



## KEY METRICS

### TURNOVER

**+** **5.3%** **R81.6 billion** (2017: R77.5 billion)

### HEPS

**+** **7.1%** **276.98 cents** (2017: 258.65 cents\*)

### ANNUAL DIVIDEND PER SHARE

**+** **7.1%** **188.80 cents** (2017: 176.30 cents)

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*\* Prior period amount restated, refer to note 10 on page 24.*

# REVIEW OF OPERATIONS

## LEANER, FITTER AND BETTER FOR CUSTOMERS

### KEY FINANCIAL INDICATORS

	52 weeks to 25 February 2018	52 weeks to 26 February 2017*	% change
Turnover	R81.6 billion	R77.5 billion	5.3
Gross profit margin	18.7%	18.7%	
Trading profit	R1 819.9 million	R1 735.6 million	4.9
Trading profit margin	2.2%	2.2%	
Profit before tax, before capital items	R1 789.1 million	R1 723.3 million	3.8
Profit before tax	R1 768.1 million	R1 677.0 million	5.4
Profit for the period	R1 296.3 million	R1 216.0 million	6.6
Basic earnings per share ("EPS")	273.64 cents	250.98 cents	9.0
Diluted earnings per share ("DEPS")**	268.33 cents	244.65 cents	9.7
Headline earnings per share ("HEPS")	276.98 cents	258.65 cents	7.1
Diluted headline earnings per share ("DHEPS")**	271.61 cents	252.13 cents	7.7
Total annual dividend per share	188.80 cents	176.30 cents	7.1

\* The financial information presented above is on a restated basis. Please refer to note 10 of the summarised financial statements for further information.

\*\* Diluted earnings per share and diluted headline earnings per share reflect the dilution effect of share options held by participants in the Group's employee share schemes.

## RESULT SUMMARY

- An important and successful year in which Pick n Pay took decisive steps to become leaner, fitter and better for customers
- Action to reduce operating costs and increase productivity created headroom to invest in lower prices for customers
- Successful strategy demonstrated by strong sales growth in final quarter, generating real momentum for FY19 and beyond
- Action taken to reduce operating model included a voluntary severance programme (VSP) with a once-off severance cost of R250.0 million
- Including VSP payments, trading profit grew 4.9%, with margin maintained at 2.2%.
- Excluding the VSP payments, trading profit for the year was up 19.3%, at 2.5% of turnover, a strong indication of the Group's sustainable profit improvement
- Headline earnings per share were up 7.1% on last year, with diluted HEPS up 7.7%
- Turnover growth for the year was up 5.3% (like-for-like 2.2%) with lower annual selling price inflation of 2.2%
- Market-beating sales growth of 8.0% in our South African segment in final quarter, with like-for-like growth of 5.3%, against 0.2% internal selling price inflation. Strong volume growth of 5.1%
- Gross profit margin maintained at 18.7%, with lower prices supported by better buying and strong discipline on cost

This was an important year for Pick n Pay. In the first half of the year, the Group initiated a number of substantial programmes to reduce costs and increase productivity in store operations, support office and buying. Their successful implementation enabled the Group in the second half of the year to put forward a more competitive offer for customers through lower prices and better promotions. The Group has also improved its offer to customers through an advanced store expansion and refurbishment programme, and improved fresh and own brand products.

This plan has set a new trajectory for the Group to increase its long-term sustainable earnings. We expect the fruits to be particularly evident in FY19 and beyond. However, in the year under review, the action to reduce operating costs had a once-off impact of R250.0 million in the form of payments to employees who left the Group through a voluntary severance programme (VSP).

Evidence that the Group has built a leaner, fitter operating model was demonstrated by the fact that, excluding the VSP payments, trading profit for the year was up 19.3%, with trading margin improving from 2.2% to 2.5%.

The Group's success in building a more competitive offer to customers was evident in an exceptional fourth quarter trading performance. In this quarter, the Group's South African segment delivered sales growth of 8.0%, with like-for-like growth of 5.3%. This was well ahead of the market and was achieved at a time when internal selling price inflation had fallen to just 0.2%.

The Group's overall annual turnover growth of 5.3% (like-for-like 2.2%) was delivered in a tough market, with some disruption from the voluntary severance programme (VSP) in the first half of the year. Selling price inflation at 2.2% was substantially lower than the 6.1% of last year. Positive volume growth of 1.5% in the second half of the year ameliorated the Group's negative volume growth of 1.8% of the first half.

Including the VSP payments, trading profit was up 4.9% on last year, headline earnings per share up 7.1%, and diluted HEPS up 7.7%.

The VSP costs will not recur in FY19. The Group is confident that the benefits of its structural changes and increased momentum achieved over the past year will be carried into the 2019 financial year and beyond.

## REDUCING COSTS AND IMPROVING OPERATING EFFICIENCY

The Group made substantial progress in improving its operational effectiveness in 2018 through material cost savings across its support office, store operations and supply chain.

Achievements included:

### A STREAMLINED AND EFFICIENT LABOUR FORCE

The Group completed its voluntary severance programme (VSP) in Pick n Pay in May 2017, reducing the size of its labour force by around 10%. The VSP improved the efficiency and productivity of staff by removing roles and functions that were no longer required due to improved ways of working. The cost of making compensation payments to colleagues who left the Group fell entirely within the first half of the year. This cost has been neutralised over the full year through related savings, and there is no further cost to come. The Group is reaping the benefits of a streamlined labour force both in terms of lower cost and greater productivity, which will support further investment in the customer offer. While the cost of the VSP has impacted profits in 2018, the Group is confident that the positive impact of the programme, both on sales and profit, will deliver further momentum in the 2019 financial year.

### GREATER CENTRALISATION ACROSS THE SUPPLY CHAIN

Pick n Pay made further progress on its plan to have a fully centralised procurement and distribution channel. More products were taken through its distribution centres this year, with the total volume of centralised supply increasing to 68% (2017: 60%). The percentage of grocery volume centralised has reached 70% across the country, with the centralisation of fresh and perishable produce at 80%, and general merchandise at 40%.

Overall centralisation in the Western Cape region, serviced by the Group's Philippi distribution centre, has reached 78%, with centralised grocery volume at 90%. The Philippi distribution centre now delivers to all stores along the Garden Route of South Africa, improving availability across

the region, and driving further cost savings and efficiencies along the 300 km coastal stretch into the Eastern Cape.

Centralisation in the Gauteng region of South Africa, serviced by the Longmeadow distribution centre, has grown to just over 70%, with grocery centralisation now at 75%.

Pick n Pay's new grocery distribution centre in KwaZulu-Natal is now fully operational and began delivering to stores in March 2018. The distribution centre covers 25 000 sqm, can accommodate 15 000 stock keeping units (SKU's) and has a fleet of 32 trucks, to service 94 company-owned and franchise stores across KwaZulu-Natal. Stores will benefit from fewer and more frequent deliveries and improved stock availability.

The growth in volumes issued out of our distribution centres is up 16% on last year. Green-light receiving is now complete for all company-owned stores, resulting in a more efficient back-door process and a reduced vehicle turnaround time.

The Group's Boxer business also delivered progress on its centralisation plans. Boxer's Cato Ridge distribution centre, outside Durban, now services all Boxer Superstores and Boxer Punch stores in KwaZulu-Natal. Boxer opened a second distribution centre in East London in the second half of the year to deliver groceries to its stores across the Eastern Cape. Boxer has demonstrated the same conviction as Pick n Pay in building a cost effective, fully centralised supply chain. The benefits of its maturing warehouse management system and improved demand planning and replenishment is evident in its reduced stock holding, improved on-shelf availability and exceptional waste management.

### **A MODERN LOYALTY PROGRAMME**

Pick n Pay modernised its Smart Shopper loyalty programme in March 2017, delivering a more modern programme offering greater relevance to customers. The new-look scheme places stronger emphasis on weekly personalised discounts, with a reduction in the automatic award of base points. The changes required a strong and clear engagement process with loyalty customers, and the response has been positive. The Group saw a 30% increase in the redemption of personalised vouchers by its seven million active loyalty customers.

The Group offered R3 billion in personal discounts to its Smart Shoppers in 2018. The increase in product specific discounts has delivered stronger customer advocacy and enabled greater supplier participation and funding. The programme is now significantly cheaper for the Group to run, with cost savings reinvested in lower prices for customers.

### **BUYING FOR LESS**

Pick n Pay's buy-for-less programme delivered meaningful savings for the Group and for customers, particularly in the last quarter of the year. The programme has focused on closer collaboration with suppliers to improve efficiencies and lower costs across the supply chain. It is supported by a dedicated IT platform and supplier portal within Pick n Pay. The platform provides comprehensive real-time product and supplier data to facilitate transparent fact-based engagement and accurate decision-making. The programme has strengthened relationships with over 3 000 suppliers, improved inventory management and provided greater value for customers.

## **DELIVERING MORE VALUE AND A BETTER SHOPPING EXPERIENCE FOR CUSTOMERS**

The Group's determined focus on improving the efficiency and cost-effectiveness of its operations, including through the actions detailed above, enabled it to channel substantial investment into its customer offer over the year, in particular through lower prices, more value and an enhanced shopping experience.

Highlights include:

### **LOWER PRICES AND STRONGER PROMOTIONS**

In March 2017 the Group invested R500 million in price cuts across 1 300 every day groceries items. In the second half of the year, the Group was able to extend this price investment to 2 000 lines, including unbeatable deals on fresh fruit and vegetable combos, and keen pricing on key butchery lines. The Group has simplified its promotional calendar, and has strengthened its marketing. The Group has had great success with recent promotions, with a number of discounted lines growing in excess of 60% over the course of its campaigns.

Selling price inflation was restricted to 2.2% for the year (2017: 6.1%), well below CPI food inflation of 5.9%. Selling price inflation fell steadily from the 3.6% reported in the first half of the year, reaching just 0.2% in the last quarter.

Our work on pricing could not have come at a more important time. 84% of South African families survive on a household income of less than R20 000 per month. Pick n Pay and Boxer serve customers across all communities and income groups, and we are determined to meet the needs of all our customers, including the most vulnerable in our society. Notwithstanding the financial and other challenges faced, lower LSM (living standard measure) communities are resilient, dynamic and aspirational. Pick n Pay and Boxer are well positioned to capture the growth that a stronger South Africa will deliver to these and other communities. The Group's market-beating fourth quarter trading performance was under-pinned by exceptional growth in Pick n Pay and Boxer stores serving our lower- to middle-income customers.

The Group is particularly encouraged by the performance of its Boxer business, having spent a number of years repositioning Boxer into a lean and agile discount supermarket. Focusing on middle and lower-income customers, Boxer has accelerated its turnover growth in a highly contested market. It has continued to win customers in tough times through a compact and well-defined range, highly competitive prices and a compelling meat and fresh produce offer. Boxer is without doubt South Africa's leading limited range discount supermarket.

### A FLEXIBLE ESTATE WITH A WIDER REACH

The Group's new space growth remains measured and considered, focused on sites which can deliver sustainable long-term returns. Changing customer demographics and needs provide good opportunities for the Group to grow sales and extend its reach without impacting on existing stores or trading densities.

The Group, excluding TM Supermarkets, opened 124 net new stores this year (153 additions, 29 closures), adding 3.3% to its total space. New stores contributed 3.1% to turnover growth.

This included 72 new Pick n Pay company-owned stores and 22 Boxer stores across all formats.

The Group opened 59 franchise stores during the year, including 7 supermarkets, 35 liquor stores, 9 express stores and 8 spaza shops. The Pick n Pay franchise model is an effective way for emerging entrepreneurs to build businesses leveraging the buying, distribution and systems capability of Pick n Pay.

The Group has led a collaborative programme with government and others to help revitalise township enterprises and contribute to inclusive growth. 14 local entrepreneurs have now been mentored by Pick n Pay staff in Soweto, Gugulethu and other areas. The partnership has helped the local shopkeepers to modernise their stores and their offer, benefiting from access to Pick n Pay's supply chain and product range. They are now bringing a safe, modern and high-quality grocery offer to previously under-served customers. Pick n Pay will continue to play a positive role in growing the informal retail market in South Africa, in order to transfer skills and ownership to economically marginalised entrepreneurs.

The Group opened 29 clothing stores during the year. Pick n Pay clothing provides exceptional quality and value, and customers continue to choose Pick n Pay for its strong range for the whole family. The Group's clothing division delivered turnover growth ahead of its peers in the apparel sector.

At the end of February, the Group had 1 685 stores, including 57 stores held through its investment in TM Supermarkets in Zimbabwe.

### BETTER STORES

The Group refurbished 80 stores over the course of the year, 61 company-owned and 19 franchise. Major store refurbishments included Pick n Pay's flagship Constantia supermarket in the Western Cape, its Durban North Hypermarket in KwaZulu-Natal and the Northgate Hypermarket in Gauteng. These stores all demonstrate the ongoing development of the Group's Next Generation store format and operating model, with an improved store design, a more compact range and a strong

fresh and convenience offer. The Next Generation model is tailored for each store, delivering an offer relevant to the customers it serves. As an example, our new Next Generation store in Polokwane offers an enhanced customer experience, with more focus on bulk commodity offers, grocery and produce combos, and delicious hot meal options. Our Next Generation stores continue to deliver like-for-like turnover growth ahead of the rest of the estate, giving the Group ongoing confidence in the merits of its investment.

The Group is encouraged by the performance of its two new-look Hypermarkets, which after major renovations, have been down-sized and redesigned to offer a light, bright and spacious shopping experience, with greater trading space, a stronger fresh produce range and a differentiated general merchandise offer. Both of these Hypermarkets are delivering double-digit turnover growth.

### **A COMPELLING OWN BRAND AND CONVENIENCE RANGE**

The Group's strong range of own brand products and convenience meals is an important part of its differentiated customer offer. Pick n Pay introduced 730 new or refreshed own brand products over the year, including 25 products from its "Pick Local" supplier development programme. There is growing customer support for our own brand products, with a number of products growing at more than double the rate of independent, national brands in the same category. Pick n Pay was particularly proud of the recognition received for its range of convenience meals, which earned 20 first places in the Sunday Times Food Awards. Pick n Pay own brand participation is 19%, and the Group is confident that it can grow this to 30% over the medium-term. Boxer is also finding success with its own brand products, with strong growth in own brand staple commodity products like maize, maas and canned vegetables.

### **LEADING ONLINE OFFER**

Pick n Pay is the leading online grocery retailer on the African continent. The Group continues to invest in its digital platform, providing customers with

unbeatable convenience and ongoing innovation. Pick n Pay's online offer was boosted this year by a new mobile-enabled website, which makes online shopping easier than ever before.

These and other improvements have generated a 150% increase in online customer registrations, with a 70% increase in customers accessing Pick n Pay online from a mobile device. Our dedicated online distribution centres in the Western Cape and Gauteng are giving customers a broader range, better availability and consistently high standards of delivery. The Western Cape facility situated in our Brackenfell Hypermarket delivered 25% sales growth, with our "Click n Collect" option growing 23% year-on-year, and our Business to Business service growing 16%.

### **FINANCIAL SERVICES**

The Group's partnership with TymeDigital (a subsidiary of the Commonwealth Bank of Australia) is providing its customers with greater access to banking services at the lowest cost across the banking industry. The partnership leverages off Pick n Pay's extensive store and IT infrastructure and Commonwealth Bank of Australia's extensive digital banking expertise. During the year, its money transfer service attracted over 300 000 new customer registrations. The service enables real time, digital customer validation at an in-store kiosk, allowing customers to send money transfers from any till point once they are registered. Pick n Pay now has 160 money counters across the country.

The Group launched its first Pick n Pay Store account this year, in partnership with RCS, a local subsidiary of BnP Paribas Bank. It offers the most affordable form of credit in the market, with a 55 days free credit payment option, no joining fee, no hidden administration fees and the lowest monthly fee in the market. The account is accessed through the customer's Smart Shopper card, with the credit provider carrying all associated funding costs and credit risk. Since the launch in September, 56 000 store account holders have been approved and just over R1 billion total credit has been granted.



## BUILDING A SECOND ENGINE OF GROWTH OUTSIDE SOUTH AFRICA

The Group has an established presence in Botswana, Lesotho, Namibia, Swaziland, Zambia and Zimbabwe (49% investment in its associate, TM Supermarkets). The Group's foreign operations contributed R4.6 billion of segmental revenue this year, up 9.3% in constant currency terms, notwithstanding difficult trading conditions in some of these regions. In Zambia, stronger operational efficiency and tight cost control tempered the impact of the tough trading environment on turnover growth.

Notwithstanding the challenges in Zambia, the Group remains confident about its long-term prospects and will continue to build scale in the region and drive growth through a competitive customer offer.

The Group's franchise operations performed well, particularly in Namibia and Swaziland, while the outstanding performer in the Rest of Africa segment was TM Supermarkets in Zimbabwe. TM is benefiting from a positive contribution from its Pick n Pay branded stores and increasing customer demand for Pick n Pay own brand products. The team demonstrated sound gross margin management and good expense control, to deliver strong profit growth. Pick n Pay's share of TM's profits is up 45% year-on-year, with 58.5% growth in local currency.

## REVIEW OF FINANCIAL PERFORMANCE

### ACCOUNTING RESTATEMENTS

The Group reclassified certain elements of supplier income received and advertising costs incurred, which impacted its inventory valuation methodology. Advertising costs and related recoveries are now recorded on a gross basis within trading expenses and gross profit respectively. Any supplier income received that is not directly related to the cost of merchandise sold is now recognised within other trading income.

The result is presented on a restated basis. For further information on the restatement of reported gross profit, other trading income, trading expenses and the value of inventory, refer to note 10 of the summarised financial statements. The correction has not had a significant impact on either the profitability or the financial position of the Group.

## THE UNBUNDLING OF PICK N PAY HOLDINGS LIMITED

The Group modernised its control structure in the first half of last year, with the unbundling of the Pick n Pay Holdings Limited RF Group (unbundling transaction). Although there were material non-recurring items in certain individual categories of other trading income and trading expenses, the transaction had no impact on trading profit or headline earnings in the prior year.

The result presented below excludes the non-recurring items related to the unbundling transaction. The result commentary is presented on a normalised basis. Please refer to the appendix provided for the principal differences between the Group's normalised and published results – “summary of non-recurring items”.

## TURNOVER

Group turnover increased 5.3% to R81.6 billion, with like-for-like turnover growth of 2.2%. Selling price inflation was kept to 2.2% for the year. The Group's South Africa division delivered turnover growth of 5.1% over the year, with like-for-like growth of 2.3%.

The Group's muted turnover growth reflects the pressure of an exceedingly challenging trading environment, particularly over the first three quarters of the year. However, the positive steps taken by the Group to invest in its customer offer found traction in the final quarter of the year, with a stronger trading performance across all formats. The Group delivered sales growth of 7.3% in quarter four, with like-for-like growth of 4.9%. This performance was underpinned by the performance of the South Africa division, which delivered 8.0% sales growth, (like-for-like 5.3%), and positive volume growth against 0.2% selling price inflation.



On a constant currency basis, Group turnover was up 5.3%, with like-for-like turnover growth of 2.2%. Please refer to the appendix provided for further information on the constant currency and like-for-like calculations.

## GROSS PROFIT

Gross profit increased by 5.5% to R15.3 billion (FY17: R14.5 billion). Gross profit margin remained unchanged at 18.7%. Greater price competitiveness was achieved without sacrificing margin through a combination of better buying, and strong discipline on operating and supply chain costs.

## OTHER TRADING INCOME

Other trading income consists of franchise fee income, operating lease income, commissions, income from value-added services, and other supplier income. Other trading income increased 15.6% over the year to R1.8 billion (FY17: R1.5 billion).

**Franchise fee income** was up 14.4% to R400.1 million (FY17: R349.8 million), with 46 net new franchise stores added over the year. A number of legacy franchise agreements have been restructured to bring them in line with the standard terms and conditions of the Group's current franchise arrangements. Any increase in franchise fees received as a result of this alignment has been offset by higher royalty payments to franchisees on products purchased through the Group's supply chain (included within gross profit). On a comparable basis, franchise fee income increased by 4.3%.

**Operating lease income** increased by 29.2% to R446.1 million (FY17: R345.3 million), largely driven by new head leases added over the year. Strategic head leases safeguard the long-term tenancy of Pick n Pay franchise stores at key locations. The increase in rental income received is matched with an equal corresponding increase in rent paid (included within occupancy costs).

**Commissions, income from value-added services (VAS), and other supplier income** grew 10.5% to R914.4 million (FY17: R827.3 million). VAS income grew 30.1% year-on-year, driven by strong growth in income from financial services and commissions received on third party bill payments and prepaid electricity purchases.

On a comparable basis, excluding the impact of the restructure of certain franchise agreements and the impact of new head leases detailed above, other trading income increased by 8.4%.

## TRADING EXPENSES

Trading expenses of R15.2 billion (FY17: R14.2 billion) were up 6.7% on the prior year, with like-for-like expense growth of 1.6%. Excluding the R250.0 million once-off cost of VSP compensation packages paid in the first half of the year, trading expenses were up 4.9%. This demonstrates the Group's ongoing success in improving the management of its operating costs.

**Employee costs** increased 4.3% to R6.7 billion, with like-for-like growth of -2.3%. Labour costs improved by 0.1 percentage point to 8.2% of turnover. Excluding the impact of VSP compensation payments detailed above, employee costs grew just 0.4% year-on-year, falling to 7.9% of turnover.

**Occupancy costs** were up 15.2% to R3.1 billion, driven by the 78 net new company-owned stores added to the estate over the year. Like-for-like occupancy costs increased 7.2%, driven by annual rental escalations, above-inflation regulatory increases in rates (up 20% year-on-year) and increases in security costs to ensure the safety of our customers and staff. Occupancy costs also reflect the addition of strategic head leases over a number of key franchise stores. The Group will continue to negotiate with landlords in order to secure competitive rentals and fair escalation terms, in order to reduce our occupancy costs as a percentage of turnover over time.

**Operations costs** increased 7.3% on last year to R3.2 billion, notwithstanding regulatory increases in electricity and utility charges which were well above inflation. Depreciation and amortisation costs are up 10.8% on last year, reflecting the Group's ongoing investment in the expansion and improvement of its estate. The severe drought in the Western Cape has led to a water crisis in the City of Cape Town, which has necessitated an increase in water tariffs.

The Group has taken substantive action to significantly reduce its water consumption in the region. We are confident that the contingency plans we have in place are sufficient to enable our stores to remain open for our customers in the event of any disruption to the water supply, and to operate in a safe and hygienic way.

**Merchandising and administration costs** at R2.2 billion, increased just 2.2% over the year, with like-for-like growth of 1.7%, demonstrating substantial savings in professional, legal and other support services over the year.

### TRADING PROFIT

Trading profit increased by 4.9% to R1.8 billion. The trading profit margin remains unchanged at 2.2% of turnover. Excluding the once-off impact of VSP compensation payments, trading profit is up 19.3% year-on-year, to 2.5% of turnover, a good indication of the Group's sustainable profit performance.

### NET INTEREST

Net interest paid increased from R92.5 million to R147.1 million. The increased interest bill is as a result of lower net cash balances over the year, which reflect the Group's sustained investment in its store opening, refurbishment and centralisation programme over the last five years.

### LOSSES ON CAPITAL ITEMS

The Group incurred capital losses of R21.0 million this year (2017: R32.4 million) in respect of the disposal or impairment of assets and goodwill, largely related to its refurbishment programme.

A further impairment loss of R13.9 million was incurred in the prior year, arising on the unbundling of the Pick n Pay Holdings Limited RF Group. Capital items are added back in the calculation of headline earnings.

### PROFIT BEFORE TAX

Profit before tax before capital items is up 3.8% to R1.8 billion, with the underlying margin maintained at 2.2% of turnover. Excluding the impact of the once-off VSP compensation payments, profit before tax before capital items is up 18.4% to 2.5% of turnover, demonstrating a marked improvement in the Group's sustainable profit margin.

Profit before tax is up 5.4%, with the underlying margin maintained at 2.2% of turnover.

### REST OF AFRICA SEGMENT

Segmental revenue for the Rest of Africa division increased 7.7% year-on-year to R4.6 billion, with segmental revenue in constant currency up 9.3%, 1.4% on a like-for-like basis. Profit before tax was up 27.7% to R287.9 million, underpinned by a strong performance from the Group's associate in Zimbabwe, TM Supermarkets (TM). TM has continued to deliver a strong trading and profit performance in a difficult and complex operating environment. The Group's share of TM's earnings grew 45% on last year to R116.3 million.

### TAX

The Group's effective tax rate is down from 27.5% in the prior year to 26.7% in 2018. The decrease is largely as a result of the greater contribution of our associate's (TM Supermarkets) after tax profits to the Group's net profit before tax. The Group is confident that its tax rate is sustainable at current levels over the foreseeable future.

### EARNINGS PER SHARE

**Basic earnings per share (EPS)** – increased 9.0% from 250.98 to 273.64 cents per share.

**Headline earnings per share (HEPS)** – increased 7.1% from 258.65 to 276.98 cents per share.

The difference between the growth in headline earnings of 5.2% and the growth in headline earnings per share of 7.1% is due to the increase in the weighted average number of treasury shares held by the Group, with shares received under the unbundling transaction last year now fully weighted.

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 R15.8 million, net of tax, were taken into account in the calculation of headline earnings in the current period, against R37.2 million in the prior period.

**Diluted headline earnings per share (DHEPS)** – increased 7.7% from 252.13 to 271.61 cents per share. DHEPS reflects the dilution effect of share options held by participants in the Group's employee share schemes. The dilution decreased marginally year-on-year due to the delivery of shares to share scheme participants during the year, including the vesting of the first allocation of forfeitable plan shares.

## REVIEW OF FINANCIAL POSITION

The increase in the Group's assets reflects its capital investment programme, in particular its ongoing investment in new and refurbished stores, as well as additional capacity across its central supply chain. The net asset value per share increased 4.8% on last year, to 966.2 cents per share. The Group delivered return on capital employed of 32.6% (2017: 32.3%), against a weighted average cost of capital of 12.0%.

### WORKING CAPITAL

The timing of the Group's financial calendar has a substantial impact on reported working capital and cash balances, depending on the timing of creditor payments over financial year-end. The Group's working capital reduced by R119.4 million over the year, against a R948.1 million reduction in the prior year, largely as a result of the timing of the Group's financial calendar cut-off.

**Inventory** – increased 4.9% on last year to R6.0 billion, including the impact of 78 net new company-owned stores over the year and the short-term impact of greater

levels of centralisation across the Group. Removing the impact of new stores and inflation, like-for-like inventory is down 5.0% on last year. This reflects consistent improvement in the Group's forecast and replenishment processes, and solid progress on its plan to reduce its stock holding of slow moving products through its range rationalisation programme.

**Trade and other payables** – of R10.8 billion is up 3.1% on last year, with the positive impact of the Group's buy better programme reflected in lower supplier balances at year-end. The Group implemented its fully integrated 'Pick n Pay Fast Pay' platform this year, a supply chain finance programme that provides suppliers with the opportunity of immediate or early settlement of invoices. Key banking partners on this platform provide competitive funding for participating suppliers off the strength of the Group's balance sheet.

**Trade and other receivables** – increased 5.5% on last year to R3.6 billion, with 46 net new franchise stores added over the year, and an increase in the sales to franchisees through the Group's supply chain. The quality of the debtors' book improved on last year, with the impairment allowance reducing to 2.5% of the value of the debtors' book, from 3.5% last year.

### CASH AND CASH EQUIVALENTS

	25 February 2018	26 February 2017
Cash balances	1 129.1	961.9
Cost-effective overnight borrowings	(1 800.0)	(1 800.0)
Cash and cash equivalents	(670.9)	(838.1)
Total borrowings	(528.8)	(133.2)
<b>Net funding position</b>	<b>(1 199.7)</b>	<b>(971.3)</b>

The Group's net funding position increased by R228.4 million over the year. The Group paid R866.5 million in dividends to shareholders, up 15% on last year, added a further R1.6 billion to its capital investment programme, and invested R423.4 million in its employee share incentive schemes. These important outlays resulted in increased gearing over the 2018 financial year, and an increased interest bill.

The Group remains cash generative, with cash generated before movements in working capital up 5.5% on last year. The Group raised R400.0 million of 3-month debt to take advantage of competitive interest rates. The Group's liquidity position remains strong, with R5.5 billion unutilised borrowing facilities at year-end.

### CAPITAL INVESTMENT

Capital expenditure related to the Group's capital investment programme of R1.6 billion was in line with target. 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 will invest a further R1.7 billion next year. The Group is confident of its ability to meet its investment requirements through internal cash generation and cost-effective short-term borrowings.

### SHAREHOLDER DISTRIBUTION

The Board declared a final dividend of 155.40 cents per share. This brings the total annual dividend for the year to 188.80 cents per share, 7.1% up on last year in line with the growth in headline earnings per share. The dividend cover of 1.5 times headline earnings per share was maintained.

### A BETTER OUTLOOK

South Africa is a significantly more positive country than it was a year ago. President Ramaphosa has committed to greater levels of economic transformation and growth, including through closer collaboration with the private sector to stimulate investment, greater employment, the elimination of corruption, and improved levels of service delivery.

In all areas of the economy, including business, optimism does not automatically translate into sustainable growth. Sustainable growth requires a successful plan, and hard work to deliver that plan. Over this past year, Pick n Pay has taken the most decisive action in its 50-year history to cut costs, become more resilient and give the savings back to our customers in the form of lower prices and better value. We have made our shops brighter and more vibrant, accelerated our own brand offer and taken real steps to become a true multi-channel retail business.

We are changing the trajectory of the Pick n Pay Group, and will build on this momentum in 2019. The Group will continue to invest in its strengthened customer offer. Across Pick n Pay and Boxer, the Group is confident that it will win customers across all levels of our economy. Pick n Pay will be South Africa's first genuine multi-channel business, with a substantive convenience and online presence and recognition as South Africa's most affordable and inclusive banking partner.

We would like to extend our thanks and sincere appreciation to the Pick n Pay and Boxer teams who have worked tirelessly over the past few years to build a strong and resilient business.

**Gareth Ackerman**  
*Chairman*

**Richard Brasher**  
*Chief Executive Officer*

18 April 2018

## APPENDIX TO REVIEW OF OPERATIONS

### SUMMARY OF NON-RECURRING ITEMS RELATING TO THE UNBUNDLING OF THE PICK N PAY HOLDINGS LIMITED RF GROUP

The table below presents the profit for the current and previous periods on a normalised basis, excluding all non-recurring items, as detailed overleaf:

	As reported 52 weeks to 25 February 2018 Rm	% of turnover	% change	Restated excluding non-recurring items 52 weeks to 26 February 2017 Rm	% of turnover	Non-recurring items 52 weeks to 26 February 2017 Rm	Restated* 52 weeks to 26 February 2017 Rm
<b>Revenue</b>	83 504.8		5.5	79 134.6		(412.3)	79 546.9
<b>Turnover</b>	81 560.1		5.3	77 486.1		–	77 486.1
Cost of merchandise sold	(66 309.8)		5.2	(63 029.5)		–	(63 029.5)
<b>Gross profit</b>	15 250.3	18.7	5.5	14 456.6	18.7		14 456.6
<b>Other trading income</b>	1 760.6	2.2	15.6	1 522.4	2.0	(412.3)	1 934.7
Dividend <i>in specie</i>	–			–		(412.3)	412.3
Franchise fee income	400.1	0.5	14.4	349.8	0.5	–	349.8
Operating lease income	446.1	0.5	29.2	345.3	0.4	–	345.3
Commissions, dividends received and other income	914.4	1.1	10.5	827.3	1.1	–	827.3
<b>Trading expenses</b>	(15 191.0)	18.6	6.7	(14 243.4)	18.4	412.3	(14 655.7)
Employee costs	(6 688.7)	8.2	4.3	(6 414.0)	8.3	205.8	(6 619.8)
Occupancy	(3 086.6)	3.8	15.2	(2 678.9)	3.4	–	(2 678.9)
Operations	(3 178.8)	3.9	7.3	(2 961.7)	3.8	–	(2 961.7)
Merchandising and administration	(2 236.9)	2.7	2.2	(2 188.8)	2.8	206.5	(2 395.3)
<b>Trading profit</b>	1 819.9	2.2	4.9	1 735.6	2.2	–	1 735.6
Finance income	184.1	0.2	46.0	126.1	0.2	–	126.1
Finance costs	(331.2)	0.4	51.5	(218.6)	0.3	–	(218.6)
Share of associate's income	116.3	0.1	45.0	80.2	0.1	–	80.2
<b>Profit before tax before capital items</b>	1 789.1	2.2	3.8	1 723.3	2.2	–	1 723.3
Losses on capital items	(21.0)			(46.3)		–	(46.3)
Loss on sale of property, plant and equipment	(10.6)			(20.4)		–	(20.4)
Impairment loss on property, plant and equipment	(3.5)			(5.9)		–	(5.9)
Impairment loss on intangible assets	(6.9)			(6.1)		–	(6.1)
Impairment loss on available-for-sale financial instruments	–			(13.9)		–	(13.9)
<b>Profit before tax</b>	1 768.1	2.2	5.4	1 677.0	2.2	–	1 677.0
Tax	(471.8)	0.6	2.3	(461.0)	0.6	–	(461.0)
<b>Profit for the period</b>	1 296.3	1.6	6.6	1 216.0	1.6	–	1 216.0
<b>Earnings per share</b>	<b>Cents</b>			<b>Cents</b>			<b>Cents</b>
Basic	273.64		9.0	250.98		–	250.98
Diluted	268.33		9.7	244.65		–	244.65
Headline	276.98		7.1	258.65		–	258.65
Diluted headline	271.61		7.7	252.13		–	252.13

\* Prior period amounts restated, refer to note 10.

The unbundling of the Pick n Pay Holdings Limited RF (PWK) Group is reflected in the 2017 annual financial period. The transaction did not have an impact on trading profit or headline earnings, however, there were material non-recurring items in certain individual categories of income and expense, as detailed below:

**Other trading income** – included 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.

**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 shareholder approval received at the general meeting held on 25 July 2016. Employee costs included R205.8 million of share-based payment expenses 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** – included a net fair value loss of R206.5 million in respect of the Group's investment in Pick n Pay Holdings Limited RF. The 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*, increase share-based payment costs and related fair value adjustments, relating to the unbundling, detailed above, had no impact on trading profit or headline earnings.

## CONSTANT CURRENCY DISCLOSURES

The Group discloses constant currency information in order to report on the Group's Rest of Africa segmental revenue results, excluding the impact of foreign currency fluctuations. The segmental revenue growth in constant currency is calculated by translating the prior year local currency segmental revenue at the current year average exchange rates on a country-by-country basis and then comparing that against the current year segmental revenue translated at the current year average exchange rates. The major currencies that are contributing to the exchange rate movements is the Zambia kwacha and the Botswana pula.

February 2018	% increase reported currency	% increase constant currency
Rest of Africa segmental revenue	7.7	9.3
Group turnover	5.3	5.3

## LIKE-FOR-LIKE TURNOVER GROWTH COMPARISONS

Like-for-like turnover growth is a measure of the Group's comparable turnover growth, removing the impact of store openings and closures in the current or previous reporting periods.

The information presented in this annexure has not been reviewed or reported on by the Group's auditors. The information presented is the responsibility of the Board of directors of the Company and is presented for illustrative purposes only. Due to its nature, the information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows.

## DIVIDEND DECLARATION

### PICK N PAY STORES LIMITED – TAX REFERENCE NUMBER: 9275/141/71/2

Number of shares in issue: 488 450 321

Notice is hereby given that the directors have declared a final gross dividend (number 100) of 155.40 cents per share out of income reserves.

The dividend declared is subject to dividend withholding tax at 20%.

The tax payable is 31.08 cents per share, resulting in shareholders who are not exempt from dividends tax with a net dividend of 124.32 cents per share.

### DIVIDEND DATES

The last day of trade in order to participate in the dividend (CUM dividend) will be Tuesday, 5 June 2018.

The shares will trade EX dividend from the commencement of business on Wednesday, 6 June 2018, and the record date will be Friday, 8 June 2018. The dividends will be paid on Monday, 11 June 2018.

Share certificates may not be dematerialised or rematerialised between Wednesday, 6 June 2018 and Friday, 8 June 2018, both dates inclusive.

On behalf of the Board of directors

**Debra Muller**

*Company Secretary*

18 April 2018



# GROUP STATEMENT OF COMPREHENSIVE INCOME

## FOR THE PERIOD ENDED

	Notes	52 weeks to 25 February 2018 Rm	Restated* 52 weeks to 26 February 2017 Rm
<b>Revenue*</b>	<b>2</b>	83 504.8	79 546.9
<b>Turnover</b>	<b>2</b>	81 560.1	77 486.1
Cost of merchandise sold*		(66 309.8)	(63 029.5)
<b>Gross profit</b>		15 250.3	14 456.6
Other trading income*	<b>2</b>	1 760.6	1 934.7
Trading expenses		(15 191.0)	(14 655.7)
Employee costs		(6 688.7)	(6 619.8)
Occupancy		(3 086.6)	(2 678.9)
Operations		(3 178.8)	(2 961.7)
Merchandising and administration*		(2 236.9)	(2 395.3)
<b>Trading profit</b>		1 819.9	1 735.6
Finance income	<b>2</b>	184.1	126.1
Finance costs		(331.2)	(218.6)
Share of associate's income		116.3	80.2
<b>Profit before tax before capital items</b>		1 789.1	1 723.3
Losses on capital items		(21.0)	(46.3)
Loss on sale of property, plant and equipment		(10.6)	(20.4)
Impairment loss on property, plant and equipment		(3.5)	(5.9)
Impairment loss on intangible assets		(6.9)	(6.1)
Impairment loss on available-for-sale financial instruments		–	(13.9)
<b>Profit before tax*</b>		1 768.1	1 677.0
Tax*		(471.8)	(461.0)
<b>Profit for the period*</b>		1 296.3	1 216.0
<b>Other comprehensive income, net of tax</b>			
<b>Items that will not be reclassified to profit or loss</b>		(0.4)	1.5
Remeasurement in retirement scheme assets		(0.6)	2.1
Tax on remeasurement in retirement scheme assets		0.2	(0.6)
<b>Items that may be reclassified to profit or loss</b>		(46.2)	(96.9)
Foreign currency translations		(46.2)	(64.4)
Fair value gain on available-for-sale financial instruments		–	(32.5)
<b>Total comprehensive income for the period*</b>		1 249.7	1 120.6
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share*	<b>3</b>	273.64	250.98
Diluted earnings per share*	<b>3</b>	268.33	244.65
Headline earnings per share*	<b>3</b>	276.98	258.65
Diluted headline earnings per share*	<b>3</b>	271.61	252.13

\* Prior period amounts restated, refer to note 10.

# GROUP STATEMENT OF FINANCIAL POSITION

	Notes	As at 25 February 2018 Rm	Restated* As at 26 February 2017 Rm	Restated* As at 28 February 2016 Rm
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		6 054.4	5 583.6	4 950.9
Intangible assets		991.3	984.3	1 004.9
Operating lease assets		227.3	198.3	171.6
Financial instruments at fair value through profit or loss		25.7	13.7	232.1
Available-for-sale financial instruments		–	–	46.4
Investment in associate		365.6	309.7	285.5
Participation in export partnerships		–	–	14.1
Loans		79.3	85.1	96.4
Retirement scheme assets		97.6	95.3	90.8
Deferred tax assets		194.8	218.0	225.1
Trade and other receivables*		105.4	145.2	125.7
		8 141.4	7 633.2	7 243.5
<b>Current assets</b>				
Inventory*		5 963.7	5 684.0	4 879.6
Trade and other receivables*		3 529.1	3 299.9	3 200.5
Cash and cash equivalents		1 129.1	961.9	982.9
Derivative financial instruments		–	–	6.0
		10 621.9	9 945.8	9 069.0
<b>Non-current asset held for sale</b>				
		217.2	212.8	–
<b>Total assets</b>		18 980.5	17 791.8	16 312.5
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	4	6.0	6.0	6.0
Treasury shares	5	(863.4)	(554.3)	(63.5)
Fair value reserve		–	–	32.5
Retained earnings*		4 951.7	4 428.5	3 686.8
Foreign currency translation reserve		(70.7)	(24.5)	39.9
<b>Total equity</b>		4 023.6	3 855.7	3 701.7
<b>Non-current liabilities</b>				
Borrowings		79.5	84.0	83.0
Operating lease liabilities		1 571.6	1 398.6	1 239.6
Deferred tax liabilities		13.7	14.6	9.5
		1 664.8	1 497.2	1 332.1
<b>Current liabilities</b>				
Trade and other payables		10 820.6	10 490.2	10 500.6
Share-based payment liability		–	–	124.6
Bank overnight borrowings		1 800.0	1 800.0	100.0
Current borrowings		449.3	49.2	446.6
Current tax liabilities*		213.7	87.8	106.7
Provisions		–	–	0.2
Derivative financial instruments		8.5	11.7	–
		13 292.1	12 438.9	11 278.7
<b>Total equity and liabilities</b>		18 980.5	17 791.8	16 312.5
Number of ordinary shares in issue – thousands	4	488 450.3	488 450.3	488 450.3
Weighted average number of ordinary shares in issue – thousands	3.2	473 717.3	482 237.5	478 873.4
Diluted weighted average number of ordinary shares in issue – thousands	3.2	483 091.1	494 709.6	487 894.0
Net asset value – cents per share (property value based on directors' valuation)*		966.2	922.0	869.4

\* Prior period amounts restated, refer to note 10.

# GROUP STATEMENT OF CHANGES IN EQUITY

## FOR THE PERIOD ENDED

Notes	Share capital Rm	Treasury shares Rm	Fair value reserve Rm	Retained earnings* Rm	Foreign currency translation reserve Rm	Total equity* Rm
<b>At 28 February 2016 as previously published</b>	6.0	(63.5)	32.5	3 882.9	39.9	3 897.8
Prior period restatements*	–	–	–	(196.1)	–	(196.1)
<b>As 28 February 2016 restated</b>	6.0	(63.5)	32.5	3 686.8	39.9	3 701.7
<b>Total comprehensive income for the period*</b>	–	–	(32.5)	1 217.5	(64.4)	1 120.6
Profit for the period*	–	–	–	1 216.0	–	1 216.0
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)
<b>Transactions with owners</b>	–	(490.8)	–	(475.8)	–	(966.6)
Dividends paid	–	–	–	(753.5)	–	(753.5)
B share capital issued	–	–	–	–	–	–
Shares received on 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
<b>At 26 February 2017 restated*</b>	6.0	(554.3)	–	4 428.5	(24.5)	3 855.7
<b>Total comprehensive income for the period</b>	–	–	–	1 295.9	(46.2)	1 249.7
Profit for the period	–	–	–	1 296.3	–	1 296.3
Remeasurement in retirement scheme assets	–	–	–	(0.4)	–	(0.4)
Foreign currency translations	–	–	–	–	(46.2)	(46.2)
<b>Transactions with owners</b>	–	(309.1)	–	(772.7)	–	(1 081.8)
Dividends paid	–	–	–	(866.5)	–	(866.5)
Share purchases	–	(423.4)	–	–	–	(423.4)
Net effect of settlement of employee share options	–	114.3	–	(112.4)	–	1.9
Share-based payments expense	–	–	–	206.2	–	206.2
<b>At 25 February 2018</b>	6.0	(863.4)	–	4 951.7	(70.7)	4 023.6

\* Prior period amounts restated, refer to note 10.

# GROUP STATEMENT OF CASH FLOWS

## FOR THE PERIOD ENDED

	52 weeks to 25 February 2018 Rm	Restated* 52 weeks to 26 February 2017 Rm
<b>Cash flows from operating activities</b>		
Trading profit*	1 819.9	1 735.6
Adjusted for dividend income	–	(18.0)
Adjusted for non-cash items	1 419.7	1 354.3
Amortisation	174.1	160.6
Depreciation	913.5	820.9
Equity-settled share-based payment expense	206.2	537.2
Cash-settled share-based payment expense	–	(124.6)
Movement in net operating lease liabilities	144.0	132.3
Movement in provisions	–	(0.2)
Movement in retirement scheme assets**	(2.9)	(2.4)
Fair value (gain)/loss on financial instruments at fair value through profit or loss	(15.2)	242.8
Dividend <i>in specie</i> received upon unbundling	–	(412.3)
<b>Cash generated before movements in working capital</b>	3 239.6	3 071.9
<b>Movements in working capital</b>	(119.4)	(948.1)
Movements in trade and other payables	322.3	(28.1)
Movements in inventory*	(275.7)	(801.1)
Movements in trade and other receivables	(166.0)	(118.9)
<b>Cash generated from trading activities</b>	3 120.2	2 123.8
Interest received	184.1	126.1
Interest paid	(331.2)	(218.6)
<b>Cash generated from operations</b>	2 973.1	2 031.3
Dividends received	–	18.0
Dividends paid	(866.5)	(753.5)
Tax paid	(320.3)	(469.2)
<b>Cash generated from operating activities</b>	1 786.3	826.6
<b>Cash flows from investing activities</b>		
Investment in intangible assets	(101.4)	(134.0)
Investment in property, plant and equipment	(1 445.9)	(1 736.0)
Improvements to non-current asset held for sale	(4.4)	–
Investment in financial instruments at fair value	–	(6.7)
Purchase of operations	(96.2)	1.8
Proceeds on disposal of intangible assets	0.6	–
Proceeds on disposal of property, plant and equipment	50.7	49.8
Repayments of loans advanced	5.8	11.3
Participation in export partnership	–	14.1
<b>Cash utilised in investing activities</b>	(1 590.8)	(1 799.7)
<b>Cash flows from financing activities</b>		
Borrowings raised	445.3	48.7
Repayment of borrowings	(50.6)	(445.1)
Share purchases	(423.4)	(345.4)
Proceeds from employees on settlement of share options	1.9	8.0
<b>Cash utilised in financing activities</b>	(26.8)	(733.8)
<b>Net increase/(decrease) in cash and cash equivalents</b>	168.7	(1 706.9)
Net cash and cash equivalents at beginning of period	(838.1)	882.9
Foreign currency translations	(1.5)	(14.1)
<b>Net cash and cash equivalents at end of period</b>	(670.9)	(838.1)
<b>Consisting of :</b>		
Cash and cash equivalents	1 129.1	961.9
Bank overdraft and overnight borrowings	(1 800.0)	(1 800.0)

\* Prior period amounts restated, refer to note 10.

\*\* In order to improve comparability, prior period cash flows from retirement scheme assets have been reclassified from cash flows from investing activities to cash flows from operating activities.

# NOTES TO THE FINANCIAL INFORMATION

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The summarised Group financial statements for the period ended 25 February 2018 are prepared in accordance with the requirements of the JSE Listings Requirements for abridged reports, and the requirements of the Companies Act, as applicable to summarised financial statements. The Listings Requirements require abridged 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 the Financial Pronouncements, as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

The summarised Group financial statements do not include all the information required by IFRS for full financial statements and should be read in conjunction with the 2018 audited Group annual financial statements. The accounting policies applied in the preparation of the audited Group annual financial statements, from which the summarised Group financial statements were derived, are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the previous audited Group annual financial statements. During the period, various new and revised accounting standards became effective, but their implementation had no material impact on the results of either the current or prior period.

These summarised Group financial statements are themselves 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 these summarised Group financial statements and the correct extraction of financial information from the underlying audited Group annual financial statements.

These summarised Group financial statements have been prepared by the Finance Division under the supervision of the Chief Finance Officer, Mr Bakar Jakoet CA(SA).

## 2. REVENUE

	<b>52 weeks to 25 February 2018 Rm</b>	<b>Restated* 52 weeks to 26 February 2017 Rm</b>
<b>Turnover</b>	81 560.1	77 486.1
<b>Finance income</b>	184.1	126.1
Bank balances and investments	131.2	81.4
Trade and other receivables	50.4	40.3
Staff loans and other	2.5	4.4
<b>Other trading income*</b>	1 760.6	1 934.7
Dividend <i>in specie</i> received on unbundling (note 7)	–	412.3
Franchise fee income	400.1	349.8
Operating lease income	446.1	345.3
Commissions, dividends received and other income*	914.4	827.3
	<b>83 504.8</b>	<b>79 546.9</b>

\* Prior period amounts restated, refer to note 10.

### 3. BASIC, DILUTED AND HEADLINE EARNINGS PER SHARE

	% Change	52 weeks to 25 February 2018 Cents per share	Restated* 52 weeks to 26 February 2017 Cents per share
Basic earnings per share*	9.0	273.64	250.98
Diluted earnings per share*	9.7	268.33	244.65
Headline earnings per share*	7.1	276.98	258.65
Diluted headline earnings per share*	7.7	271.61	252.13

#### 3.1 Basic and headline earnings

##### Reconciliation between basic and headline earnings:

	Rm	Rm
<b>Profit for the period*</b>	1 296.3	1 216.0
Profit attributable to forfeitable share plan shares	–	(5.7)
<b>Basic earnings for the period*</b>	1 296.3	1 210.3
Adjustments:	15.8	37.2
Loss on sale of property, plant and equipment	10.6	20.4
Tax effect of loss on sale of property, plant and equipment	(3.0)	(5.7)
Impairment loss on property, plant and equipment	3.5	5.9
Tax effect of impairment loss on property, plant and equipment	(1.0)	(1.7)
Impairment loss on intangible assets	6.9	6.1
Tax effect of impairment loss on intangible assets	–	(1.7)
Impairment loss on available-for-sale financial instruments	–	13.9
Impairment loss on property, plant and equipment of associate	1.2	–
Tax effect of impairment loss on property, plant and equipment of associate	(0.4)	–
Profit on sale of property, plant and equipment of associate	(3.1)	–
Tax effect of profit on sale of property, plant and equipment of associate	1.1	–
Adjustments attributable to forfeitable share plan shares	–	(0.2)
<b>Headline earnings for the period*</b>	1 312.1	1 247.3

#### 3.2 Number of ordinary shares

	000's	000's
Number of ordinary shares in issue (note 4.1)	488 450.3	488 450.3
Weighted average number of ordinary shares in issue (excluding treasury shares)	473 717.3	482 237.5
Diluted weighted average number of ordinary shares in issue	483 091.1	494 709.6
<b>Reconciliation of weighted average number of ordinary shares to diluted weighted average number of ordinary shares:</b>		
Weighted average number of ordinary shares in issue (excluding treasury shares)	473 717.3	482 237.5
Dilutive effect of share awards	9 373.8	12 472.1
Diluted weighted average number of ordinary shares in issue	483 091.1	494 709.6

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.

\* Prior period amounts restated, refer to note 10.

**4. SHARE CAPITAL**

	52 weeks to 25 February 2018 Rm	52 weeks to 26 February 2017 Rm
<b>4.1 Ordinary share capital</b>		
<b>Authorised</b>		
800 000 000 (2017: 800 000 000) ordinary shares of 1.25 cents each	10.0	10.0
<b>Issued</b>		
488 450 321 (2017: 488 450 321) ordinary shares of 1.25 cents each	6.0	6.0
	<b>000's</b>	<b>000's</b>
<b>The number of ordinary shares in issue at end of period is made up as follows:</b>		
Treasury shares held as hedge against share options granted	6 654.9	6 531.8
Treasury shares allocated under the forfeitable share plan	6 853.5	9 336.5
Shares held outside the Group	474 941.9	472 582.0
<b>Total shares in issue at the end of the period</b>	<b>488 450.3</b>	<b>488 450.3</b>

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 (2017: 24 422 516) shares. To date, 10 743 000 (2017: 10 743 000) shares have been issued, which has resulted in 13 679 516 (2017: 13 679 516) shares remaining for the above-mentioned 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 4.2.

	Rm	Rm
<b>4.2 B share capital</b>		
<b>Authorised</b>		
1 000 000 000 (2017: 1 000 000 000) unlisted, non-convertible, non-participating, no par value B shares	–	–
<b>Issued</b>		
259 682 869 (2017: 259 682 869) unlisted, non-convertible, non-participating, no par value B shares	–	–

B shares are stapled to 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. Refer to note 4.1.



## 5. TREASURY SHARES

	52 weeks to 25 February 2018 Rm	52 weeks to 26 February 2017 Rm
<b>At beginning of period</b>	554.3	63.5
Shares purchased during the period	423.4	345.4
Take-up of share options by employees	(114.3)	(266.9)
Shares received on unbundling (note 7)	–	412.3
<b>At end of period</b>	863.4	554.3
	<b>000's</b>	000's
<b>The movement in the number of treasury shares held is as follows:</b>		
<b>At beginning of period</b>	15 868.3	9 675.4
Shares purchased during the period	6 809.4	5 749.7
As hedge against share options granted	2 666.9	4 332.7
Shares allocated under forfeitable share plan	4 142.5	1 417.0
Shares sold during the period pursuant to the take-up of share options by employees	(2 784.8)	(4 016.5)
Shares delivered to participants of forfeitable share plan	(6 384.5)	–
Shares received on unbundling (note 7)	–	4 459.7
<b>At end of period</b>	13 508.4	15 868.3
Comprises :		
Shares allocated under forfeitable share plan	6 853.5	9 336.5
Shares held as hedge against share options granted	6 654.9	6 531.8

**6. OPERATING SEGMENTS**

	South Africa Rm	Rest of Africa Rm	Total operations Rm
<b>52 weeks to 25 February 2018</b>			
<b>Total segment revenue</b>	79 718.7	4 648.1	84 366.8
External revenue	79 718.7	3 786.1	83 504.8
Direct deliveries*	–	862.0	862.0
<b>Segment external turnover</b>	77 802.2	3 757.9	81 560.1
<b>Profit before tax**</b>	1 480.2	287.9	1 768.1
<b>Other information</b>			
<b>Statement of comprehensive income</b>			
Finance income	177.3	6.8	184.1
Finance costs	331.1	0.1	331.2
Depreciation and amortisation	1 044.2	43.4	1 087.6
Impairment loss on intangible assets	6.9	–	6.9
Impairment loss on property, plant and equipment	3.5	–	3.5
Share of associate's income	–	116.3	116.3
<b>Statement of financial position</b>			
Total assets	17 193.2	1 787.3	18 980.5
Total liabilities	14 354.1	602.8	14 956.9
Investment in associate	–	365.6	365.6
Additions to non-current assets	1 625.8	22.7	1 648.5
<b>52 weeks to 26 February 2017 restated<sup>#</sup></b>			
<b>Total segment revenue</b>	76 064.9	4 315.7	80 380.6
External revenue	76 064.9	3 482.0	79 546.9
Direct deliveries*	–	833.7	833.7
<b>Segment external turnover</b>	74 026.2	3 459.9	77 486.1
<b>Profit before tax***</b>	1 451.5	225.5	1 677.0
<b>Other information</b>			
<b>Statement of comprehensive income</b>			
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
<b>Statement of financial position</b>			
Total assets <sup>#</sup>	16 163.9	1 627.9	17 791.8
Total liabilities <sup>#</sup>	13 530.9	405.2	13 936.1
Investment in associate	–	309.7	309.7
Additions to non-current assets	1 792.5	93.7	1 886.2

\* Direct deliveries are issues to franchisees made directly by Group suppliers that are not included in revenue in the Group statement of comprehensive income. These direct deliveries are, however, included in the financial information, of the Rest of Africa segment, reviewed by the CODM of the Group.

\*\* Segmental profit before tax is the reported measure used for evaluating the performance of the Group's operating segment. 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.

<sup>#</sup> Prior period amounts restated, refer to note 10.

## 7. RELATED PARTY TRANSACTIONS

During the period, in the ordinary course of business, certain companies within the Group entered into transactions with each other. These inter-group transactions and related balances are eliminated on consolidation.

In the prior period, the Pick n Pay Holdings Group included the ultimate holding company, Pick n Pay Holdings Limited RF, an investment holding company which was 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 creating the Pick n Pay Stores Group), thereby resulting in a pyramid control structure.

During the prior period, at a General Meeting, shareholders approved the unbundling of the Pick n Pay Holdings Group in order to remove the 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 that, 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 4.2). These shares were issued to existing controlling shareholders of Pick n Pay Holdings Limited RF so as to retain the effective control of the Group.

In addition, as part of the unbundling in the prior period, 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 Pick n Pay Stores Group.

Related parties are unchanged from those reported on at 26 February 2017. For further information refer to note 25 of the 2018 audited Group annual financial statements and note 8 of the 2018 audited Company annual financial statements.

## 8. FINANCIAL INSTRUMENTS

All financial instruments held by the Group are measured at amortised cost, with the exception of derivative financial instruments, financial assets at fair value through profit or loss and available-for-sale financial instruments.

	52 weeks to 25 February 2018 Rm	52 weeks to 26 February 2017 Rm
<b>Derivative financial instruments – liabilities</b>		
Forward exchange contracts – Level 2	8.5	11.7
<b>Financial assets at fair value through profit or loss</b>		
Investment in Guardrisk Insurance Company Limited – Level 2	25.7	13.7

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable, the instruments are included in Level 2.

The carrying value of all other financial instruments approximate their fair value.

There have been no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the period.

**9. COMMITMENTS**

	<b>52 weeks to 25 February 2018 Rm</b>	<b>52 weeks to 26 February 2017 Rm</b>
<b>Authorised capital expenditure</b>		
<b>Contracted for</b>	231.0	275.1
Property	69.8	26.5
Furniture, fittings, equipment and vehicles	67.8	230.1
Intangible assets	93.4	18.5
<b>Not contracted for</b>	1 469.0	1 524.9
Property	20.0	30.4
Furniture, fittings, equipment and vehicles	1 417.2	1 404.9
Intangible assets	31.8	89.6
<b>Total commitments</b>	<b>1 700.0</b>	<b>1 800.0</b>

**10. PRIOR PERIOD RESTATEMENTS AND CORRECTION OF PRESENTATION**

The following prior period restatements were made in the Group's South Africa operating segment:

*Recognition and measurement*

The Group has re-evaluated its accounting policy for rebates and other income earned from suppliers in terms of IAS 2 *Inventories* and IAS 18 *Revenue*.

Upon re-evaluation, the Group assessed that it had erroneously accounted for certain rebates and other income within cost of sales, and in some instances recognised this net of related costs. It is appropriate to recognise relevant rebates relating to the purchase of inventory within cost of sales when the related inventory is sold, and to recognise relative other income earned from suppliers within other trading income. The relevant rebates and other income should be recognised gross of related costs.

As a result of the correction of these errors, the Group adjusted its inventory valuation, net of the related tax impact, to reflect all relevant rebates in line with the movement of inventory.

These errors have been corrected during the current financial period and the relevant comparative figures restated, including necessary restatements in the statement of comprehensive income, statement of financial position and statement of cash flows.

## 10. PRIOR PERIOD RESTATEMENTS AND CORRECTION OF PRESENTATION (continued)

### *Correction of presentation*

In the comparative period, all trade and other receivables were incorrectly classified as current in the statement of financial position. Certain trade and other receivables are considered to be long term in nature and should be recorded as non-current in the statement of financial position.

The classification error was corrected in the current financial period and comparative figures restated. The classification error had no impact on total comprehensive income.

The aggregate of the corrections are set out below.

### 10.1 Prior period restatement and correction of presentation impact on the 2017 statement of comprehensive income

	Restated 52 weeks to 26 February 2017 Rm	Restatement Recognition and measurement Rm	As previously published 52 weeks to 26 February 2017 Rm
<b>Revenue</b>	79 546.9	429.1	79 117.8
Cost of merchandise sold	(63 029.5)	519.9	(63 549.4)
<b>Gross profit</b>	14 456.6	519.9	13 936.7
Other trading income	1 934.7	429.1	1 505.6
Merchandising and administration	(2 395.3)	(987.2)	(1 408.1)
<b>Trading profit</b>	1 735.6	(38.2)	1 773.8
<b>Profit before tax</b>	1 677.0	(38.2)	1 715.2
Tax	(461.0)	10.7	(471.7)
<b>Profit for the period</b>	1 216.0	(27.5)	1 243.5
<b>Total comprehensive income for the period</b>	1 120.6	(27.5)	1 148.1
	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	250.98	(5.69)	256.67
Diluted basic earnings per share	244.65	(5.55)	250.20
Headline earnings per share	258.65	(5.70)	264.35
Diluted headline earnings per share	252.13	(5.56)	257.69

**10. PRIOR PERIOD RESTATEMENTS AND CORRECTION OF PRESENTATION (continued)****10.2 Prior period restatement and correction of presentation impact on the 2017 statement of financial position**

	Restated As at 26 February 2017 Rm	Restatement Recognition and measurement Rm	Correction of presentation Rm	As previously published As at 26 February 2017 Rm
Non-current trade and other receivables	145.2	–	145.2	–
Inventory	5 684.0	(310.6)	–	5 994.6
Current trade and other receivables	3 299.9	–	(145.2)	3 445.1
Retained earnings	4 428.5	(223.6)	–	4 652.1
Current tax liabilities	87.8	(87.0)	–	174.8

**10.3 Prior period restatement and correction of presentation impact on the 2016 statement of financial position**

	Restated As at 28 February 2016 Rm	Restatement Recognition and measurement Rm	Correction of presentation Rm	As previously published As at 28 February 2016 Rm
Non-current trade and other receivables	125.7	–	125.7	–
Inventory	4 879.6	(272.4)	–	5 152.0
Current trade and other receivables	3 200.5	–	(125.7)	3 326.2
Retained earnings	3 686.8	(196.1)	–	3 882.9
Current tax liabilities	106.7	(76.3)	–	183.0

**10.4 Prior period restatement and correction of presentation impact on the 2017 statement of cash flows**

	Restated 52 weeks to 26 February 2017 Rm	Restatement Recognition and measurement Rm	As previously published 52 weeks to 26 February 2017 Rm
Trading profit	1 735.6	(38.2)	1 773.8
Movements in inventory	(801.1)	38.2	(839.3)
<b>Net movement in cash and cash equivalents</b>	<b>(1 706.9)</b>	<b>–</b>	<b>(1 706.9)</b>

**11. SUBSEQUENT EVENTS****Non-current asset held for sale**

Land that was classified as a non-current asset held for sale at period end has subsequently been sold. Transfer occurred during March 2018.

## NUMBER OF STORES

	26 February 2017	Opened	Closed	Converted openings	Converted closures	25 February 2018
<b>COMPANY-OWNED</b>						
<b>Pick n Pay</b>	661	72	(13)	4	(2)	722
Hypermarkets	20	–	–	–	–	20
Supermarkets	237	10	(2)	1	(2)	244
Local	31	9	(3)	1	–	38
Clothing	156	29	(2)	–	–	183
Liquor	214	24	(5)	2	–	235
Pharmacy	3	–	(1)	–	–	2
<b>Boxer</b>	229	22	(5)	1	(1)	246
Superstores	144	10	(1)	–	(1)	152
Build	31	3	(3)	–	–	31
Liquor	34	9	–	–	–	43
Punch	20	–	(1)	1	–	20
<b>Total company-owned</b>	890	94	(18)	5	(3)	968
<b>FRANCHISE</b>						
<b>Pick n Pay</b>						
Supermarkets	299	7	(7)	2	(2)	299
Family	279	7	(5)	2	(2)	281
Mini-markets	19	–	(2)	–	–	17
Daily	1	–	–	–	–	1
Spaza	6	8	–	–	–	14
Express	111	9	(1)	–	–	119
Clothing	17	–	–	–	–	17
Liquor	181	35	(3)	–	(2)	211
<b>Total franchise</b>	614	59	(11)	2	(4)	660
<b>Total Group Stores</b>	1 504	153	(29)	7	(7)	1 628
<b>TM Supermarkets</b>	56	1	–	–	–	57
<b>Total with TM Supermarkets</b>	1 560	154	(29)	7	(7)	1 685
<b>AFRICAN FOOTPRINT</b>						
– included in total stores above	140	6	(2)	–	–	144
Pick n Pay company-owned	17	–	–	–	–	17
Boxer company-owned	5	2	–	–	–	7
Pick n Pay franchise	62	3	(2)	–	–	63
TM Supermarkets – associate	56	1	–	–	–	57
<b>AFRICAN FOOTPRINT</b>						
– by country	140	6	(2)	–	–	144
Botswana	12	–	–	–	–	12
Lesotho	3	–	–	–	–	3
Namibia	38	2	(2)	–	–	38
Swaziland	14	3	–	–	–	17
Zambia	17	–	–	–	–	17
Zimbabwe	56	1	–	–	–	57



# 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

David Friedland  
Hugh Herman  
Alex Mathole  
Audrey Mothupi  
Lorato Phalatse  
Jeff van Rooyen

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## AUDITORS

Ernst & Young Inc.

## ATTORNEYS

Edward Nathan Sonnenberg

## PRINCIPLE TRANSACTIONAL BANKERS

Absa Limited  
First National Bank

## COMPANY SECRETARY

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## PROMOTION OF ACCESS TO INFORMATION ACT

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

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Penny Gerber

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Investor relations: [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za)

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