Pick n Pay Stores Limited
Registration number: 1968/008034/06
JSE share code: PIK ISIN: ZAE000005443

Clear plan delivers improved results

Review of operations

Key financial indicators

	364 days 2014	Normalised trading calendar 364 days (pro forma)* 2013	Comparable pro forma % change*	As previously reported 368 days 2013	% change
Total till sales	**R73.0 billion**	R67.8 billion	7.6	R68.5 billion	6.5
Turnover	**R63.1 billion**	R58.6 billion	7.7	R59.3 billion	6.5
Gross profit margin	**17.5%**	17.5%		17.4%	
Trading profit	**R1 010.3 million**	R751.7 million	34.4	R852.4 million	18.5
Profit before tax	**R833.1 million**	R708.2 million	17.6	R808.9 million	3.0
Basic earnings per share	**122.01 cents**	100.50 cents	21.4	115.14 cents	6.0
Headline earnings per share**	**138.51 cents**	96.66 cents	43.3	111.30 cents	24.4
Total annual dividend per share	**92.30 cents**			84.00 cents	9.9

* *The Group implemented a 52-week financial reporting calendar in February 2013. The 2014 financial year consists of 364 trading days of turnover and related gross profit, compared with 368 days in the prior year. Reviewing turnover and gross profit on a comparable 364-day basis is more meaningful and as such, the results in this commentary are presented on a comparable pro forma basis (unless otherwise stated). For a detailed explanation on the new financial calendar and its impact on the comparability of performance, please refer to note 2 of the summarised financial information presented below.*

** *The difference in the growth in headline earnings per share against basic earnings per share is the exclusion of profits and losses of a capital nature in the calculation of headline earnings. Capital losses net of tax of R78.9 million are added back to headline earnings in 2014 (mainly comprising the impairment of intangible assets), against a deduction net of tax of R18.4 million of capital profits in 2013.*

The Group has delivered an improved financial performance compared to the previous year, substantively delivering on the objectives set at the beginning of the year.

The Group increased turnover by 7.7% (compared to 6.2% the previous year). This was driven in part by an accelerated programme of new-store growth. Like-for-like growth was subdued at 2.7%, reflecting the difficult trading environment across the sector. Customers are facing increasing financial pressure as a result of rising fuel, electricity and other utility costs, rising interest rates and levels of household debt. The weak rand is also contributing to rising commodity and consumer goods prices.

The gap between Pick n Pay's growth and overall market growth narrowed from 2.5% in the previous year to 0.7% this year.

Strong financial control is crucial in this environment. The Group's improved financial performance reflects in large measure the encouraging progress made over the past year in reducing cost through greater organisational and operating efficiency and tighter fiscal control across the business. We reduced our trading expenses as a percentage of turnover from 17.1% to 16.7% and our trading profit margin improved from 1.3% to 1.6%.

The increase in turnover and reduction in trading expenses has delivered headline earnings per share which are up 43.3% on a comparable pro forma basis. The total dividend per share for the year is 92.30 cents, up 9.9% on the prior year, in line with the Group's policy to moderate the dividend cover to 1.5 times headline earnings per share.

Our strategy remains that of customer-focused and sales-led growth. Lower costs will enable us to invest more in our shopping trip, driving turnover growth by consistently improving our product offer, stock availability and customer service.

Clear plan: delivers stronger operations

We are a stronger business than we were 12 months ago. We are better positioned to strengthen and grow our core South African business, and actively explore new strategic opportunities in the rest of Africa.

Despite the more challenging trading environment, the Group grew at every level, serving more customers than last year, in more stores and with higher value baskets.

The Group opened 111 new stores during the year and closed 26 under-performing stores, adding 3.4% net new space. We grew our Pick n Pay and Boxer brands across a variety of retail formats, ranging from stores which serve lower-income communities through to our new Waterfront store in Cape Town. We are particularly proud to be serving some communities for the first time, including Chatsworth, KwaMashu and Hammersdale, which demonstrates the strength and inclusiveness of our brand. We are under-represented in the market that our Boxer brand serves and we look forward to expanding our footprint in these areas. The Group now has 1 076 stores, comprising 643 company-owned stores and 433 franchise stores, across multiple retail formats and six southern African countries. In addition 52 stores, three of which trade under the Pick n Pay brand, are operated in Zimbabwe by our associate, TM Supermarkets. Our franchisees remain crucial partners in our business, exemplifying the Pick n Pay commitment to excellent customer service and we are grateful to each of them for their hard work and entrepreneurship over the past year.

We are keenly focused on improving the quality of our fresh and perishable produce and our pre-packaged convenience ranges, and are seeing good results in these areas. We are experiencing good growth in our smaller convenience formats, reflecting the growing customer desire to shop more often in locations which are easy to reach. While our larger Hypermarket stores remain under pressure, we are implementing plans to improve the customer offer and experience in each individual Hyper. Our general merchandise team has made good progress in rationalising and focusing our general merchandise range. This will have a positive impact across the business, particularly in our Hypermarkets. Our smaller clothing and liquor formats continue to perform well and make meaningful contributions to the turnover and profit growth of the business. We will introduce expanded and targeted clothing ranges into our supermarkets next year. We have grown our online food delivery business by 27% over the year. We now serve more than 2 000 customers per week, and have extended the service during the year within the Western Cape, KwaZulu-Natal and the Free State.

Review of operations continued

Customers are more engaged than ever in our smart shopper loyalty programme, which remains South Africa's favourite loyalty programme. We have made a number of improvements for customers in the course of the year, including offering loyalty points and vouchers on till slips at the point of sale, introducing instant saver promotions and a smart shopper mobile application. We have issued almost eight million smart shopper cards and the number of customers who regularly use their card is growing steadily in response to our enhanced rewards programme.

We have supported our customers with good prices during the year, broadening our mix of promotions and fighting inflation in core commodities by tailoring ranges and promotions to specific communities. Our smart shopper programme provides us with valuable information in this regard, assisting us to tailor and target promotions where and when they will be most effective.

This is in line with our strategy to continue to invest in the shopping trip. Our gross profit margin remains unchanged at 17.5%, with savings generated through improvements in supply-chain efficiency being reinvested in our customer offer.

We are pleased with the progress made across our buying and distribution channels. We continue to bring more suppliers into our central distribution channels, increasing the volume through our distribution centres by 10.8% over the year, and reducing the cost per case delivered by 6.5%.

The benefits of our central distribution strategy are increasing, with improved efficiencies and meaningful cost reductions across our supply chain, including removing four-days value of inventory from our stock levels, providing our stores with strike-rates that are significantly better than those of direct to store suppliers and improving overall availability by 2.4 percentage points.

We completed the centralisation of our buying, operational and finance support functions, removing duplicate costs and services in the business. This process necessitated tough decisions during the year and resulted in the retrenchment of some head office support staff. This was a difficult time for the business, but the rigorous review of all support structures and processes has enabled us to create a more streamlined and effective support office.

Outside South Africa we increased segmental revenue by 27.9% on a comparable basis and increased our like-for-like segmental revenue by 9.4%. In the course of the year we took clear and decisive action to close our Mauritius and Mozambique franchise operations. In both cases we reached a firm conclusion that the businesses, as they were structured did not offer us a sound basis for sustainable growth. However, the prospects are strong in the markets in which we continue to operate and further afield. We have experienced good growth in Zambia, and have installed a team on the ground in Nigeria to explore opportunities in that market.

We are proud of the leadership that Pick n Pay demonstrates as a responsible and caring corporate citizen, whether it is supporting local charities and good causes in the communities we serve, helping grow emerging market suppliers through our collaboration with the Ackerman Pick n Pay Foundation, or leading on seafood sustainability and climate change. The welfare and sustainability of the communities we serve is close to our hearts and has always been a key part of our approach.

Clear plan: more to do

We are encouraged by the progress shown across the business over the past year. Our strategic goal remains that of sustainable customer-driven and sales-led growth, and the Group has more to deliver in terms of improving our customer offer and winning more customers to Pick n Pay. We have a clear plan in place across the Group, organised on the basis of a balanced scorecard comprising five segments: our customer offer, our operations, the organisation of our people, our relationship with the communities we serve, and our financial performance. By delivering this plan, customers will experience a better Pick n Pay. We will become more efficient and reduce our costs further. Staff will be part of a more effective organisation. We will as a result deliver better returns to our shareholders and an even stronger contribution to society and our broader stakeholders.

Financial review

Turnover

Group turnover increased by 7.7% to R63.1 billion (2013: R58.6 billion, with 6.2% comparable growth). Like-for-like turnover growth was 2.7% (2013: 3.0%) and net new stores contributed 5.0%, with our trading space growing a net 3.4% over the year. We showed stronger like-for-like growth at overall point of sale level, with like-for-like till sales from both owned and franchise stores growing by 3.5%. Pick n Pay internal selling price inflation for the year was 5.3% (2013: 4.9%), against CPI inflation of 5.8%.

Gross profit

The Group has maintained the gross margin at 17.5%. We are pleased with the progress made across our buying and distribution channels, which has resulted in improved efficiencies and meaningful cost reductions. In particular our two central distribution centres, at Longmeadow in Gauteng and Philippi in the Western Cape, have both delivered considerable operating improvements which have reduced the net cost of distribution as a percentage of turnover. We have also demonstrated improved control over waste and shrink which are below the levels of the previous year. In addition, our new reporting platform is enabling improved gross margin management through the enhanced visibility of more timely information. All the cost savings realised have been reinvested back into the selling price of goods, as part of our strategy of investing in the shopping trip.

Other trading income

Certain elements of trading income previously included under cost of merchandise sold (within gross profit) have been reclassified and disclosed separately. This has been done to improve the visibility of all other trading income, specifically commissions received. The prior year has been restated to align with the current year disclosures, please refer to note 7 of the summarised financial information presented below. The 3.5% decrease in other trading income is mainly due to reduced commissions as customers move away from purchasing airtime at the till to other digital platforms.

Trading profit

The trading profit margin improved from 1.3% to 1.6%. Expense control has been the key differentiator in our improved performance this year, countering the modest turnover growth and continued investment in gross profit margin. Trading expenses as a percentage of turnover have decreased from 17.1% to 16.7%, with like-for-like expense growth almost flat at 0.8%. We are pleased with the good work being done around tighter fiscal control, with all areas of the business contributing to the expense savings.

The following are good examples of the achievements over the past year:

- The increase in employee costs was limited to 7.6%, notwithstanding the new store growth. Furthermore, like-for-like employee costs increased by only 3.2% despite a new above-CPI wage rate agreement which came into force at the beginning of the financial year. This demonstrates increased productivity at store level, which is enabling us to staff our stores more efficiently and effectively.
- Occupancy costs are up 7.6% in line with our store expansion programme; however the like-for-like increase is only 2.6%. This is pleasing in light of the continued above-CPI regulatory increases in rates and taxes. We remain a tenant of choice in the retail industry and continue to negotiate competitive rentals and escalation terms with our landlords.
- Costs of operations are up 9.2%, again reflecting our opening of 80 company-owned stores during the year, with a like-for-like increase in costs of 4.1%. Administered increases in electricity prices are posing a significant additional burden on operational costs. We are able to mitigate this to some degree: our electricity usage is well controlled, and we have an effective programme of reducing energy use in our stores. Amortisation and depreciation has increased by 5.9%, compared with the 10.8% growth seen in 2013, which illustrates the good work being done around the control of capital expenditure and ensuring the spend is targeted at improving the customer offer.
- We are very pleased with the progress made on eliminating excess administrative costs in the business, particularly at support office level. Merchandise and administration expenses have decreased by 14.8%, with a like-for-like decrease of 17.9%. We have almost entirely removed consultancy costs from the business. As South Africa's largest acceptor of electronic tender, we have been subject to increased bank fees as our customers move from debit cards to hybrid cards. We are encouraged that the Reserve Bank has taken action to reduce bank interchange fees in respect of credit, debit and hybrid costs. The reduced fee schedule is expected to be in force from 1 January 2015, with the benefits flowing in the 2016 financial year.

There is still a great deal of work to be done to optimise our cost structure and augment our productivity and efficiency, but we are demonstrating that we can run a lower cost, more streamlined business.

Loss on capital items

The Group completed the centralisation of its buying, operational and finance support functions during the year. As a result, systems and reporting tools previously developed to support the decentralised business operation became obsolete, necessitating an impairment of R104.1 million of those intangible assets. The loss on capital items also includes a loss on the sale of fixed assets of R5.5 million, against a profit of R21.6 million in the prior year.

Interest

The net interest expense of R99.6 million is R11.1 million more than the prior year's expense of R88.5 million due to periods of elevated borrowings, particularly in the first half of the year, as a result of increased capital expenditure and inventory provisioning relating to new stores.

Earnings per share

Basic earnings per share (EPS) increased 6.0% from 115.14 to 122.01 cents per share. The new 52-week reporting calendar resulted in the current reporting period being four trading days less than the prior year. The comparable EPS growth (if the impact of 14.64 cents per share attributable to the additional trading days is excluded) is 21.4%.

Headline earnings per share (HEPS) increased 24.4% from 111.30 to 138.51 cents per share. The new 52-week reporting calendar resulted in the current reporting period being four trading days less than the prior year. The comparable HEPS growth (if the impact of 14.64 cents per share attributable to the additional trading days is excluded) is 43.3%.

The significant difference in the growth in headline earnings per share against basic earnings per share is the exclusion of profits and losses of a capital nature in the calculation of headline earnings.

Capital losses net of tax of R78.9 million are added back to headline earnings in 2014 (mainly comprising the impairment of intangible assets), against a deduction net of tax of R18.4 million of capital profits in 2013.

Financial position

	Sunday 2 March 2014 Rm	Sunday 3 March 2013 Rm
Inventory	**3 979.8**	3 996.5
Other current assets	**2 844.6**	2 361.1
Cash and cash equivalents	**1 540.3**	1 255.7
Bank overdraft and overnight borrowings	**(670.0)**	(1 525.6)
Other current liabilities	**(8 942.2)**	(7 382.4)
Net working capital	**(1 247.5)**	(1 294.7)

We are pleased with the slight improvement in net working capital, particularly in the context of the store expansion programme. Inventory has decreased by R16.7 million or 0.4%, with like-for-like inventory (excluding the impact of new stores) decreasing by 5.7%. We have been focused on removing slow-moving inventory lines from our business, rationalising our product range to provide our customers with a more focused and relevant offering, as well as improving our supply chain efficiencies with improved strike rates to stores. We are pleased with our progress in this area, but there is still much work to be done. The increase in trade and other receivables of R480.0 million mainly relates to 12 net new franchise stores. The net cash and overnight borrowing position at year-end has improved by R1 140.2 million on last year, from negative R269.9 million to R870.3 million. The improved cash position is testament to the good work being done in respect of inventory management and improved fiscal control over both capital and operating expenditure. We raised an additional R300 million borrowing under our DMTN programme to capitalise on competitive interest rates in the capital markets.

Shareholder distribution

In line with our review of all aspects of the business, the Board moderated the annual dividend cover to 1.5 times headline earnings per share. The final dividend of 77.50 cents per share brings the total dividend for the annual period to 92.30 cents per share, which is 9.9% up on last year.

Prospects

It has been a challenging but rewarding year and we are pleased with this overall result. We are encouraged by the improved financial performance delivered and the progress demonstrated across all areas of our business. Our business is stronger than it was a year ago. Customers and shareholders are experiencing the benefit. Much work lies ahead in what is a difficult trading environment. We have a clear plan to improve the shopping trip for our customers, drive higher turnover growth, and deliver further operating efficiencies and cost savings. We thank all our staff who have worked so hard over the past 12 months to improve our business and the lives of our customers.

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

14 April 2014

Dividend declarations

Pick n Pay Stores Limited – Tax reference number: 9275/141/71/2

Number of shares in issue: 480 397 321

Notice is hereby given that the directors have declared a final gross dividend (number 92) of 77.50 cents per share out of income reserves.

The dividend declared is subject to dividend withholding tax at 15%.

There is no secondary tax on companies (STC) to be taken into account when determining the dividend tax to withhold.

The tax payable is 11.625 cents per share, leaving shareholders who are not exempt from dividends tax with a net dividend of 65.875 cents per share.

Dividend dates

The last day of trade in order to participate in the dividend (CUM dividend) will be Friday, 6 June 2014.

The shares will trade EX dividend from the commencement of business on Monday, 9 June 2014 and the record date will be Friday, 13 June 2014. The dividends will be paid on Tuesday, 17 June 2014.

Share certificates may not be dematerialised or rematerialised between Monday, 9 June 2014 and Friday, 13 June 2014, both dates inclusive.

On behalf of the board of directors

Debra Muller
Company Secretary

14 April 2014

Consolidated statement of comprehensive income

for the period ended

	364 days to 2 March 2014 Rm	Change %	368 days to 3 March 2013 Rm
Revenue	**63 661.9**	6.4	59 833.0
Turnover	**63 117.0**	6.5	59 271.3
Cost of merchandise sold	**(52 077.1)**	6.4	(48 935.9)
Gross profit	**11 039.9**	6.8	10 335.4
Other trading income	**500.6**	(3.5)	518.9
Trading expenses	**(10 530.2)**	5.3	(10 001.9)
Employee costs	**(5 326.3)**	7.6	(4 952.0)
Occupancy	**(1 613.9)**	7.6	(1 500.5)
Operations	**(2 580.5)**	9.2	(2 363.9)
Merchandising and administration	**(1 009.5)**	(14.8)	(1 185.5)
Trading profit	**1 010.3**	18.5	852.4
(Loss)/profit on sale of property, plant and equipment	**(5.5)**		21.6
Impairment loss on intangible assets	**(104.1)**		—
Interest received	**44.3**	3.5	42.8
Interest paid	**(143.9)**	9.6	(131.3)
Share of associate's income	**32.0**	36.8	23.4
Profit before tax	**833.1**	3.0	808.9
Tax	**(249.4)**	(3.4)	(258.3)
Profit for the period	**583.7**	6.0	550.6
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement in retirement scheme assets	**57.1**		1.4
Items that may be reclassified to profit or loss			
Exchange rate differences on translating foreign operations	**6.4**		5.1
Other comprehensive income, net of tax	**63.5**		6.5
Total comprehensive income for the period	**647.2**	16.2	557.1
	Cents	Change %	Cents
Earnings per share	**122.01**	6.0	115.14
Diluted earnings per share	**120.21**	6.0	113.39
Headline earnings per share	**138.51**	24.4	111.30
Diluted headline earnings per share	**136.46**	24.5	109.61

Consolidated statement of financial position

	As at 2 March 2014 Rm	As at 3 March 2013 Rm
ASSETS		
Non-current assets		
Property, plant and equipment	**4 039.3**	3 917.7
Intangible assets	**987.6**	947.9
Operating lease assets	**132.8**	105.5
Investment in associate	**165.9**	133.9
Participation in export partnerships	**25.1**	28.1
Loans	**92.0**	98.5
Retirement scheme assets	**85.1**	1.8
Deferred tax assets	**212.1**	174.4
	5 739.9	5 407.8
Current assets		
Inventory	**3 979.8**	3 996.5
Trade and other receivables	**2 841.1**	2 361.1
Cash and cash equivalents	**1 540.3**	1 255.7
Derivative financial instruments	**3.5**	—
	8 364.7	7 613.3
Total assets	**14 104.6**	13 021.1
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**6.0**	6.0
Treasury shares	**(145.7)**	(139.4)
Retained earnings	**2 849.1**	2 562.6
Foreign currency translation deficit	**(6.8)**	(13.2)
Total shareholders' interest	**2 702.6**	2 416.0
Non-current liabilities		
Borrowings	**747.1**	772.5
Operating lease liabilities	**1 042.7**	924.6
	1 789.8	1 697.1
Current liabilities		
Trade and other payables	**8 085.1**	6 856.0
Bank overdraft and overnight borrowings	**670.0**	1 525.6
Borrowings	**737.8**	431.5
Tax	**111.2**	82.8
Provisions	**8.1**	9.0
Derivative financial instruments	**—**	3.1
	9 612.2	8 908.0
Total equity and liabilities	**14 104.6**	13 021.1
Number of shares in issue – thousands	**480 397.3**	480 397.3
Weighted average number of shares in issue – thousands	**478 386.8**	478 132.9
Diluted weighted average number of shares in issue – thousands	**485 577.4**	485 518.8
Net asset value – cents per share (property value based on directors' valuation)	**645.6**	586.0

Consolidated statement of changes in equity

for the period ended 2 March 2014

	Share capital Rm	Treasury shares Rm	Retained earnings Rm	Foreign currency translation deficit Rm	Total equity Rm
At 1 March 2012	6.0	(142.8)	2 559.2	(18.3)	2 404.1
Total comprehensive income for the period	—	—	552.0	5.1	557.1
Profit for the period	—	—	550.6	—	550.6
Exchange rate differences on translating foreign operations	—	—	—	5.1	5.1
Remeasurement in retirement scheme assets	—	—	1.4	—	1.4
Transactions with owners	—	3.4	(548.6)	—	(545.2)
Dividends paid	—	—	(583.5)	—	(583.5)
Share repurchases	—	(77.9)	—	—	(77.9)
Net effect of settlement of employee share options	—	81.3	(56.4)	—	24.9
Share options expense	—	—	91.3	—	91.3
At 3 March 2013	**6.0**	**(139.4)**	**2 562.6**	**(13.2)**	**2 416.0**
Total comprehensive income for the period	**—**	**—**	**640.8**	**6.4**	**647.2**
Profit for the period	**—**	**—**	**583.7**	**—**	**583.7**
Exchange rate differences on translating foreign operations	**—**	**—**	**—**	**6.4**	**6.4**
Remeasurement in retirement scheme assets	**—**	**—**	**57.1**	**—**	**57.1**
Transactions with owners	**—**	**(6.3)**	**(354.3)**	**—**	**(360.6)**
Dividends paid	**—**	**—**	**(398.4)**	**—**	**(398.4)**
Share repurchases	**—**	**(45.7)**	**—**	**—**	**(45.7)**
Net effect of settlement of employee share options	**—**	**39.4**	**(27.4)**	**—**	**12.0**
Share options expense	**—**	**—**	**71.5**	**—**	**71.5**
At 2 March 2014	**6.0**	**(145.7)**	**2 849.1**	**(6.8)**	**2 702.6**

Consolidated statement of cash flows

for the period ended

	364 days to 2 March 2014 Rm	368 days to 3 March 2013 Rm
Cash flows from operating activities		
Trading profit	**1 010.3**	852.4
Amortisation	**199.3**	145.8
Depreciation	**749.1**	749.7
Share options expense	**71.5**	91.3
Movement in net operating lease liabilities	**90.8**	74.8
Movement in provisions	**(0.9)**	(9.6)
Fair value adjustments	**(10.6)**	(2.6)
Cash generated before movements in working capital	**2 109.5**	1 901.8
Movements in working capital	**783.7**	(999.9)
Movements in trade and other payables	**1 229.1**	(140.2)
Movements in inventory	**31.6**	(626.0)
Movements in trade and other receivables	**(477.0)**	(233.7)
Cash generated by trading activities	**2 893.2**	901.9
Interest received	**44.3**	42.8
Interest paid	**(143.9)**	(131.3)
Cash generated by operations	**2 793.6**	813.4
Dividends paid	**(398.4)**	(583.5)
Tax paid	**(270.2)**	(311.6)
Cash generated by/(utilised in) operating activities	**2 125.0**	(81.7)
Cash flows from investing activities		
Investment in intangible assets	**(289.2)**	(242.4)
Investment in property, plant and equipment	**(882.4)**	(970.1)
Purchase of operations	**(103.3)**	(118.3)
Proceeds on disposal of intangible assets	**11.1**	9.4
Proceeds on disposal of property, plant and equipment	**38.2**	222.1
Loans repaid/(advanced)	**6.5**	(17.7)
Cash utilised in investing activities	**(1 219.1)**	(1 117.0)
Cash flows from financing activities		
Borrowings raised/(repaid)	**280.9**	(260.5)
Share repurchases	**(45.7)**	(77.9)
Proceeds from employees on settlement of share options	**1.3**	2.9
Cash generated by/(utilised in) financing activities	**236.5**	(335.5)
Net increase/(decrease) in cash and cash equivalents	**1 142.4**	(1 534.2)
Cash and cash equivalents at beginning of period	**(269.9)**	1 271.7
Effect of exchange rate fluctuations on cash and cash equivalents	**(2.2)**	(7.4)
Cash and cash equivalents at end of period	**870.3**	(269.9)
Consisting of:		
Cash and cash equivalents	**1 540.3**	1 255.7
Bank overdraft and overnight borrowings	**(670.0)**	(1 525.6)

Notes to the financial information

for the period ended 2 March 2014

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, and the requirements of the Companies Act applicable to summary financial statements. The listings requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA *Financial Reporting Guides* as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated financial statements, except for the change in financial period cut-off date as disclosed in note 2 together with standards and amendments that became effective on 1 January 2013 namely: IFRS 10 *Consolidated Financial Statements*; IFRS 12 *Disclosure of Interest in Other entities*; IFRS 13 *Fair Value Measurement*; IAS 19 *Employee Benefits*; IAS 1 *Presentation of Financial Instruments* (effective 1 July 2012); IAS 28 *Investments in Associates and Joint Ventures*; and IAS 36 *Impairment of Assets* (effective 1 January 2014 – early adopted) and those listed in note 7. The standards and amendments have been applied for the first time in the Group's financial year commencing 4 March 2013 and, other than those listed in note 7, had no material impact on the financial results. The summary consolidated financial statements have been audited by KPMG Inc., whose unqualified report is available for inspection at the registered office of the Company. The auditor's report does not cover the commentary (review of operations) at the beginning of this summary consolidated financial statements and the corporate information, including the number of stores, at the end of this summary consolidated financial statements. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work, they should obtain a copy of that report together with the accompanying financial information from the registered office of the Company. The financial information included in this report has been prepared by the Finance Division under the supervision of the Chief Finance Officer, Mr Bakar Jakoet CA(SA).

2. CHANGE IN FINANCIAL PERIOD CUT OFF

The Group implemented a 52-week financial reporting calendar in February 2013. The 52-week financial reporting calendar reflects that turnover and gross profit is managed on a daily basis and is aggregated into 52 trading weeks of 364 days. All other items included in profit before tax (other than those included in gross profit) are managed on a calendar month basis and are not pro-rated to days or weeks.

The profit for the year consists of 52 weeks of gross profit and 12 calendar months of other income and trading expenses. As a result of this change, the 2014 annual financial period began on 4 March 2013 and ended on 2 March 2014 (364 trading days). This compares to the 2013 annual financial period which ran from 1 March 2012 to 3 March 2013 (368 trading days). The 2013 financial period therefore included four extra days of turnover and related gross profit. Other income and expenditure between the two years is comparable, with both the 2014 and 2013 financial years reporting a full 12 calendar months of other income and trading expenses.

The details and impact of the additional four days included in the comparative period is set out below. The normalised 2013 result presented below excludes four days of turnover and gross profit relating to items sold during 1 to 4 March 2012. The accounting policies applied in calculating the impact of the additional trading days are consistent with those applied in the Group's consolidated financial statements. The tax rate applied is the effective tax rate relating to the relevant entities within the Group. The information below has been prepared for illustrative purposes only and is the responsibility of the directors and because of its nature, may not fairly present the financial position, changes in equity, results of operations or cash flows.

2. CHANGE IN FINANCIAL PERIOD CUT OFF continued

	Prior year as published 368 days to 3 March 2013 Rm	Effect of new trading calendar Rm	Normalised trading calendar 364 days to 3 March 2013 (pro forma) Rm
Statement of comprehensive income			
Revenue	59 833.0	(663.8)	59 169.2
Turnover	59 271.3	(663.8)	58 607.5
Cost of merchandise sold	(48 935.9)	563.1	(48 372.8)
Gross profit	**10 335.4**	**(100.7)**	**10 234.7**
Other trading income	518.9	—	518.9
Trading expenses	(10 001.9)	—	(10 001.9)
Trading profit	**852.4**	**(100.7)**	**751.7**
Profit on sale of property, plant and equipment	21.6	—	21.6
Interest received	42.8	—	42.8
Interest paid	(131.3)	—	(131.3)
Share of associate's income	23.4	—	23.4
Profit before tax	**808.9**	**(100.7)**	**708.2**
Tax	(258.3)	30.7	(227.6)
Profit for the period	**550.6**	**(70.0)**	**480.6**

Statement of financial position

In the 52-week trading calendar the reporting period will always end on a Sunday. The current and comparative period ended on similar days (2 March 2014 versus 3 March 2013) and therefore had no impact on the statement of financial position.

3. RELATED PARTIES

During the year, certain companies within the Group entered into transactions with each other. These intra-group transactions are eliminated on consolidation. For further information please refer to the 2014 integrated annual report.

Notes to the financial information continued

for the period ended 2 March 2014

4. SHARE CAPITAL

	364 days to 2 March 2014 Rm	368 days to 3 March 2013 Rm
Authorised		
800 000 000 (2013: 800 000 000) ordinary shares of 1.25 cents each	**10.0**	10.0
Issued		
480 397 321 (2013: 480 397 321) 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 in the share trust	**1 974.5**	2 046.6
Shares held outside the Group	**478 422.8**	478 350.7
Total shares in issue at end of period	**480 397.3**	480 397.3

In accordance with the Memorandum of Incorporation and under general authority, 63.9 million unissued shares (13.3% of issued shares) remain under the control of the directors to implement the terms and provisions of the employee share schemes.

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.

Directors' interest in shares

	364 days to 2 March 2014 %	368 days to 3 March 2013 %
Beneficial	**0.9**	1.0
Non-beneficial	**27.5**	27.5
	28.4	28.5

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

5. OPERATING SEGMENTS

	South Africa Rm	Africa Rm	Total operations Rm
2014			
Total segment revenue	**60 925.9**	**3 241.5**	**64 167.4**
External revenue	**60 925.9**	**2 736.0**	**63 661.9**
Direct deliveries*	**—**	**505.5**	**505.5**
Segment external turnover	**60 381.0**	**2 736.0**	**63 117.0**
Profit before tax	**692.7**	**140.4**	**833.1**
Other information			
Statement of comprehensive income			
Interest received	**40.1**	**4.2**	**44.3**
Interest paid	**143.5**	**0.4**	**143.9**
Depreciation and amortisation	**923.1**	**25.3**	**948.4**
Impairment loss on intangible assets	**104.1**	**—**	**104.1**
Share of associate's income	**—**	**32.0**	**32.0**
Statement of financial position			
Total assets	**12 995.6**	**1 109.0**	**14 104.6**
Total liabilities	**11 064.1**	**337.9**	**11 402.0**
Additions to non-current assets	**1 233.8**	**26.2**	**1 260.0**
2013			
Total segment revenue	57 951.1	2 577.3	60 528.4
External revenue	57 951.1	1 881.9	59 833.0
Direct deliveries*	—	695.4	695.4
Segment external turnover	57 389.4	1 881.9	59 271.3
Profit before tax	716.2	92.7	808.9
Other information			
Statement of comprehensive income			
Interest received	40.0	2.8	42.8
Interest paid	131.3	—	131.3
Depreciation and amortisation	881.4	14.1	895.5
Share of associate's income	—	23.4	23.4
Statement of financial position			
Total assets	12 504.3	516.8	13 021.1
Total liabilities	10 150.7	454.4	10 605.1
Additions to non-current assets	1 276.7	29.7	1 306.4

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

Notes to the financial information continued
for the period ended 2 March 2014

6. HEADLINE EARNINGS RECONCILIATION

	364 days to 2 March 2014 Rm	368 days to 3 March 2013 Rm
Basic earnings (profit for the period)	**583.7**	550.6
Adjustments:	**78.9**	(18.4)
Loss/(profit) on sale of property, plant and equipment	**5.5**	(21.6)
Tax effect of (loss)/profit on sale of property, plant and equipment	**(1.6)**	3.2
Impairment of intangible assets	**104.1**	—
Tax effect of impairment of intangible assets	**(29.1)**	—
Headline earnings	**662.6**	532.2

7. RECLASSIFICATIONS

Other trading income

During the period under review, trading income previously included under cost of merchandise sold has been reclassified and disclosed separately. This has been done to improve visibility of all other trading income, specifically commissions received. The prior year has been restated to align with the current year disclosures.

	364 days to 2 March 2014 Rm	368 days to 3 March 2013 Rm	Adjustment Rm	368 days to 3 March 2013 As previously stated Rm
Other trading income	**500.6**	518.9	174.5	344.4
Franchise fee income	**311.2**	321.5	37.5	284.0
Operating lease income	**77.8**	75.8	15.4	60.4
Commissions and other income	**111.6**	121.6	121.6	—

Provisions

In order to improve disclosure, provisions previously included under trade and other payables are now presented separately.

8. FINANCIAL INSTRUMENTS

All financial instruments held by the Group are measured at amortised cost, with the exception of derivative financial instruments and certain items included in trade and other payables. The latter is measured at fair value through profit or loss, are categorised into level 2 of the fair value hierarchy and are considered to be immaterial. Level 2 is defined as using inputs other than quoted prices that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). The carrying value of all financial instruments approximate their fair value.

Number of stores

	3 March 2013	Opened	Closed	Converted – openings	Converted – closings	2 March 2014
COMPANY OWNED						
Pick n Pay	**420**	**51**	**(7)**	**2**	**(2)**	**464**
Hypermarkets	20	—	—	—	—	**20**
Supermarkets	185	19	(4)	1	(1)	**200**
Clothing	76	14	(2)	—	—	**88**
Liquor	135	18	(1)	1	(1)	**152**
Pharmacy	4	—	—	—	—	**4**
Boxer	**150**	**29**	**(7)**	**7**	**—**	**179**
Superstores	113	7	(3)	6	—	**123**
Hardware	15	5	(1)	—	—	**19**
Liquor	12	10	(2)	1	—	**21**
Punch	10	7	(1)	—	—	**16**
Total company-owned	**570**	**80**	**(14)**	**9**	**(2)**	**643**
FRANCHISE						
Pick n Pay						
Family	262	8	(10)	1	(7)	**254**
Mini Market	23	—	(1)	—	—	**22**
Daily	1	—	—	—	—	**1**
Express	17	4	—	—	—	**21**
Clothing	13	1	—	—	—	**14**
Liquor	105	18	(1)	1	(2)	**121**
Total franchise	**421**	**31**	**(12)**	**2**	**(9)**	**433**
Total Group stores	**991**	**111**	**(26)**	**11**	**(11)**	**1 076**
TM Supermarkets – associate	49	3	—	—	—	**52**
Total including associate	**1 040**	**114**	**(26)**	**11**	**(11)**	**1 128**
FOOTPRINT OUTSIDE SOUTH AFRICA *(included in the numbers above)*						
Pick n Pay company-owned	5	3	—	—	—	**8**
Boxer company-owned	5	—	—	—	—	**5**
Pick n Pay franchise	36	2	(5)	—	—	**33**
TM Supermarkets – associate	49	3	—	—	—	**52**
Total	**95**	**8**	**(5)**	**—**	**—**	**98**

Corporate information

Registered name
Pick n Pay Stores Limited
Registration number: 1968/008034/06
JSE share code: PIK
ISIN: ZAE000005443

Registered office
Pick n Pay Office Park
101 Rosmead Avenue
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Cape Town 7708

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Investor relations: www.picknpayinvestor.co.za

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Sponsor
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100 Grayston Drive
Sandton 2196

Company Secretary
Debra Muller
email address: demuller@pnp.co.za

Board of directors
Executive
RWP Brasher* (CEO), RSJ van Rensburg* (deputy CEO), A Jakoet* (CFO), JG Ackerman, SD Ackerman-Berman

** The Pick n Pay executive committee for the 2014 annual financial period consisted of Richard Brasher, Richard van Rensburg and Bakar Jakoet.*

Non-executive
GM Ackerman (Chairman), D Friedland, D Robins

Independent non-executive
J Gildersleeve, HS Herman, A Mothupi, L Phalatse, BJ van der Ross, J van Rooyen

Auditors
KPMG Inc.

Attorneys
Edward Nathan Sonnenberg