfeitable share plan	**1 417.0**	1 128.0
	Shares received upon unbundling (note 27)	**4 459.7**	–
	At end of period	**15 868.3**	9 675.4
	Comprises:		
	Shares issued under forfeitable share plan (note 5.4)	**9 336.5**	7 923.0
	Shares held by the Group	**6 531.8**	1 752.4
		R	R
	Average purchase price of shares purchased during the period	**79.7**	61.3

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
21. BORROWINGS		
21.1 Secured borrowings		
Secured loan in respect of property with a carrying value of R64.3 million (2016: R66.3 million) (note 10) bearing interest at a fixed rate of 11.4% and payable monthly in arrears over a 15-year period, ending on 28 October 2018	**21.2**	31.9
At 28 February 2016, a secured loan was in place in respect of property with a carrying value of R533.8 million (note 10). Interest was payable every six months in arrears at fixed rate of 8.9% per annum. The capital was repaid on 18 August 2016	**–**	400.0
Finance leases in respect of vehicles with a carrying value of R122.2 million (2016: R107.3 million) (note 10) held under finance lease agreements bearing interest at prime bank rate less 0.7% to 1.4% and payable monthly in arrears over a four-year period (refer to note 21.2). At the end of the lease period, the Group has the option to either refinance or settle the lease and take ownership of the asset. Lease agreements do not contain any escalation or penalty clauses	**112.0**	97.7
Total borrowings at end of period	**133.2**	529.6
Less: Current portion (repayable within one year)	**(49.2)**	(446.6)
Non-current portion (repayable after one year)	**84.0**	83.0
21.2 Finance lease commitments		
At the end of the period, finance lease rentals are payable as follows:		
Cash flows within one year	**40.4**	37.2
Capital repayments	**37.0**	34.4
Interest	**3.4**	2.8
Cash flows within two to five years	**82.0**	68.3
Capital repayments	**75.0**	63.1
Interest	**7.0**	5.2
Total cash flows	**122.4**	105.5
Consisting of:		
Capital repayments	**112.0**	97.5
Interest	**10.4**	8.0

22. RETIREMENT BENEFITS

The Group, through its subsidiaries, provides post-retirement benefits to its employees in accordance with local benchmarks in the countries in which it operates. These benefits are mainly provided through the Pick n Pay Retirement Scheme which incorporates the Pick n Pay Paid-up Pension Fund and The Pick n Pay Non-contributory Provident Fund defined-contribution plans.

The Group's largest defined-contribution fund is the Pick n Pay Non-contributory Provident Fund. Certain members of this fund 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 paid by the Pick n Pay Paid-up Pension Fund, the Retirement scheme's liabilities may be broken down between those which are defined-contribution in nature and those which are defined-benefit in nature and for which the employer has an obligation to make additional contributions to ensure this element of the scheme is fully funded. The defined-benefit and defined-contribution plans are regulated by the Pensions Funds Act, 1956 (of South Africa) and is governed by a Board of trustees of the Pick n Pay Non-contributory Provident Fund and Pick n Pay Paid-up Pension Fund, in line with governance policies set in terms of the PF130 circulars. The Board of trustees of the Pick n Pay Non-contributory Provident Fund comprises seven employer-appointed and seven member-elected trustees and for the Pick n Pay Paid-up Pension Fund it comprises two employer-appointed and two member-elected trustees.

** Members eligible for the post-retirement medical liability all reached retirement date in 2014 and have been paid out during the period under review.*

22.1 Defined-benefit obligations

	Pensioners' defined-benefit guarantee Rm	Retirement defined-benefit guarantee Rm	Post-retirement medical guarantee* Rm	Total obligation 2017 Rm	Total obligation 2016 Rm
The amount recognised in the statement of financial position is as follows:					
Present value of funded obligations	541.4	481.8	–	1 023.2	1 045.7
Fair value of assets	(541.4)	(577.1)	–	(1 118.5)	(1 136.5)
Funded position	–	(95.3)	–	(95.3)	(90.8)
Amounts recognised in the statement of comprehensive income are as follows:					
Current service cost	–	15.1	–	15.1	21.1
Net interest on the obligation	–	(7.9)	–	(7.9)	(7.8)
Total included in employee costs	–	7.2	–	7.2	13.3
Asset ceiling					
Refund (employer surplus account)	–	96.4	–	96.4	98.2
	–	96.4	–	96.4	98.2
Effect of asset ceiling – beginning of period	–	–	–	–	58.9
Interest cost	–	–	–	–	7.0
Remeasurement	–	–	–	–	(65.9)
Effect of asset ceiling – end of period	–	–	–	–	–
Movement in the asset recognised on the statement of financial position is as follows:					
Net asset – beginning of period	–	(90.8)	–	(90.8)	(70.1)
Total included in employee costs in profit or loss	–	7.2	–	7.2	13.3
Amount recognised in other comprehensive income	–	(2.1)	–	(2.1)	(20.5)
Contributions	–	(9.6)	–	(9.6)	(13.5)
Net asset – end of period	–	(95.3)	–	(95.3)	(90.8)

22. RETIREMENT BENEFITS continued

22.1 Defined-benefit obligations continued

	Pensioners' defined-benefit guarantee Rm	Retirement defined-benefit guarantee Rm	Post-retirement medical guarantee* Rm	Total obligation 2017 Rm	Total obligation 2016 Rm
Remeasurement recognised in other comprehensive income					
Actuarial loss – assets	10.1	36.3	–	46.4	50.9
Actuarial gain – liabilities	(10.1)	(38.4)	–	(48.5)	(5.5)
Effect of asset ceiling	–	–	–	–	(65.9)
Remeasurement recognised in other comprehensive income (before tax)	–	(2.1)	–	(2.1)	(20.5)
Movement in the fund's obligations and plan assets recognised on the statement of financial position is as follows:					
Liability – beginning of period	544.8	496.1	4.8	1 045.7	1 081.8
Service cost	–	15.1	–	15.1	21.1
Interest cost	48.5	43.8	0.2	92.5	119.2
Actuarial gain from experience	(10.1)	(34.3)	–	(44.4)	(4.5)
Actuarial gain from basis change	–	(4.1)	–	(4.1)	(1.0)
Benefits paid	(41.8)	(34.8)	(5.0)	(81.6)	(170.9)
Liability – end of period	541.4	481.8	–	1 023.2	1 045.7
Plan assets – beginning of period	544.8	586.9	4.8	1 136.5	1 210.8
Expected return	48.5	51.7	0.2	100.4	134.0
Actuarial loss from experience	(10.1)	(36.3)	–	(46.4)	(50.9)
Contributions	–	9.6	–	9.6	13.5
Benefits paid	(41.8)	(34.8)	(5.0)	(81.6)	(170.9)
Plan assets – end of period	541.4	577.1	–	1 118.5	1 136.5
	%	%	%	%	%
Estimated return on plan assets	5.6	8.0	n/a	6.8	6.9
Composition of plan assets					
Equities	4.9	55.2	n/a	30.8	28.9
Fixed interest – bonds	77.4	12.9	n/a	44.1	44.4
Fixed interest – cash	2.3	5.1	n/a	3.7	1.1
Property	–	4.6	n/a	2.4	2.3
Offshore equities	12.6	18.2	n/a	15.5	19.4
Offshore bonds	2.2	2.8	n/a	2.5	3.7
Offshore cash	0.4	0.9	n/a	0.7	0.1
Offshore property	0.2	0.3	n/a	0.3	0.1
	100.0	100.0	n/a	100.0	100.0

* *Members eligible for the post-retirement medical liability all reached retirement date in 2014 and have been paid out during the period under review.*

The value of contributions expected to be paid in the next financial period is R10.0 million (2016: R11.1 million).

The weighted average duration of the defined-benefit obligation is six years (2016: five years).

22. RETIREMENT BENEFITS continued

22.1 Defined-benefit obligations continued

	February 2017 % per annum Pensioners	February 2017 % per annum Executives	February 2017 % per annum Post-retirement	February 2017 % per annum Combined	February 2016 % per annum Combined
The principal actuarial assumptions at the last valuation date are:					
Discount rate	**8.8**	**8.0**	**n/a**	**8.4**	9.1
Future salary increases	**n/a**	**6.2**	**n/a**	**6.2**	7.0
Future pension increases	**6.8**	**n/a**	**n/a**	**6.8**	7.3
Annual increase in healthcare costs	**6.8**	**6.0**	**n/a**	**6.4**	7.0

Sensitivity analysis

At 26 February 2017, if either salary inflation or 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:

	Discount rate effect			Salary inflation effect		
	–1% 7.0% Rm	As reported 8.0% Rm	+1% 9.0% Rm	–1% 5.2% Rm	As reported 6.2% Rm	+1% 7.2% Rm
Statement of comprehensive income						
Employee costs	**7.7**	**7.2**	**6.7**	**6.7**	**7.2**	**7.7**
Statement of financial position						
Asset at end of period	**76.9**	**95.3**	**96.4**	**96.4**	**95.3**	**78.3**

The following assumptions were used in the sensitivity analysis:

- The effect of a 1% change in the discount rate and a 1% change in the salary inflation rate were assessed independently of each other;
- As the minimum guarantee is applicable to Pick n Pay Non-contributory Provident Fund members, the liability is unaffected by changes in the pension increase rate or by changes in mortality; and
- The pension liability is also similarly unaffected by changes in the pension increase rate or by changes in mortality as the value of the notional pensioner account is much higher than the pensioner liability.

The above assumptions are limited in that they do not cater for extreme events.

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
22.2 Defined current contribution benefits		
Current contributions (refer to note 3.1)	**239.6**	341.8

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
23.	**TRADE AND OTHER PAYABLES**		
	Trade and other payables	**10 117.1**	10 156.6
	Leave pay obligations	**235.7**	220.1
	Deferred revenue – customer loyalty programme (note 2)	**137.4**	123.9
		10 490.2	10 500.6
24.	**PROVISIONS**		
	Onerous leases		
	Balance at beginning of period	**0.2**	1.0
	Provisions utilised	**(0.2)**	(0.8)
	Balance at end of period	**–**	0.2
25.	**COMMITMENTS**		
25.1	**Capital commitments**		
	All capital expenditure will be funded from internal cash flows and through unlimited borrowing powers.		
	Authorised capital expenditure		
	Contracted for	**275.1**	395.9
	Property	**26.5**	78.8
	Furniture, fittings, equipment and vehicles	**230.1**	211.5
	Intangible assets	**18.5**	105.6
	Not contracted for	**1 524.9**	1 783.1
	Property	**30.4**	27.5
	Furniture, fittings, equipment and vehicles	**1 404.9**	1 694.9
	Intangible assets	**89.6**	60.7
	Total commitments	**1 800.0**	2 179.0

25.2 Operating lease commitments

Refer to note 11.

25.3 Finance lease commitments

Refer to note 21.2.

26. OPERATING SEGMENTS

Operating segments are identified based on financial information regularly reviewed by the Chief Operating Decision-Maker (CODM) of the Group, for performance assessments and resource allocations. The Group annually performs a detailed review of the executive, or group of executives, that could be considered the appropriate and relevant CODM of the Group. During the current and prior period under review, the CODM of the Group consisted of the Group executive committee, consisting of Richard Brasher (CEO), Richard van Rensburg (deputy CEO) and Bakar Jakoet (CFO).

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

South Africa – operates in various formats under the Pick n Pay and Boxer brands in South Africa.

Rest of Africa – responsible for the Group's expansion into the rest of Africa.

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.

	South Africa Rm	Rest of Africa Rm	Total operations Rm
52 weeks to 26 February 2017			
Total segment revenue	**75 635.8**	**4 315.7**	**79 951.5**
External revenue	**75 635.8**	**3 482.0**	**79 117.8**
Direct deliveries*	**–**	**833.7**	**833.7**
Segment external turnover			
Profit before tax**	**74 026.2**	**3 459.9**	**77 486.1**
Other information	**1 489.7**	**225.5**	**1 715.2**
Statement of comprehensive income			
Finance income	**119.6**	**6.5**	**126.1**
Finance costs	**217.6**	**1.0**	**218.6**
Depreciation and amortisation	**948.0**	**33.5**	**981.5**
Impairment loss on intangible assets	**6.1**	**–**	**6.1**
Impairment loss on property, plant and equipment	**5.9**	**–**	**5.9**
Impairment loss on available-for-sale financial instrument	**13.9**	**–**	**13.9**
Share of associate's income	**–**	**80.2**	**80.2**
Statement of financial position			
Total assets	**16 474.5**	**1 627.9**	**18 102.4**
Total liabilities	**13 617.9**	**405.2**	**14 023.1**
Investment in associate	**–**	**309.7**	**309.7**
Additions to non-current assets	**1 792.5**	**93.7**	**1 886.2**
52 weeks to 28 February 2016			
Total segment revenue	70 312.7	4 005.6	74 318.3
External revenue	70 312.7	3 164.6	73 477.3
Direct deliveries*	–	841.0	841.0
Segment external turnover	69 300.6	3 144.5	72 445.1
Profit before tax**	1 247.4	226.1	1 473.5
Other information			
Statement of comprehensive income			
Finance income	52.8	8.1	60.9
Finance costs	116.7	0.3	117.0
Depreciation and amortisation	911.6	29.3	940.9
Impairment loss on intangible assets	8.6	–	8.6
Share of associate's income	–	45.9	45.9
Statement of financial position			
Total assets	15 261.3	1 323.6	16 584.9
Total liabilities	12 402.9	284.2	12 687.1
Investment in associate	–	285.5	285.5
Additions to non-current assets	1 773.6	17.7	1 791.3

* *Direct deliveries are issues to franchisees directly by Group suppliers, these are not included in revenue on the statement of comprehensive income.*

** *Segmental profit before tax is the reported measure used for evaluating the Group's operating segments performance. On an overall basis the segmental profit before tax is equal to the Group's reported profit before tax. The Rest of Africa segment's segmental profit before tax comprises the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental cost incurred by the South Africa segment relating to the Rest of Africa segment.*

27. RELATED PARTY TRANSACTIONS

27.1 Transactions between Group subsidiaries

During the period, in the ordinary course of business, certain companies within the Group entered into transactions with each other. These inter-group transactions are eliminated on consolidation.

The Pick n Pay Stores Group comprise of the following significant wholly-owned subsidiaries:

- Pick n Pay Retailers Proprietary Limited, incorporated in South Africa
- Boxer Superstores Proprietary Limited, incorporated in South Africa
- The Blue Ribbon Meat Corporation Proprietary Limited, incorporated in South Africa
- Pick n Pay Zambia Limited, incorporated in Zambia
- Pick n Pay Namibia Proprietary Limited, incorporated in Namibia
- Pick n Pay Retailers Limited, incorporated in Ghana.

27.2 Transactions with Pick n Pay Holdings Limited RF

The unbundling of Pick n Pay Holdings Limited RF

The Pick n Pay Holdings Limited RF Group included the ultimate holding company, Pick n Pay Holdings Limited RF, an investment holding company listed on the JSE. The Company was formed with the sole purpose of holding a controlling interest in Pick n Pay Stores Limited (and thereby the Pick n Pay Stores Group), resulting in a pyramid control structure.

During the period under review, at the General Meeting held on 25 July 2016, shareholders approved the unbundling of the Pick n Pay Holdings Limited RF Group in order to remove the existing pyramid control structure. As a result of the unbundling, related party transactions occurred. This included a dividend *in specie* share distribution by Pick n Pay Holdings Limited RF, of R412.3 million, to entities within the Pick n Pay Stores Group who at the time held shares in Pick n Pay Holdings Limited RF. The dividend *in specie* consisted of shares in Pick n Pay Stores Limited. It also included the creation and issuance of a new class of unlisted voting shares (B shares) in Pick n Pay Stores Limited (refer to note 19.2). These shares were issued to existing controlling shareholders of Pick n Pay Holdings Limited RF so as to retain the control structure of the Group as it was prior to the unbundling. Refer to the review of operations for further information on the non-recurring items recorded in these annual financial statements as a result of the unbundling of the Pick n Pay Holdings Limited RF Group.

In addition, as part of the unbundling, Pick n Pay Holdings Limited RF was purchased by Pick n Pay Stores Limited for a purchase price of R5.1 million. Pick n Pay Holdings Limited RF thereby became a wholly owned subsidiary of the Stores Group.

Other transactions with Pick n Pay Holdings Limited RF

The nature of the transactions between the Pick n Pay Stores Group and its parent company, Pick n Pay Holdings Limited RF, before the unbundling, comprised mainly of dividends paid.

Dividends paid to Pick n Pay Holdings Limited RF before the unbundling amounted to R322.2 million (2016: R315.8 million).

Refer to note 8 of the Company annual financial statements for more information.

27.3 Transactions with equity accounted associate

Refer to note 14 for further information.

27.4 Loans to executive directors

Loans to directors amount to R0.4 million at the end of the period (2016: R0.4 million). These loans are secured and bear interest at varying interest rates. For further information refer to note 15.

27. RELATED PARTY TRANSACTIONS continued

27.5 Key management personnel

Key management personnel remuneration is set out below. No key management personnel had a material interest in any contract of any significance with any company in the Group during the period under review.

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
Key management personnel remuneration comprises:		
Fees for board meetings, committee and other work	**8.3**	8.2
Base salary	**58.2**	56.7
Retirement and medical aid contributions	**6.8**	8.9
Fringe and other benefits	**7.3**	6.7
Total fixed remuneration	**80.6**	80.5
Short-term annual bonus	**–**	43.5
Total remuneration	**80.6**	124.0
Expense relating to share awards granted	**86.6**	76.1

28. FINANCIAL INSTRUMENTS

Overview

The Group's principal financial liabilities, other than derivatives, comprise bank overdrafts, borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds available for sale and fair value through profit or loss financial instruments and enters into derivative transactions.

The Group is exposed to credit, liquidity, and market risk due to the effects of changes in debt, exchange rates and interest rates experienced in the normal course of business. The Group's objective is to effectively manage each of the risks associated with its financial instruments in order to minimise the potential adverse effect on the financial performance and position of the Group.

The Board is ultimately responsible for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor financial risks. A treasury committee, appointed by the Board, comprising executive directors and senior executives, sets and monitors the adherence to appropriate risk limits and controls. Risk management is carried out by a central treasury department in line with the overall treasury policy as reviewed and approved by the Board on a regular basis.

28. FINANCIAL INSTRUMENTS continued

28.1 Financial assets and financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

	Derivative financial instruments Rm	Financial assets at fair value through profit and loss Rm	Available-for-sale financial assets Rm	Loans and receivables Rm	Financial liabilities measured at amortised cost Rm	Financial liabilities at fair value through profit and loss Rm	Total Rm
2017							
Financial assets							
Trade and other receivables	**–**	**–**	**–**	**3 346.5**	**–**	**–**	**3 346.5**
Cash and cash equivalents	**–**	**–**	**–**	**961.9**	**–**	**–**	**961.9**
Loans	**–**	**–**	**–**	**85.1**	**–**	**–**	**85.1**
Investment in Guardrisk Insurance Company Limited	**–**	**13.7**	**–**	**–**	**–**	**–**	**13.7**
	–	**13.7**	**–**	**4 393.5**	**–**	**–**	**4 407.2**
Financial liabilities							
Forward exchange contracts (FEC)	**11.7**	**–**	**–**	**–**	**–**	**–**	**11.7**
Secured loans	**–**	**–**	**–**	**–**	**133.2**	**–**	**133.2**
Trade and other payables	**–**	**–**	**–**	**–**	**9 909.5**	**–**	**9 909.5**
Bank overdraft and overnight borrowings	**–**	**–**	**–**	**–**	**1 800.0**	**–**	**1 800.0**
	11.7	**–**	**–**	**–**	**11 842.7**	**–**	**11 854.4**
2016							
Financial assets							
Forward exchange contracts (FEC)	6.0	–	–	–	–	–	6.0
Trade and other receivables	–	–	–	3 200.9	–	–	3 200.9
Cash and cash equivalents	–	–	–	982.9	–	–	982.9
Loans	–	–	–	96.4	–	–	96.4
Participation in export partnerships	–	–	–	14.1	–	–	14.1
Investment in Guardrisk Insurance Company Limited	–	13.6	–	–	–	–	13.6
Investment in Pick n Pay Holdings Limited RF	–	218.5	46.4	–	–	–	264.9
	6.0	232.1	46.4	4 294.3	–	–	4 578.8
Financial liabilities							
Financial guarantee	–	–	–	–	–	2.8	2.8
Secured loans	–	–	–	–	529.6	–	529.6
Trade and other payables	–	–	–	–	9 941.3	–	9 941.3
Bank overdraft and overnight borrowings	–	–	–	–	100.0	–	100.0
	–	–	–	–	10 570.9	2.8	10 573.7

28. FINANCIAL INSTRUMENTS continued

28.2 Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. Financial assets, which potentially subject the Group to credit risk, consist principally of cash and cash equivalents, trade and other receivables and loans.

The Group's cash is placed with major South African and international financial institutions, which at period-end had high credit standings with long-term ratings of AA (zaf) (refer to note 18).

Trade and other receivables mainly relate to amounts owing by franchisees and are presented net of impairment losses (refer to note 17). Rigorous credit granting procedures are applied to assess the credit quality of the debtors, taking into account its financial position and credit rating. 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. Consequently, the Group does not consider there to be any significant concentration or exposure to credit risk.

Loans mainly comprise employee loans granted in line with the Group's remuneration policy. Loans are granted after reviewing the affordability for each employee and, where appropriate, suitable forms of security are obtained. Refer to note 15.

28.3 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 manages this risk by maintaining adequate reserves and borrowing facilities and by continuously monitoring forecasted and actual cash flows, ensuring that the maturity profiles of financial assets and liabilities do not expose the Group to liquidity risk. In terms of the Company's Memorandum of Incorporation the Group's borrowing powers are unlimited, however, the treasury committee maintains strict control over the acceptance and draw-down of any loan facility.

On average, trade and other receivables and inventory are realised within 30 days and trade and other payables are settled within 60 days. To the extent that the Group requires short-term funds, it utilises the banking facilities available. Long-term borrowings is used to fund long-term assets, excluding new store assets and store refurbishments. Liquidity risk has been mitigated by substantial unutilised borrowing facilities as illustrated below.

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
Total available facilities	**7 925.7**	6 830.2
Total actual borrowings	**(1 933.2)**	(629.6)
Utilisation of FEC and financial guarantee facilities	**(154.9)**	(345.6)
Unutilised borrowing facilities	**5 837.6**	5 855.0

28. FINANCIAL INSTRUMENTS continued

28.3 Liquidity risk continued

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

	Carrying amount Rm	Contractual cash flows Rm	Within one year Rm	Two to five years Rm
2017				
Secured loans	**133.2**	**145.6**	**54.3**	**91.3**
Trade and other payables	**9 909.5**	**9 909.5**	**9 909.5**	**–**
Overnight borrowings	**1 800.0**	**1 800.0**	**1 800.0**	**–**
Total financial obligations	**11 842.7**	**11 855.1**	**11 763.8**	**91.3**
2016				
Secured loans	529.6	559.2	467.7	91.5
Trade and other payables*	9 941.3	9 941.3	9 941.3	–
Overnight borrowings	100.0	100.0	100.0	–
Total financial obligations	10 570.9	10 600.5	10 509.0	91.5

* *At 28 February 2016, the Group was exposed to a 49% share of a financial guarantee, which was granted to its associate in Zimbabwe, with USD6.25 million remaining. The loan was repaid by its associate during the period under review and consequently, the guarantee was cancelled.*

28.4 Market risk management

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, fair value through profit or loss financial instruments and derivative financial instruments. The objective of market risk management is to manage and control exposure to market risk, while optimising the return on the risk.

The sensitivity analyses in the following sections relate to the position as at 26 February 2017 and 28 February 2016.

28.4.1 *Currency risk management*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities.

Transactional currency risk

The Group has transactional currency exposures arising from the acquisition of goods and services in currencies other than its functional currency. The Group operates internationally and is exposed to currency risk through the importation of merchandise, however, it does not have material foreign creditors as inventory imports are mostly prepaid. Investments in foreign operations and master franchise agreements with international counterparties do not contribute to transactional currency risk as the related transactions and balances are denominated in South African rands.

28. FINANCIAL INSTRUMENTS continued

28.4 Market risk management continued

28.4.1 *Currency risk management continued*

	Average rate		Closing rate	
	2017	2016	**2017**	2016
The following significant exchange rates applied during the period:				
USD/ZAR	**14.3**	13.5	**13.0**	16.0
Euro/ZAR	**15.7**	14.9	**13.7**	17.5
GBP/ZAR	**19.0**	20.4	**16.2**	22.2

	Contract foreign currency m	Rand equivalent Rm	Average exchange rate R	Fair value Rm
Forward exchange contracts				
2017				
US Dollars	**9.1**	**124.1**	**13.7**	**(8.8)**
Euro	**1.8**	**26.4**	**14.8**	**(2.5)**
British Pound	**0.3**	**4.4**	**17.1**	**(0.4)**
		154.9		**(11.7)**
2016				
US Dollars	12.3	194.9	15.8	5.3
Euro	5.2	94.2	18.0	0.8
British Pound	0.3	7.7	23.6	(0.1)
		296.8		6.0

Sensitivity of the Group's exposure to material foreign currencies is estimated by assessing the impact of a reasonable expected movement of the currencies on the statement of comprehensive income and statement of changes in equity of the Group. The Group does not hedge foreign currency fluctuations. A sensitivity analysis is not presented as the estimated impact of the expected movement in currencies is not material.

Foreign cash balances, trade and other receivables and trade and other payables

The Group has exposure to foreign currency translation risk through cash balances, trade and other receivables and trade and other payables included in the net assets and liabilities of foreign subsidiaries denominated in currencies other than the South African rand. These balances are immaterial in relation to the total of the line items it is included in. These risks are not hedged.

Sensitivity of the Group's exposure to changes in the fair value of these balances, as a result of changes in the relevant foreign currency exchange rates, are estimated by assessing the impact of a reasonable expected movement of the currencies on the statement of comprehensive income and statement of changes in equity of the Group. A sensitivity analysis is not presented as the estimated impact of the expected movement in currencies is not material.

Equity price risk

At 26 February 2017, the Group had no material exposure to equity price risk.

At 28 February 2016, the Group had an investment in Pick n Pay Holdings Limited RF shares which were classified as available-for-sale financial instruments and financial instruments designated at fair value through profit or loss. The fair value of these financial instruments were derived from quoted market prices in an active securities market. As a result of the unbundling of Pick n Pay Holdings Limited RF during the period under review (refer to note 27), the Group derecognised its investment in Pick n Pay Holdings Limited RF and recognised a resultant fair value loss of R206.5 million in the statement of comprehensive income. It therefore has no further exposure to equity price risk related to this investment.

28. FINANCIAL INSTRUMENTS continued

28.4 Market risk management continued

28.4.2 *Interest rate risk management*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from borrowings, cash and cash equivalents and loans. Variable rate borrowings, loans and cash and cash equivalents results in cash flow interest rate risk. The exposure to interest rate risk is managed though the Group's cash management system taking into account expected movements in interest rates when funding or investing decisions are made.

	52 weeks 26 February 2017 %	52 weeks 28 February 2016 %
The effective weighted average interest rates on financial instruments at the end of the period are:		
Financial assets		
Cash and cash equivalents (note 18)	**6.1 – 7.8**	5.1 – 6.9
Loans (note 15)	**4.6**	3.7
Financial liabilities		
Variable rate interest-bearing debt		
Bank overdraft and overnight borrowings (note 18)	**7.3 – 9.0**	6.3 – 8.8
Finance leases (note 21)	**8.9 – 9.8**	7.3 – 8.8
Fixed rate interest-bearing debt		
Secured loans (note 21)	**8.9 – 11.4**	8.8 – 11.4

Sensitivity of the Group's exposure to interest rate risk is estimated by assessing the impact of a reasonable expected movement in the relevant interest rates on the statement of comprehensive income and statement of changes in equity of the Group. Interest rates could reasonably be expected to rise in the range of 1% to 2%. This range has been used in our sensitivity analysis, as set out below.

	2017		2016	
	1% increase Rm	**2% increase Rm**	1% increase Rm	2% increase Rm
Total effect on finance income	**9.6**	**19.2**	9.8	19.7
Total effect on finance costs	**(19.0)**	**(38.1)**	(2.0)	(4.0)
Net effect on profit before tax	**(9.4)**	**(18.9)**	7.8	15.7

28.5 Fair value of financial instruments

All financial instruments held by the Group are measured at amortised cost, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and available-for-sale financial instruments.

Financial instruments measured at fair value are classified using a three-level hierarchy to rank inputs used in measuring fair value. The levels are explained below:

Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data, where it is available, and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

28. FINANCIAL INSTRUMENTS continued

28.5 Fair value of financial instruments continued

The fair values of financial assets and liabilities are as follows:

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
Derivative financial instruments		
Forward exchange contracts – level 2	**(11.7)**	6.0
Financial assets at fair value through profit or loss		
Investment in Pick n Pay Holdings Limited RF – level 1 (note 27)	**–**	218.5
Investment in Guardrisk Insurance Company Limited – level 2	**13.7**	13.6
Available-for-sale financial instruments		
Investment in Pick n Pay Holdings Limited RF – level 1 (note 27)	**–**	46.4

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

The fair value of the Investment in Guardrisk Insurance Company Limited is determined based on the net asset value of the underlying cell captive at the reporting date.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using a forward pricing model utilising present valuation techniques, allowing for counterparty credit risk.

In the prior year, the fair value of the investment in Pick n Pay Holdings Limited RF shares was derived from quoted market prices in an active securities market.

The carrying value of all other financial instruments held at amortised cost approximate their fair value.

There have been no transfers between levels 1, 2 and 3 of the fair value hierarchy during the period.

28.6 Capital management

The Group's strategy is to maintain a strong capital base (represented by total shareholders' equity) so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of directors is ultimately responsible for capital management and have the following responsibilities in this regard:

- Provide an adequate return to shareholders;
- Ensure that the Group has adequate capital to continue as a going concern;
- Ensure that the Group complies with the solvency and liquidity requirements for any share repurchase or dividend payment per the Companies Act; and
- Maintain a balance between debt and equity so as to leverage return on equity whilst maintaining a strong capital base.

The Group assesses the effectiveness of the use of capital in providing a return to shareholders using the ratio of return on capital employed which is calculated as headline earnings divided by average shareholders' equity plus non-current borrowings:

	2017	2016
Return on capital employed	**31.3%**	29.3%

The Group maintains a dividend cover based on headline earnings per share of 1.5 times (2016: 1.5 times) to ensure that sufficient capital is retained for expansion of the business.

The Group purchases its own shares on the market from time to time, in order to cover share awards granted under the Pick n Pay Employee share scheme. All share purchases are done in accordance with an official mandate and levels of authority laid down by the Board.

There were no changes in the Group's approach to capital management during the period.

29. PURCHASE OF OPERATIONS

During the current and prior period under review, the Group acquired various retail operations in South Africa, none of which are individually material to the Group. These acquisitions had no significant impact on the Group's results.

The goodwill arising from these acquisitions represent the acquired customer base and the value creation the Group expects to realise as a result of integration with the Group.

The net assets arising from these acquisitions were as follows:

	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
Identifiable net assets		
Current tax liabilities (note 6)	**(3.6)**	–
Intangible assets (note 9)	**7.7**	9.9
Property, plant and equipment (note 10)	**3.0**	5.5
Inventory	**3.3**	5.1
Cash and cash equivalents	**26.4**	–
Trade and other payables	**(17.7)**	–
Total identifiable net assets at fair value	**19.1**	20.5
Goodwill		
Cash paid in respect of acquisition	**24.6**	87.6
Less: Total identifiable net assets at fair value	**(19.1)**	(20.5)
Goodwill acquired	**5.5**	67.1

30. SUBSEQUENT EVENTS

Voluntary severance programme (VSP)

Companies within the Pick n Pay Stores Limited Group formalised and communicated a voluntary severance programme (VSP) during March 2017. Participation in the scheme is entirely voluntary, and acceptance of applications is at the Group's discretion. The VSP and financial consequences thereof are expected to be finalised by the end of April 2017.

31. STANDARDS AND INTERPRETATION ISSUED BUT NOT YET ADOPTED

International Financial Reporting Standards (IFRS)

A number of new standards, amendments to standards and interpretations that are applicable to the Group with an effective date after the date of these financial statements, have not been applied in preparing these consolidated financial statements. These include:

IFRS 9 Financial Instruments (effective for the Group for the financial year ending February 2019)

IFRS 9 replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment losses on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group anticipates a change in the measurement of impairment losses recognised in relation to franchise receivables, included in trade and other receivables (refer to note 17). However, it is currently estimated that this will not have a material impact on trading profit. The Group continues to assess the potential impact on its Group financial statements regarding the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers (effective for the Group for the financial year ending February 2019)

IFRS 15 establishes a comprehensive framework detailing the principles an entity must apply when measuring and recognising revenue. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The Group is in process of assessing the potential impact on its Group financial statements regarding the application of IFRS 15. It is anticipated that a possible change in the classification of statement of comprehensive income disclosure line items, such as revenue, turnover and other trading income, may occur. However, it is currently estimated that this will not have a material impact on trading profit.

IFRS 16 Leases (effective for the Group for the financial year ending February 2020)

The objective of the project was to develop a new leases standard that sets out the principles that both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"), apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar manner to finance leases under IAS 17. The Group has an extensive operating lease portfolio, acting as both lessor and lessee (refer to note 11). The Group's head lease arrangements include various instances where it sublets to its franchisees, and the application of IFRS 16 will result in differing requirements for lessor and lessee accounting. The application of IFRS 16 will result in changes to both the statement of financial position and statement of comprehensive income line items, including but not limited to, property, plant and equipment, operating lease assets, operating lease liabilities, occupancy costs, operational costs and finance costs. More specifically, items such as depreciation and operating lease payments will be impacted. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), will be impacted. The Group continues to assess the potential impact on its Group financial statements regarding the application of IFRS 16.

The following new or amended standards are not expected to have a significant impact on the Group's financial statements:

- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*
- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*
- *Equity Method in Separate Financial Statements (Amendment to IAS 27)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendment to IAS 12)*
- *Disclosure Initiative (Amendments to IAS 7)*
- *Annual Improvements to IFRS 2012 – 2014 Cycle*
- *Disclosure Initiative (Amendments to IAS 1)*
- *IAS 10 and IAS 28 – Amendments to sale and contributions of assets between an investor and its Associate or Joint Venture*
- *IFRS 5 – Changes in methods of disposal.*

CONTENTS

COMPANY ANNUAL FINANCIAL STATEMENTS

COMPANY STATEMENT OF **COMPREHENSIVE INCOME**

for the period ended

	Note	**52 weeks 26 February 2017 Rm**	52 weeks 28 February 2016 Rm
Revenue			
Finance income		**0.3**	0.1
Dividend income	8	**1 313.5**	607.1
		1 313.8	607.2
Administration expenses	2	**(14.8)**	(11.5)
Profit		**1 299.0**	595.7
Write-off of investments in subsidiaries	5	**(5.9)**	–
Profit before tax		**1 293.1**	595.7
Tax	3	**(0.1)**	–
Profit for the period		**1 293.0**	595.7
Other comprehensive income for the period, net of tax		**–**	–
Total comprehensive income for the period		**1 293.0**	595.7

COMPANY STATEMENT OF **FINANCIAL POSITION**

	Note	As at 26 February 2017 Rm	As at 28 February 2016 Rm
ASSETS			
Non-current assets			
Investments in subsidiaries	5	**5.1**	552.5
		5.1	552.5
Current assets			
Loans to related parties	8	**1 081.3**	–
Trade and other receivables		**0.2**	0.2
Cash and cash equivalents	6	**2.0**	1.2
		1 083.5	1.4
Total assets		**1 088.6**	553.9
EQUITY AND LIABILITIES			
Equity			
Share capital	7	**6.1**	6.1
Share premium		**465.7**	465.7
Retained earnings		**610.3**	74.9
Total equity		**1 082.1**	546.7
Current liabilities			
Trade and other payables		**6.5**	7.2
		6.5	7.2
Total equity and liabilities		**1 088.6**	553.9

COMPANY STATEMENT OF **CHANGES IN EQUITY**

for the period ended

	Note	Share capital Rm	Share premium Rm	Retained earnings Rm	Total equity Rm
At 1 March 2015		6.1	396.8	77.4	480.3
Total comprehensive income for the period		–	–	595.7	595.7
Profit for the period		–	–	595.7	595.7
Other comprehensive income		–	–	–	–
Ordinary shares issued		–	68.9	–	68.9
Dividends paid	4.1	–	–	(598.2)	(598.2)
At 28 February 2016		**6.1**	**465.7**	**74.9**	**546.7**
Total comprehensive income for the period		**–**	**–**	**1 293.0**	**1 293.0**
Profit for the period		**–**	**–**	**1 293.0**	**1 293.0**
Other comprehensive income		**–**	**–**	**–**	**–**
B shares issued	7.2	**–**	**–**	**–**	**–**
Dividends paid	4.1	**–**	**–**	**(757.6)**	**(757.6)**
At 26 February 2017		**6.1**	**465.7**	**610.3**	**1 082.1**

COMPANY STATEMENT OF **CASH FLOWS**

for the period ended

	Note	52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
Cash flows from operating activities			
Profit		**1 299.0**	595.7
Adjusted for dividend income		**(1 313.5)**	(607.1)
Cash utilised before movements in working capital		**(14.5)**	(11.4)
Movements in working capital		**(0.7)**	–
Movements in trade and other payables		**(0.7)**	–
Cash utilised in operations		**(15.2)**	(11.4)
Dividends received	8.2	**1 313.5**	607.1
Dividends paid	4.1	**(757.6)**	(598.2)
Tax paid	3	**(0.1)**	–
Cash generated from/(utilised in) operating activities		**540.6**	(2.5)
Cash flows from investing activities			
Sale of investments in subsidiaries	5	**25.2**	7.5
Purchase of investment in subsidiary	5	**(5.1)**	–
Loans advanced to subsidiary companies	8.4	**(1 081.3)**	(73.7)
Loan repaid by subsidiary companies	8.4	**521.4**	–
Cash utilised in investing activities		**(539.8)**	(66.2)
Cash flows from financing activities			
Net proceeds from ordinary share issued	7.1	**–**	68.9
Cash generated from financing activities		**–**	68.9
Net movement in cash and cash equivalents		**0.8**	0.2
Cash and cash equivalents at beginning of period		**1.2**	1.0
Cash and cash equivalents at end of period	6	**2.0**	1.2

1. ACCOUNTING POLICIES

Except as presented below, the accounting policies and notes to the Company annual financial statements are identical to those disclosed in note 1 of the Pick n Pay Stores Limited Group annual financial statements.

1.1 Statement of compliance

The Company's annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa.

1.2 Basis of preparation

The Company's annual financial statements are prepared on the historical cost basis except where stated otherwise in the accounting policies below.

The accounting policies have been consistently applied to all periods presented.

1.3 Revenue

Revenue is measured at the fair value of consideration received.

Dividend income
Dividend income is recognised when the shareholders' right to receive payment is established.

Finance income
Finance income is recognised as it accrues in the statement of comprehensive income, using the effective interest method, by reference to the principal amounts outstanding and at the interest rate applicable.

1.4 Investments in subsidiaries

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

1.5 Foreign currency transactions and translations

The annual financial statements are presented in South African rand, which is the Company's functional currency. All transactions are in South African rand.

2. ADMINISTRATION EXPENSES

Administration expenses are stated after taking into account the following expenses:

2.1 Directors' remuneration*

Directors' remuneration paid by Pick n Pay Stores Limited is detailed below:

	Fees for board meetings R'000	Fees for committee and other work R'000	Total remuneration R'000
2017			
Non-executive directors			
Gareth Ackerman	**3 913.0**	**–**	**3 913.0**
Alex Mathole**	**125.0**	**–**	**125.0**
Audrey Mothupi	**364.0**	**352.5**	**716.5**
David Friedland	**364.0**	**312.0**	**676.0**
David Robins	**364.0**	**–**	**364.0**
Hugh Herman	**364.0**	**554.5**	**918.5**
Jeff van Rooyen	**364.0**	**585.5**	**949.5**
Lorato Phalatse	**364.0**	**270.0**	**634.0**
Total remuneration	**6 222.0**	**2 074.5**	**8 296.5**
2016			
Non-executive directors			
Gareth Ackerman	3 657.0	–	3 657.0
Audrey Mothupi	340.0	221.0	561.0
Ben van der Ross***	170.0	146.0	316.0
David Friedland****	340.0	177.0	517.0
David Robins	340.0	–	340.0
Hugh Herman	340.0	518.0	858.0
Jeff van Rooyen	340.0	440.0	780.0
John Gildersleeve*****	340.0	182.0	522.0
Lorato Phalatse	340.0	252.0	592.0
Total remuneration	6 207.0	1 936.0	8 143.0

* *Executive directors salaries are paid by a subsidiary company. Refer to note 4 of the Group annual financial statements.*
** *Alex Mathole was appointed on 24 October 2016.*
*** *Ben van der Ross resigned on 27 July 2015.*
**** *During the prior year David Friedland received consultancy fees of R114 000 for services rendered to the audit and risk committee.*
***** *John Gildersleeve resigned on 28 February 2016.*

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
3.	**TAX**		
3.1	**Tax recognised in statement of statement of comprehensive income:**		
	Normal tax	**0.1**	–
	Current period	**0.1**	–
	Tax recognised in the statement of comprehensive income	**0.1**	–
		%	%
3.2	**Reconciliation of effective tax rate**		
	South African statutory tax rate	**28.0**	28.0
	Exempt income – dividends received	**(28.4)**	(28.5)
	Non-deductible write-off of investments in subsidiaries	**0.1**	–
	Non-deductible holding company expenses	**0.3**	0.5
	Effective tax rate	**–**	–
3.3	**Tax paid**		
	Balance at the beginning of period	**–**	–
	Recognised in profit or loss	**0.1**	–
	Owing at the end of the period	**–**	–
	Tax paid for the year	**0.1**	–

		Cents per share	Cents per share
4.	**DIVIDENDS**		
4.1	**Dividends paid**		
	Number 96 – declared 25 April 2016 – paid 13 June 2016 (2016: Number 94 – declared 20 April 2015 – paid 15 June 2015)	**125.2**	98.5
	Number 97 – declared 17 October 2016 – paid 12 December 2016 (2016: Number 95 – declared 12 October 2015 – paid 14 December 2015)	**29.9**	24.2
	Total dividends per share for the period	**155.1**	122.7
		Rm	Rm
	Total value of dividends paid by the Company	**757.6**	598.2
		Cents per share	Cents per share
4.2	**Dividends declared**		
	Interim dividend – number 97 (2016: number 95)	**29.9**	24.2
	Final dividend – number 98 (2016: number 96)	**146.4**	125.2
		176.3	149.4

The directors have declared a final dividend (dividend 98) of 146.40 cents per share out of income reserves. The dividend is subject to dividend withholding tax at 20%, where shareholders are subject to this tax. The last day to trade in order to participate in the dividend (CUM dividend) will be Tuesday, 6 June 2017. The shares will trade EX dividend from the commencement of business on Wednesday, 7 June 2017 and the record date will be Friday, 9 June 2017. The dividends will be paid on Monday, 12 June 2017.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
5.	**INVESTMENTS IN SUBSIDIARIES**		
	Investment in subsidiaries		
	Shares at cost	**5.1**	31.1
	Non-current loans to related parties (note 8)	**–**	521.4
	Total investments in subsidiaries	**5.1**	552.5

The significant subsidiaries owned by the Company include Pick n Pay Retailers Proprietary Limited and Pick n Pay Holdings Limited RF. All subsidiaries are wholly owned.

During the period under review, the following significant transactions occurred relating to the Company's investments in subsidiaries:

The Company sold a number of its investments in subsidiaries. The sale of the investments in subsidiaries was made at book value of R25.2 million to its major trading subsidiary, Pick n Pay Retailers Proprietary Limited with the objective to simplify the Pick n Pay Stores Limited Group structure.

A number of the Company's dormant subsidiaries were deregistered. This resulted in a write-off of these investments to the value of R5.9 million. Refer to the statement of comprehensive income.

As part of the unbundling of the Pick n Pay Holdings Limited RF Group, Pick n Pay Holdings Limited RF was acquired for a purchase price of R5.1 million. Pick n Pay Holdings Limited RF thereby become a wholly-owned subsidiary of the Company. Refer to note 8 for more information.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
6.	**CASH AND CASH EQUIVALENTS**		
	Cash and cash equivalents	**2.0**	1.2

Cash and cash equivalents represents a current bank account for administrative purposes, held at an institution which is in line with those used by the Group. Refer to note 18 and note 28 of the Group annual financial statements.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
7.	**SHARE CAPITAL**		
7.1	**Ordinary share capital**		
	Authorised		
	800 000 000 (2016: 800 000 000) ordinary shares of 1.25 cents each	**10.0**	10.0
	Issued		
	488 450 321 (2016: 488 450 321) ordinary shares of 1.25 cents each	**6.1**	6.1

The Company can issue new shares to settle the Pick n Pay Stores Group's obligations under its employee share schemes, but issues in this regard are limited, in aggregate, to 5% of total issued share capital or 24 422 516 (2016: 24 422 516) shares. To date, 10 743 000 (2016: 10 743 000) shares have been issued, resulting in 13 679 516 (2016: 13 679 516) shares remaining for this purpose.

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 8 for details of director's interest in shares.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
7.2	**B share capital**		
	Authorised		
	1 000 000 000 (2016: nil) unlisted, non-convertible, non-participating, no par value B shares	**–**	–
	Issued		
	259 682 869 (2016: nil) unlisted non-convertible, non-participating, no par value B shares	**–**	–

The Pick n Pay Holdings Limited RF Group included the ultimate holding company, Pick n Pay Holdings Limited RF, an investment holding company listed on the JSE (a stock exchange in South Africa). The Company was formed with the sole purpose of holding a controlling interest in Pick n Pay Stores Limited (and thereby the Pick n Pay Stores Group), resulting in a pyramid control structure.

During the period under review, a new class of shares was created as a result of the unbundling of the Pick n Pay Holdings Group, as approved by shareholders on 25 July 2016. A total of 259 682 869 B shares were issued to existing controlling ordinary shareholders of Pick n Pay Holdings Limited RF, and are stapled to such ordinary shares and cannot be traded separately from each other. Stapled ordinary shares, together with B shares, are subject to restrictions upon disposal. Refer to note 8 for further information.

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits.

Refer to note 8 for details of director's interest in shares.

8. RELATED PARTY TRANSACTIONS

8.1 The unbundling of Pick n Pay Holdings Limited RF

The Pick n Pay Holdings Limited RF Group included the ultimate company, Pick n Pay Holdings Limited RF, an investment holding company listed on the JSE. The Company was formed with the sole purpose of holding a controlling interest in Pick n Pay Stores Limited, resulting in a pyramid control structure.

During the period under review, at the General Meeting held on 25 July 2016, shareholders approved the unbundling of the Pick n Pay Holdings Limited RF Group in order to remove the existing pyramid control structure. As a result of the unbundling, related party transactions occurred. This included the creation and issuance of a new class of unlisted voting shares (B shares) in Pick n Pay Stores Limited (refer to note 7). These were issued to the existing controlling shareholders of Pick n Pay Holdings Limited RF so as to retain the control structure of the Group as it was prior to the unbundling.

		52 weeks 26 February 2017 Rm	52 weeks 28 February 2016 Rm
8.2	**Dividends received**		
	Pick n Pay Retailers Proprietary Limited	**750.3**	599.5
	Pick n Pay Employee Share Purchase Trust	**9.3**	7.6
	Pick n Pay Franchise Financing Proprietary Limited	**342.0**	–
	The Blue Ribbon Meat Corporation Proprietary Limited	**130.0**	–
	Pick n Pay Newton Park Proprietary Limited	**56.7**	–
	Pick n Pay Garages Proprietary Limited	**15.0**	–
	Pick n Pay Investment Holdings Limited	**10.2**	–
	Total dividends received from related parties	**1 313.5**	607.1
8.3	**Dividend paid**		
	Pick n Pay Holdings Limited RF	**322.2**	315.8
8.4	**Loans to related parties**		
	Pick n Pay Retailers Proprietary Limited	**527.4**	492.3
	Pick n Pay Franchise Financing Proprietary Limited	**342.0**	–
	The Blue Ribbon Meat Corporation Proprietary Limited	**130.0**	–
	Pick n Pay Newton Park Proprietary Limited	**56.7**	–
	Pick n Pay Garages Proprietary Limited	**15.0**	–
	Pick n Pay Investment Holdings Limited	**10.2**	–
	Boxer Holdings Proprietary Limited	**–**	29.1
	Pick n Pay Zambia Limited	**–**	5.0
		1 081.3	526.4
	Loans from related parties		
	Pick n Pay Holdings Limited RF	**–**	(5.0)
	Total loans to related parties	**1 081.3**	521.4
	Comprising:		
	Non-current loans to related parties (note 5)	**–**	521.4
	Current loans to related parties	**1 081.3**	–

These loans to/from related parties are unsecured interest-free and repayable on demand (2016: no fixed date of repayment). The fair value of loans to related parties approximates its carrying value.

8. RELATED PARTY TRANSACTIONS continued

8.5 Ordinary shares held by directors

The percentage of shares held by directors of Pick n Pay Stores Limited at the reporting date are disclosed below. This percentage is their effective direct shareholding in the Company (excluding treasury shares), which includes shares held under the Group's forfeitable share plan. For further information refer to note 4 of the Group annual financial statements.

	52 weeks 26 February 2017 %	52 weeks 28 February 2016 %
Beneficial	**1.2**	1.9
Non-beneficial	**26.5**	26.3
	27.7	28.2

8.6 B shares held by directors

The percentage of B shares held by directors of Pick n Pay Stores Limited at the reporting date are disclosed below. For further information refer to note 4 in the Group annual financial statements.

	52 weeks 26 February 2017 %	52 weeks 28 February 2016 %
Beneficial	**2.2**	–
Non-beneficial	**97.2**	–
	99.4	–

9. FINANCIAL INSTRUMENTS

Overview

Pick n Pay Stores Limited has limited exposure to risk in respect of financial instruments, as their only significant financial asset is their loans to/from related parties, refer to note 8. There is minimal credit risk relating to these items as it is payable within the Group. Market risk is negated as the financial instruments have no exposure to changes in exchange rates and have very limited exposure to changes in interest rates.

9.1 Credit risk

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

9.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has unlimited access to the funds of the Group companies. Therefore, the Company's liquidity risk is linked to the liquidity of the Group companies. Refer to note 28 of the Group annual financial statements.

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

	Carrying amount Rm	Contractual cash flows* Rm
2017		
Non-derivative financial liabilities		
Trade and other payables	**6.5**	**6.5**
Total financial obligations	**6.5**	**6.5**
2016		
Non-derivative financial liabilities		
Trade and other payables	7.2	7.2
Total financial obligations	7.2	7.2

* *Repayable within one year.*

9.3 Capital management

The Company considers the management of capital with reference to the Group policy which can be found in note 28 of the Group annual financial statements.

9.4 Suretyships

The Company has provided suretyships in the ordinary course of business in respect of its subsidiaries operations, for certain banking facilities to a maximum of R1 billion (2016: R0.1 billion). No losses are expected to be incurred on these suretyships.

ANALYSIS OF **ORDINARY SHAREHOLDERS**

Pick n Pay Stores Limited

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	8 059	60.1	2 458 411	0.5
1 001 – 10 000 shares	3 910	29.2	12 711 866	2.6
10 001 – 100 000 shares	1 061	7.9	33 676 125	6.9
100 001 – 1000 000 shares	321	2.4	94 181 119	19.3
1 000 001 shares and over	57	0.4	345 422 800	70.7
Total	**13 408**	**100.0**	**488 450 321**	**100.0**

Public/non-public shareholders	Number of shareholders	%	Number of shares	%
Non-public shareholders	**13**	**0.1**	**146 986 653**	**30.1**
Ackerman Investment Holdings Proprietary Limited	1	0.0	124 677 238	25.5
Ackerman Pick n Pay Foundation	1	0.0	101 900	0.0
Directors	7	0.0	3 638 195	0.8
The Mistral Trust	1	0.0	2 700 967	0.6
Shares held on behalf of FSP participants	1	0.0	9 336 500	1.9
Pick n Pay Retailers Proprietary Limited	1	0.0	153 500	0.0
Pick n Pay Employee Share Purchase Trust	1	0.0	6 378 353	1.3
Public shareholders	**13 395**	**99.9**	**341 463 668**	**69.9**
Total	**13 408**	**100.0**	**488 450 321**	**100.0**

Beneficial shareholders holding 1% or more	Number of shares	%
Ackerman Investment Holdings Proprietary Limited	124 677 238	25.53
Public Investment Corporation Limited	52 565 398	10.76
Investment Solutions Limited	12 676 145	2.60
Coronation Balanced Plus Fund	12 299 195	2.52
Liberty Life Association of Africa Limited	10 478 081	2.15
Shares held on behalf of FSP participants	9 336 500	1.91
GIC Private Limited	6 832 440	1.40
Pick n Pay Employee Share Purchase Trust	6 378 353	1.31
Vanguard Emerging Markets Stock Index Fund	6 323 862	1.29
Genesis Emerging Markets Investment Company	5 986 099	1.23
Genesis Group Trust for Employee Benefit Plans	5 925 705	1.21

ANALYSIS OF **B SHAREHOLDERS**

Pick n Pay Stores Limited

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	1	3.9	1 100	0.0
1 001 – 10 000 shares	7	26.9	52 868	0.0
10 001 – 100 000 shares	8	30.8	223 670	0.1
100 001 – 1 000 000 shares	5	19.2	1 582 276	0.6
1 000 001 shares and over	5	19.2	257 822 955	99.3
Total	**26**	**100.0**	**259 682 869**	**100.0**

Public/non – public shareholders	Number of shareholders	%	Number of shares	%
Non-public shareholders	**6**	**23.1**	**258 054 886**	**99.4**
Ackerman Investment Holdings Proprietary Limited	1	3.9	246 936 846	95.1
Directors	4	15.3	5 768 481	2.3
The Mistral Trust	1	3.9	5 349 559	2.1
Public shareholders	**20**	**76.9**	**1 627 983**	**0.6**
Total	**26**	**100.0**	**259 682 869**	**100.0**

Beneficial shareholders holding 1% or more	Number of shares	%
Ackerman Investment Holdings Proprietary Limited	246 936 846	95.1
The Mistral Trust	5 349 559	2.1
Gareth Ackerman	3 228 383	1.2

CORPORATE **INFORMATION**

PICK N PAY STORES LIMITED
Registration number: 1968/008034/06
JSE share code: PIK
ISIN: ZAE000005443

BOARD OF DIRECTORS
Executive
Richard Brasher (CEO)
Richard van Rensburg (Deputy CEO)
Aboubakar (Bakar) Jakoet (CFO)
Suzanne Ackerman-Berman
Jonathan Ackerman

Non-executive
Gareth Ackerman (chairman)
David Robins

Independent non-executive
Alex Mathole
Audrey Mothupi
David Friedland
Jeff van Rooyen
Hugh Herman
Lorato Phalatse

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ATTORNEYS
Edward Nathan Sonnenberg

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First National Bank

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PROMOTION OF ACCESS TO INFORMATION ACT
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