



Pick n Pay



SUMMARISED GROUP
ANNUAL FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 26 FEBRUARY

2023



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KEY METRICS

Turnover

+8.9%
R106.6 billion

Pro forma profit before tax¹

-15.1%
R1 678.4 million

Pro forma HEPS¹

-16.3%
242.37 cents

Total dividend per share

-16.3%
185.15 cents

¹ FY23 pro forma profit before tax (PBT) and pro forma headline earnings per share (HEPS) exclude R145.2 million (R104.5 million net of tax) business interruption insurance proceeds received and accounted for in FY23, but previously included in FY22 pro forma earnings. In line with normal Group practice, pro forma earnings also exclude all non-cash hyperinflation gains and losses related to the Group's TM business in Zimbabwe.

REVIEW OF OPERATIONS

Driving Ekuseni through unprecedented load shedding

KEY FINANCIAL INDICATORS	52 weeks to 26 February 2023 FY23	52 weeks to 27 February 2022 FY22	% change
Group turnover	R106.6 billion	R97.9 billion	8.9
Gross profit margin	19.6%	18.8%	
Trading expenses	R20.2 billion	R18.0 billion	11.9
Trading profit	R3 048.0 million	R2 886.5 million	5.6
Pro forma trading profit ¹	R2 902.8 million	R3 031.7 million	(4.3)
Pro forma trading profit margin	2.7%	3.1%	
Profit before tax and capital items	R1 800.2 million	R1 807.7 million	(0.4)
Pro forma profit before tax ¹	R1 678.4 million	R1 978.0 million	(15.1)
Pro forma profit before tax – South Africa ¹	R1 524.1 million	R1 859.0 million	(18.0)
Profit after tax	R1 169.9 million	R1 214.5 million	(3.7)
Headline earnings per share (HEPS)	259.25 cents	262.59 cents	(1.3)
Pro forma HEPS ¹	242.37 cents	289.64 cents	(16.3)
Total dividend per share	185.15 cents	221.15 cents	(16.3)

¹ FY23 pro forma trading profit, profit before tax (PBT) and pro forma headline earnings per share (HEPS) exclude R145.2m (R104.5m net of tax) business interruption insurance proceeds received and accounted for in FY23, but previously included in FY22 pro forma earnings as it relates to losses incurred during FY22. In line with normal Group practice, pro forma earnings also exclude all non-cash hyperinflation gains and losses related to the Group's TM business in Zimbabwe. Pro forma HEPS is the Group's dividend driver.

Results summary

The Group delivered a resilient performance in a heavily disrupted first year of its Ekuseni strategic plan. In addition to executing on the plan, the Group had to contend with the impacts of unprecedented levels of load shedding. Despite spending an incremental R522 million on diesel to run generators (R430 million net of electricity savings), and incurring planned costs in implementing the Ekuseni plan, the Group managed to hold year-on-year trading expense growth to just 11.9%, as a result of gains from Project Future cost-saving initiatives.

Group turnover increased by 8.9%, driven primarily by Boxer SA (+20.2%), while underlying gross profit margin remained flat at 19.6% (excluding the impact of the July 2021 civil unrest on the FY22 gross profit margin). Group pro forma profit before tax of R1 678.4 million declined 15.1% year-on-year. If one were to exclude the R430 million net incremental energy costs, underlying PBT would have been an estimated R2.1 billion, up 7% year-on-year.

Highlights from the year include:

- 17 May launch of the Ekuseni strategic plan
- 15 August launch of Pick n Pay QualiSave, serving lower-to-middle-income customers, providing the Group with three tailored banners of Pick n Pay, QualiSave, and Boxer
- Rebranding 118 supermarkets to QualiSave
- Fully revamping 131 Pick n Pay and QualiSave stores to the new customer value propositions (CVPs) via an accelerated refurbishment programme to differentiate the banners and improve the customer experience
- Market-leading SA sales growth of 20.2% from Boxer, with 60 new stores opened in FY23 vs. 36 in FY22
- 15.3% sales growth from stand-alone Pick n Pay Clothing stores, with 58 new stores opened in FY23, more than double the number of new stores opened in FY22
- Online sales growth of 72%, with on-demand sales growth well over 100%, driven by both asap! and the October launch of Pick n Pay groceries on Takealot's Mr D app
- Maintaining a flat underlying gross profit margin in a highly competitive market, despite higher diesel prices impacting logistics costs
- Reaching a multi-skilling agreement with our largest union, SACCABU, and commencing implementation across the Pick n Pay store base to improve customer service and productivity
- R800 million Project Future savings, enabling Pick n Pay South Africa to restrict like-for-like cost growth to just 5.6%, despite the significant load shedding related expenditure incurred

Ekuseni strategic plan execution

Successful Pick n Pay QualiSave launch gives the Group a portfolio of 3 tailored grocery banners

The QualiSave banner was launched on 15 August, and 118 stores were converted to QualiSave by February 2023. QualiSave gives the Group a highly competitive low-price, great quality 8 000 SKU format tailored to lower-to-middle income customers. QualiSave sales growth has outpaced Pick n Pay sales growth since launch.

Pick n Pay, our banner targeting middle-to-upper-income customers is being revamped to ensure its customers get best quality at great value, a wide range of up to 18 000 products, and an improved in-store experience. The Group's portfolio of three supermarket banners (Pick n Pay, QualiSave, and Boxer), each optimised to meet their individual target customer needs, allows the Group to compete effectively across the full customer spectrum, which is particularly important in the diverse South African market.

131 stores fully upgraded to new CVP via accelerated store refurbishment

Following the completion of the first CVP upgrade in mid-May, the Group fully upgraded 41 stores by the end of H1, and fully upgraded 131 stores by the end of February 2023 (almost 40% of Pick n Pay South Africa's company-owned grocery estate). The CVP upgrades are the core element of an accelerated refurbishment programme for the Pick n Pay and QualiSave banners, bringing the stores in line with the new CVPs. The refurbishments entail a realignment of store layout to implement the optimised product counts and emphasise each banner's power categories, as well as upgraded energy-efficient fixtures and fittings to provide the banners with fresh new looks.

Customer response to the CVP converted stores has been positive, with weekly sales growth from converted stores significantly higher than sales in the remainder of the Pick n Pay estate. The refurbished stores have achieved a post-conversion sales uplift of >10%, well ahead of the 4.3% Pick n Pay South Africa growth.

Boxer's accelerated store roll-out puts it on track to achieve Ekuseni expansion targets

Boxer reported FY23 sales of R32.0 billion. Excluding its 9 eSwatini stores, Boxer reported South Africa sales of R31.3 billion (30.5% of the Group's South Africa sales) up 20.2% (7.3% like-for-like), driven by the store roll-out programme and its great value customer offer. Boxer SA's sales growth slowed from 27.2% in H1 FY23 to 14.4% in H2 as it lapped a stronger base caused by the impact of the July 2021 civil unrest on Boxer's promotional campaign timing in the base year.

Boxer opened 60 new stores in FY23, well ahead of the 36 new stores opened in FY22. The new stores took Boxer's total store estate to 428, delivering space growth of 14.4%. At the current roll-out rate, Boxer is well on its way to achieving the Ekuseni goal of opening 200 new Boxer stores between FY22 and FY26 and doubling sales in the process.

Driving an Online sales step-change via the Mr D launch

Online sales growth for the year was accelerated by the launch of Pick n Pay's food and grocery offer on the Takealot Group's Mr D app. This offer grew from a limited number of stores in early October to a nationwide offer by the end of the year. The offer benefits from a synergistic combination of Pick n Pay's extensive store network, stock-management system, fresh product offering, and in-store picking experience, and Mr D's strengths in user-interface design, a 2.5 million active customer base, and a delivery fleet of 15 000 scooters. Taken together with strong growth in sales from the highly popular Pick n Pay asap! offer, the Group achieved on-demand online sales growth for the year well in excess of 100%.

The Group achieved total online sales growth for the year of 72.0%, including its scheduled delivery service. The Group is working on improvements to its scheduled delivery service, to provide customers with wider choice and greater flexibility on delivery.

Pick n Pay Clothing store roll-out rate doubles, with strong profit growth

Pick n Pay Clothing is a casualwear-focused, value-oriented clothing format targeting family shoppers. While womenswear has traditionally underpinned the format's success, Pick n Pay Clothing is also gaining solid traction in childrenswear and menswear. During FY23 Pick n Pay Clothing gained market share across all market segments.¹ Locally sourced product accounts for 45% of sales, double the volume since the start of a localisation strategy in 2019.

Pick n Pay Clothing opened 58 new stores in FY23, over twice the 27 new store openings achieved in FY22. The new store roll-out resulted in an FY23 stand-alone Pick n Pay Clothing estate of 333 stores (adding 16.8% space growth), consisting of 311 corporate stores and 22 franchise stores.

Pick n Pay Clothing grew FY23 SA sales in stand-alone stores by 15.3% (5.6% like-for-like), and reported net profit growth of 11.6%. Clothing sales growth was driven by ramped-up new store roll-out (new stores are performing in line with budget) and positive like-for-like sales growth.

Project Future Phase 2

Project Future Phase 2 encompasses a range of projects focused on improving efficiency, increasing flexibility, and reducing costs by R3 billion between FY23 and FY25. R800 million of Project Future savings were achieved in FY23, captured in both gross profit margin and trading expenses. Key achievements over the period include:

- Greater efficiency in the Group's supply chain operations through a more optimised transport network, and greater labour productivity in Distribution Centres (DCs). The new Eastport DC in Gauteng opened in March 2023, with the transition from Longmeadow near completion. We expect Eastport's larger capacity, improved layout, and enhanced systems to drive further supply chain efficiencies. However, we anticipate approximately R120 million of duplicated costs in H1 FY24 due to the double-up on costs during the handover process.
- Better buying and collaboration with suppliers, as they demonstrate support for the Ekuseni strategy and its ability to deliver greater value for customers.
- Multi-skilling agreement signed, allowing Pick n Pay Supermarkets, for the first time, to schedule employees for more than one task within a single shift. Pick n Pay began to implement multi-skilling in H2 FY23, and we anticipate the customer service and efficiency benefits to come through from FY24.
- Announcing the consolidation of the Cape Town and Johannesburg support offices by December 2023.

In March 2023, post our financial year-end, Pick n Pay commenced two new Project Future staffing initiatives which both impact the entire Group (excluding Boxer):

- A voluntary severance programme (VSP), aimed at delivering targeted benchmarks in terms of support office and store-level efficiency gains.
- A modernisation of Pick n Pay Junior Store Management structures, to reflect changing customer and operational needs, increase efficiency, and deliver better customer service. It is anticipated that some roles are likely to be lost through an S189 retrenchment process. However, the business is also creating a broadly equivalent number of new roles at a more junior level.

The Group will be in a position to comment on the financial impact of these initiatives once they are both complete.

¹ According to RLC (Retailers' Liaison Committee) data.

Pick n Pay's response to unprecedented load shedding

The ongoing crisis in national electricity generation is having a profound impact on the Group and the country as a whole. All Pick n Pay and Boxer stores have backup power and are operational throughout load shedding. However, load shedding results in customer disruption, supply chain and procurement challenges, significant diesel expenditure costs to run generators, extra repairs and maintenance on generators running ahead of normal demands, and product spoilage in instances when generators break down and cannot be immediately replaced.

Diesel cost to run generators is the most significant challenge. The Group spent an incremental R522 million on diesel costs to run generators in FY23, resulting in net incremental energy costs of R430 million, after taking R92 million of associated electricity savings into account. The Group is working exceptionally hard to mitigate as much as possible of the additional cost pressure. The key elements of the Group's plan to reduce in-store diesel costs are:

- **Operating expenditure initiatives.** Energy usage reduction has multiple workstreams including further investment in energy-efficient LED lighting, installation of automated controls to switch off certain equipment during load shedding, reconsideration of the optimal refrigeration footprint, improved production planning e.g. minimising the use of bakery ovens during load shedding, and reviewing stores with above-average diesel usage.
- **Maximising usage of landlord supplied solar.** Negotiations with landlords are ongoing in support of maximising landlord solar installation and the purchase of renewable electricity from landlords.
- **Installing in-store battery energy storage solutions** to operate supermarkets sustainably through load shedding. The Group is in the process of trialling such solutions in a number of supermarkets and will critically assess the return on investment on these initiatives.

- **Making the case to government for diesel tax rebates.** The Group feels it is unconscionable to pay significant tax, including the Road Accident Fund levy, on diesel used to power generators to keep grocery stores open.

The Group is targeting FY24 diesel cost savings of at least R200 million, driven by the above-mentioned initiatives. The envisaged savings will be heavily oriented towards H2 FY24, as the various initiatives gain traction. FY24 diesel cost expenditure will ultimately be driven by the levels of load shedding experienced, which brings a high level of uncertainty to the outlook.

With respect to capital investment, the Group is prioritising energy cost mitigations in FY24 that do not require investment (i.e. reducing the energy load in stores during load shedding), or which are limited in cost, yet have a proven record of quick and sustainable returns, e.g. LED lighting. This should enable the Group to continue to focus its capital investment towards Ekuseni growth targets. However, the Group is assessing the potential for a large battery energy solution, including various funding mechanisms to limit the call on capital expenditure.

Detailed review of financial and operational performance

Turnover

Group sales growth for the year was 8.9%, with like-for-like sales growth of 4.8%. Internal selling price inflation for the period was 8.5%, well below Statistics SA Food CPI of 10.4% for the 12 months.

The Group's South Africa Segment (96.4% of Group sales) grew sales 8.7% to R102.7 billion, with like-for-like sales growth of 4.5%. South African sales growth was driven by Boxer, with South African sales growth of 20.2% to R31.3 billion. Pick n Pay South Africa (Pick n Pay and QualiSave banners combined) grew sales 4.3% to R71.4 billion.

	FY23 Rm	FY22 Rm	% change	Like-for-like % change
Pick n Pay SA sales	71 372.2	68 450.4	4.3	3.5
Boxer SA sales	31 349.1	26 084.8	20.2	7.3
SA total sales	102 721.3	94 535.2	8.7	4.5
Rest of Africa sales (inc. DSDs*)	5 086.5	4 438.8	14.6	
Total segment turnover	107 807.8	98 974.0	8.9	
Elimination of RoA DSDs	(1 246.0)	(1 101.2)	13.1	
Group turnover	106 561.8	97 872.8	8.9	4.8

* DSDs included in Rest of Africa sales are in-country direct-to-store deliveries by Group suppliers to certain foreign franchisees that are not included in Group turnover as per IFRS requirements.

Boxer consolidates its position as SA's leading soft-discounter

Boxer's market-leading 20.2% South Africa sales growth was driven by an aggressive ramp-up in space roll-out combined with robust 7.3% like-for-like sales growth. Extraordinarily strong 27.2% H1 sales growth moderated to a strong 14.4% in H2, with the slowdown driven by an H2 like-for-like sales moderation. The strong H1 like-for-like sales performance was driven by a disrupted base (Boxer was relatively highly impacted by the July 2021 civil unrest due to its skew towards KwaZulu-Natal). The H2 like-for-like sales slowdown was also driven by base effects: Boxer had a relatively strong H2 FY22 as sales promotions which typically happen in the first half were delayed to the second half of the year as a result of the civil unrest.

Pick n Pay and Pick n Pay QualiSave focus on like-for-like sales

The Pick n Pay and QualiSave banners grew sales 4.3% (like-for-like sales of 3.5%). The Ekuseni strategy is prioritising driving like-for-like sales growth ahead of new space for the large Pick n Pay store footprint. The 3.5% like-for-like sales growth was impacted by disruption from the 131 full CVP upgrades completed during the period. Sales growth slowed in H2 as the pace of CVP upgrades accelerated (90 CVP upgrades completed in H2 vs. 41 in H1) and as the base hardened (H1 FY22 sales negatively impacted by the July 2021 civil unrest and Covid-19 liquor trading restrictions). Notwithstanding the trade disruption caused, the Group is pleased with the early results from the upgraded stores, which are on aggregate delivering sales growth well ahead of the rest of the estate.

Pick n Pay owned and franchised South African food and grocery stores (excl. Clothing and Liquor) had 27 new store openings during FY23, and a net decline of four stores, to total 766. Including Liquor and Clothing, Pick n Pay South Africa opened 48 net new stores to a total of 1 599 stores at the end of FY23, including 621 liquor stores and 330 clothing stores.

Group liquor sales grew 20.4% for FY23 vs. 36.2% in H1 FY23 as the base effects of Covid-19 liquor trading restrictions normalised. The Group lost 66 days of liquor trading in the base period (FY22), of which 55 were in H1 FY22 and 11 in H2 FY22.

Gross profit

Gross profit rose 13.8% to R20.9 billion, with reported gross profit margin increasing to 19.6% from 18.8%. The FY22 gross margin was negatively impacted by the July 2021 civil unrest. If the impact of civil unrest is stripped out of the FY22 base, the underlying FY22 gross profit margin was 19.6%, indicating that the Group's underlying FY23 gross profit margin was flat year-on-year.

The Group regards the flat underlying gross margin performance as a solid performance in the context of higher fuel prices impacting logistics costs and an intensely competitive market. The stable margin was the net impact of the Group re-investing gains from better buying, logistics efficiencies and strategic inventory buy-ins into price investment to support under-pressure consumers. While the Group is doing its utmost to offset increased load shedding costs, it believes that it is inevitable that consumers will have to, over time, absorb some of these additional costs.

Other income

Other income declined 9.6% to R2.3 billion, primarily driven by insurance recoveries of R748.2 million from the July 2021 civil unrest included in the FY22 base. In addition to this, R145.2 million of insurance recoveries were received and accounted for in FY23 (but included in FY22 pro forma earnings and reciprocally excluded from FY23 pro forma earnings). Underlying other income, excluding all insurance recoveries from both periods, grew 14.1% year-on-year, from R1.8 billion to R2.0 billion.

Franchise fee income – the Group's royalty fee income, earned on franchise point of sale turnover, increased 4.5% to R447.7 million. This growth reflected the negative impacts of the civil unrest and liquor restrictions on franchise sales in the base period, offset by the conversion of a number of franchise stores to company-owned Pick n Pay and Boxer stores over the year. Strong franchise partners are a key growth driver for the Group, with 35 new franchise stores opened over the period.

Commissions and other income – this broad category includes income from value-added services and all other commission and incentive income not directly related to the sale of inventory. Commissions and other income, excluding insurance recoveries, increased 15.4% year-on-year to R1.4 billion. Value-added services, which includes Financial Services and Mobile, grew 19.8%. Financial services has shown strong growth, driven by banking services in stores and domestic money transfers. Our newly launched SmartSave Funeral Insurance has seen encouraging adoption, and we also have a wider range of finance solutions powered by RCS (PnP Store Cards) and Tyme Bank (More Tyme) which has increased our capability to assist with consumer affordability and financial inclusion. Digital and media income increased by 10.1% year-on-year.

Trading expenses

Trading expenses increased 11.9% year-on-year (7.9% like-for-like) to R20.2 billion. FY23 trading expenses included cost pressures from a range of costs related to the higher levels of load shedding experienced in FY23, and particularly H2 FY23. The greatest consequence of these was the R430 million net incremental energy costs to power our stores through generators (c. 80% of this spent in H2). FY23 trading expense growth excluding net incremental energy costs was a more moderate 9.5%, showing tight cost control in the context of broad inflationary pressures (particularly on rates and utility costs), the Boxer and Pick n Pay Clothing store roll-outs, and sharply higher insurance costs (a consequence of the July 2021 civil unrest). The Group's well-controlled underlying trading expense growth was largely driven by containing employee costs, our largest single cost line.

Trading expenses grew 13.1% in H2, after increasing by 10.6% in H1, driven by the greater impact of the Group's store roll-out in the second half, and the higher levels of load shedding experienced during H2. FY23 trading expenses include R111 million in restructuring costs (R83.7 million in H1), arising from the reorganisation of the Pick n Pay estate into two banners, the rebranding of QualiSave, some technical advisory services, and limited retrenchment costs.

Employee costs – increased 6.5% to R8.3 billion over the period (2.9% like-for-like). Growth in our largest expense line, employee cost, was well contained despite the aggressive Boxer and Clothing store roll-out, reflecting exceptionally tight employee cost control in Pick n Pay South Africa as this entity strives to hit targeted efficiency benchmarks.

Occupancy costs – increased 14.7% (8.2% like-for-like) to R3.1 billion. Occupancy cost growth was driven by both the accelerated Boxer and clothing store roll-outs and above-inflation increases in rates, security and insurance costs. Elevated occupancy cost growth is directly attributable to the July 2021 riots, which have resulted in additional security costs, and insurance premiums accelerating by 86%.

Operations costs – increased 18.7% (13.0% like-for-like) to R5.4 billion, driven by utilities costs more than doubling (increased fuel consumption to drive store generators and a higher fuel price) and higher electricity costs (due to tariff hikes, and despite the forced savings from load shedding).

Merchandising and administration costs – increased 13.0% year-on-year to R3.4 billion as the Group increased advertising spend in support of the drive to rejuvenate sales growth.

Net interest

Net interest paid, including implied interest charges under IFRS 16, increased 15% year-on-year to R1.3 billion.

Funding interest – The Group's net funding cost (net of trade receivables interest) increased from R21.4 million to R171.1 million, reflecting increased net gearing (driven by increased capital investment) and higher interest rates over the period (325 basis point repo rate rise between February 2022 and February 2023).

Lease interest – implied net interest charges under IFRS 16 increased 2% year-on-year to R1.2 billion, reflecting supply chain savings under Project Future, specifically related to a strategic change in contracted logistics services. Combined net lease interest and depreciation of right-of-use assets (the effective lease expense under IFRS16) increased 6.1% to R3.3bn, driven by new store roll-out.

Rest of Africa segment

The Group's Rest of Africa segment contributed R5.1 billion of segmental sales, up 14.6% year-on-year, and up 7.8% in constant currency terms. The Rest of Africa segment delivered pro forma profit before tax of R154.3 million (before the application of hyperinflation accounting) up 29.7% on the R119.0 million achieved in FY22. The underlying PBT growth from the Rest of Africa division was driven by an improved performance from consolidated Rest of Africa operations, with Zimbabwe earnings (excluding net monetary adjustments) broadly flat.

The performance of the Group's key African operations is summarised as follows:

- **Franchise operations:** Our 80 Pick n Pay franchise stores in Namibia, eSwatini, Botswana and Lesotho continue to trade well, notwithstanding challenging macro-economic conditions.
- **Zambia corporate stores:** Our 23 Pick n Pay corporate stores delivered a much-improved FY23 result. Management continues to implement and maintain robust operational standards to enhance the customer value proposition.
- **TM Supermarkets, Zimbabwe:** The 72 stores of our 49% associate-accounted investment delivered another resilient performance in a difficult economic environment. The Group's share of TM's earnings, before any hyperinflation net monetary adjustments, increased 1.8% year-on-year to R98.4 million. Sharp local currency devaluation during the year meant that hyperinflation and local currency translation into Rands negatively impacted the result. The Group received a R16.0 million dividend from TM in this period (R20.1 million in FY22).

Profit before tax – before hyperinflation and capital items (Pro forma PBT)

The Group's pro forma PBT declined 15.1% year-on-year to R1 678.4 million. Group pro forma PBT growth was driven by a 18.0% decrease in South African pro forma PBT to R1 524.1 million, together with 29.7% growth in Rest of Africa pro forma PBT to R154.3 million.

	FY23 Rm	FY22 Rm	% change
Profit before tax and capital items (PBT)	1 800.2	1 807.7	(0.4)
Non-cash hyperinflation net monetary loss	23.4	25.1	(6.8)
Insurance recoveries re-allocated	(145.2)	145.2	
Pro forma PBT¹	1 678.4	1 978.0	(15.1)
South Africa	1 524.1	1 859.0	(18.0)
Rest of Africa	154.3	119.0	29.7

¹ Pro forma PBT excludes Zimbabwe net monetary adjustments, and in FY23 exclude R145.2m (R104.5m net of tax) of business interruption insurance proceeds received and accounted for in this period, but relating to FY22.

Tax

The Group's effective tax rate of 31.5% (31.1% in FY22) reflects improved but still relatively low levels of profitability in operations outside of South Africa. The Group expects its tax rate to remain above South Africa's statutory tax rate of 28.0% (27.0% from FY24 onwards) for the foreseeable future.

Earnings per share

Pro forma headline earnings per share (pro forma HEPS) – excludes the Group's share of non-cash hyperinflation accounting remeasurements in TM Supermarkets, and also excludes R145.2 million (R104.5 million net of tax) business interruption insurance proceeds received and accounted for in FY23, but previously included in FY22 pro forma HEPS. All impairment losses and other capital items are excluded from the calculation of pro forma headline earnings per share. Pro forma HEPS – the Group's primary measure in determining its dividend pay-out ratio – declined by 16.3% year-on-year to 242.37 cents per share reflecting the significant impact of load shedding on this result.

Headline earnings per share (HEPS) – declined by 1.3% to 259.25 cents per share and includes the Group's share of non-cash hyperinflation accounting remeasurements in TM Supermarkets, as well as R145.2 million (R104.5 million net of tax) business interruption insurance proceeds received in FY23. All related impairment losses and other capital items are excluded from the calculation of headline earnings per share.

Earnings per share (EPS) – declined by 3.9% to 243.37 cents per share and includes the Group's share of non-cash hyperinflation remeasurements in TM Supermarkets, all items of a capital nature, and R145.2 million (R104.5 million net of tax) business interruption insurance proceeds in FY23.

Detailed review of financial position

Gearing

Group net gearing (excluding leases) rose from R0.4 billion at February 2022, to R3.7 billion at February 2023 as the Group increased its capital investment in accordance with Ekuseni, and as working capital temporarily absorbed cash, driven by inventory. The Group is nearing closure on a R5.5 billion medium- and long-term debt package to rebalance its short-term debt portfolio towards a longer-term maturity profile more suited to higher levels of net gearing. The debt package will be unsecured and ESG linked.

	26 February 2023 Rm	28 August 2022 Rm	27 February 2022 Rm
Gross debt	5 669.4	6 693.0	6 803.1
Cash and cash equivalents	(1 997.8)	(5 253.6)	(6 425.3)
Net gearing	3 671.6	1 439.4	377.8

Working capital

The Group absorbed R968.2 million of liquidity from working capital during FY23, primarily as a result of increased inventory caused by multiple factors including inflation, strategic buy-ins, and the timing of Eastport commencing operations.

Inventory

Inventory increased 28.6% to R10.7 billion. The increased inventory is largely a function of high inflation, strategic inventory buy-ins, new stores (particularly in Boxer) and the Longmeadow to Eastport handover. The timing of the handover from Longmeadow to Eastport coinciding with financial year-end has resulted in the Group carrying an additional R400 million of inventory at balance sheet date, which the Group expects to be cleared by the end of May with the conclusion of the handover period and the exit of Longmeadow. Given still high food inflation, the Group has for the moment maintained the majority of its strategic inventory investment on a rolling basis.

While the majority of the inventory growth is attributable to specific factors funded by trade payables, the Group is targeting an improved FY24 inventory performance. The anticipated inventory benefit of the ongoing Pick n Pay and QualiSave range optimisation has begun to deliver results, and we expect this to have an increasingly positive impact on Group inventory as the range optimisation is completed in FY24.

Trade and other receivables

Trade and other receivables (current and non-current) increased 5.6% to R4.6 billion. Net franchise debt increased 4.4% to R3.8 billion. The Group raised the provision on franchise debt from 3.7% at February 2022 to 4.9% at February 2023, given the impact of the difficult trading environment, including load shedding costs borne by franchisees. The Group is confident in the quality of its debtors' book and the prudence of its impairments.

Creditors

Trade and other payables increased 13.0% year-on-year to R14.7 billion. Increased trade payables was partly driven by a corresponding increase in inventory as detailed previously.

Reported payables understates the Group's underlying payables position as suppliers on the Group's Fast Pay invoice financing platform are reported within net debt in terms of IFRS requirements. Including this fast-growing facility (+48.7% year-on-year to R599.4 million) gives total year-on-year payables growth of 14.1%.

Capital investment

The Group invested R4.0 billion in capital projects in FY23, an 87% increase on the R2.1 billion invested in FY22, in line with accelerated investment plans under Ekuseni. FY23 capital allocation was shifted in favour of the Group's high ROI growth engines, with Boxer capital investment up 104% to R1.3 billion, and Pick n Pay Clothing capital investment up 113% to R145 million.

Capital investment for FY24 is expected to be in the range of R3.5 to R4.5 billion.

Shareholder distribution

The Board declared a final dividend of 140.30 cents per share. This brings the total FY23 dividend to 185.15 cents per share, down 16.3% on last year in line with the decline in the Group's pro forma headline earnings per share, maintaining a dividend cover of 1.3x pro forma earnings. The dividend will be paid on 5 June 2023. Please refer to the dividend declaration included with this announcement for detailed information.

Change to dividend policy from FY24

Taking into account the capital investment requirements of the Ekuseni Plan and the uncertainties brought about by the unprecedented levels of load shedding, the Board has resolved to amend the dividend policy from FY24. Going forward, the Group will change from its 1.3x cover (76% pay-out ratio) to a range of between 1.5x (67% pay-out) and 1.8x (56% pay-out). The new policy will contribute towards the Group having the necessary balance sheet flexibility to support the elevated capital expenditure required by the Ekuseni Plan. The cover will likely tend towards the upper end of the range over FY24 and FY25. The Group notes that the upper end of the cover range remains broadly in line with the FY22 (fixed) covers of its retail peers.

Changes to the Board during the period under review

Jonathan Ackerman retired as an executive director on 31 March 2023 and was appointed as a non-executive director from that date.

Summary and outlook

FY23 was an intensive period for the Group as it launched and began execution of its Ekuseni strategic plan, and simultaneously dealt with unprecedentedly high levels of load shedding during the second half. The results achieved in year one of the multi-year plan have been encouraging, particularly in respect of our growth engines, Boxer, omnichannel, and Pick n Pay Clothing. Extensive progress has been made within our core Pick n Pay supermarkets business, including the successful launch of QualiSave, and the full revamp of 131 supermarkets to their new CVPs via the accelerated refurbishment programme. While the results are not yet visible on the Pick n Pay top line, within this there are very encouraging signs from QualiSave and the CVP converted stores.

The Group has made substantial progress on Project Future Phase 2, saving R800 million within FY23. The groundwork has been laid for further efficiency gains in FY24 and FY25 via multi-skilling implementation, opening the new Eastport DC, preparing for the December 2023 support office consolidation, and the VSP and Junior Store Management restructurings which began in March 2023.

When taking account of the net generator diesel costs that enable us to continue serving customers during load shedding, FY23 underlying earnings were ahead of the broadly flat guidance that we had communicated to the market earlier in the year.

Looking forward, the Group recognises that much work remains to be done to deliver the Ekuseni plan in terms of sustaining the momentum of our growth engines, rejuvenating Pick n Pay supermarkets, and optimising our cost base. The Group will continue to drive its capital investment programme while carefully balancing investment against gearing levels. Unprecedentedly high levels of load shedding, particularly diesel costs to keep stores open, add to the operational challenge. The Group is working intensively to reduce monthly diesel costs, but the results will ultimately depend on the levels of load shedding experienced.

The Group will incur FY24 restructuring charges related to the VSP and Junior Store Management processes, after which associated efficiency gains will contribute from H2 FY24. The FY24 earnings outlook will largely be driven by load shedding diesel costs and increased finance charges from higher gearing, offset by savings from the multiple Project Future initiatives. Overall, FY24 earnings (before restructuring charges) may not exceed FY23 pro forma headline earnings, depending on the levels and frequency of load shedding experienced during the year. Turnover growth for the first eight weeks of FY24 was broadly in line with H2 FY23 for Boxer, and slightly softer for Pick n Pay, where we have adjusted promotional activity to a new calendar, while continuing to hold prices below CPI food.

We thank all Boxer and Pick n Pay colleagues, and our valued franchise partners, for their commitment and contribution, and for their dedication to customers and communities. In particular, we thank our colleagues and partners for the energy they are bringing towards realising the Ekuseni goals.

Gareth Ackerman
Chair

Pieter Boone
Chief Executive Officer

3 May 2023

PRO FORMA EARNINGS PERFORMANCE

The table alongside presents the Group's earnings performance on a pro forma basis.

The financial results for the 52 weeks ended 26 February 2023 includes the cash receipt of R145.2 million (R104.5 million net of tax) of insurance proceeds. These insurance recoveries relate directly to the losses suffered by the Group during the prior reporting period as a result of civil unrest, and which were accounted for in the prior period pro forma earnings presented. Refer to the 2022 audited Group annual financial statements at www.picknpayinvestor.co.za for further information. As a result, the Group has presented its earnings performance for the current period on a pro forma basis, excluding the insurance proceeds received.

In addition, in line with normal Group practice, the Group has excluded hyperinflation net monetary adjustments from earnings for the current and prior periods under review in respect of the Group's investment in associate attributable to IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29).

Refer to Appendix 1 for further information.

	52 weeks to 26 February 2023 Rm	Insurance recoveries received* 52 weeks to 26 February 2023 Rm	Pro forma 52 weeks to 26 February 2023 Rm	% of turnover	% change	Pro forma* 52 weeks to 27 February 2022 Rm	% of turnover
Turnover	106 561.8	-	106 561.8		8.9	97 872.8	
Cost of merchandise sold	(85 625.2)	-	(85 625.2)			(79 476.7)	
Gross profit	20 936.6	-	20 936.6	19.6	13.8	18 396.1	18.8
Other income	2 265.3	(145.2)	2 120.1	2.0	(20.0)	2 650.3	2.7
Franchise fee income	447.7	-	447.7	0.4	4.5	428.3	0.4
Operating lease income	157.4	-	157.4	0.2	36.2	115.6	0.1
Commissions and other income	1 399.5	-	1 399.5	1.3	15.4	1 213.0	1.3
Insurance recoveries*	260.7	(145.2)	115.5	0.1		893.4	0.9
Trading expenses	(20 153.9)	-	(20 153.9)	18.9	11.9	(18 014.7)	18.4
Employee costs	(8 347.9)	-	(8 347.9)	7.8	6.5	(7 836.3)	8.0
Occupancy	(3 054.2)	-	(3 054.2)	2.9	14.7	(2 662.1)	2.7
Operations	(5 384.3)	-	(5 384.3)	5.0	18.7	(4 535.1)	4.6
Merchandising and administration	(3 367.5)	-	(3 367.5)	3.2	13.0	(2 981.2)	3.1
Trading profit	3 048.0	(145.2)	2 902.8	2.7	(4.3)	3 031.7	3.1
Net finance costs	(1 322.8)	-	(1 322.8)	1.2	15.0	(1 150.4)	1.2
Net funding	(171.1)	-	(171.1)	0.2		(21.4)	-
Leases	(1 151.7)	-	(1 151.7)	1.0		(1 129.0)	1.2
Share of associate's earnings excluding net monetary adjustments*	98.4	-	98.4		1.8	96.7	
Profit before tax, before capital items and before net monetary adjustments*	1 823.6	(145.2)	1 678.4	1.6	(15.1)	1 978.0	2.0
Share of associate's hyperinflation net monetary adjustments*	(23.4)	-	(23.4)			(25.1)	
Profit before tax before capital items*	1 800.2	(145.2)	1 655.0			1 952.9	
Loss on capital items	(92.6)	-	(92.6)			(46.2)	
(Loss)/profit on disposal of assets and insurance recoveries on scrapping of assets	(20.1)	-	(20.1)			241.8	
Loss from impairments and scrapping of assets	(66.8)	-	(66.8)			(273.6)	
Impairment loss on investment in associate	(5.7)	-	(5.7)			(14.4)	
Profit before tax	1 707.6	(145.2)	1 562.4	1.5	(18.1)	1 906.7	1.9
Tax	(537.7)	40.7	(497.0)	0.5	(15.4)	(587.7)	0.6
Profit for the period	1 169.9	(104.5)	1 065.4	1.0	(19.2)	1 319.0	1.3
South Africa operating segment**							
Sales from customers	102 721.3		102 721.3		8.7	94 535.2	
Profit before tax before capital items	1 669.3	(145.2)	1 524.1		(18.0)	1 859.0	
Rest of Africa operating segment**							
Sales from customers	5 086.5		5 086.5		14.6	4 438.8	
Profit before tax, before capital items and before net monetary adjustments*	154.3		154.3		29.7	119.0	
Earnings per share	Cents		Cents			Cents	
Basic earnings per share	243.37		243.37		(3.9)	253.34	
Diluted earnings per share	242.54		242.54		(3.9)	252.43	
Headline earnings per share	259.25		259.25		(1.3)	262.59	
Diluted headline earnings per share	258.36		258.36		(1.3)	261.65	
Pro forma headline earnings per share*	Cents	Cents	Cents			Cents	
Pro forma headline earnings per share	259.25	(16.88)	242.37		(16.3)	289.64	
Pro forma diluted headline earnings per share	258.36	(16.81)	241.55		(16.3)	288.59	

* Profit before tax before capital items include non-cash hyperinflationary net monetary adjustments in respect of the Group's investment in associate attributable to the requirements of IAS 29. In order to present the underlying performance of the Group on a comparable basis, the share of associate's earnings has been separately disclosed between components including and excluding these non-cash hyperinflation net monetary adjustments. In addition, during the current period only, the Group has excluded insurance proceeds received which were accounted for in the pro forma earnings for the 2022 financial year. The Group has therefore presented pro forma profit before tax, before capital items which exclude non-cash hyperinflation net monetary adjustments and insurance proceeds received. Refer to Appendix 1 for further information.

** Refer to note 8 for further information on the Group's operating segment performance.

Refer to Appendix 1 and the 2022 audited Group annual financial statements for the reconciliation of the prior period pro forma earnings information presented.

Pick n Pay Stores Limited
Incorporated in the Republic of South Africa
Registration number: 1968/008034/06
ISIN: ZAE000005443
JSE share code: PIK

DIVIDEND DECLARATION

Tax reference number: 9275/141/71/2
Number of shares in issue: 493 450 321

Notice is hereby given that the directors have declared a final gross dividend (number 110) of 140.30000 cents per share out of income reserves.

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

The tax payable is 28.06000 cents per share, resulting in shareholders who are not exempt from dividends tax with a net dividend of 112.24000 cents per share.

Dividend dates

The last day of trade in order to participate in the dividend (CUM dividend) will be Tuesday, 30 May 2023.

The shares will trade EX dividend from the commencement of business on Wednesday, 31 May 2023 and the record date will be Friday, 2 June 2023. The dividend will be paid on Monday, 5 June 2023.

Share certificates may not be dematerialised or rematerialised between Wednesday, 31 May 2023 and Friday, 2 June 2023, both dates inclusive.

On behalf of the Board of directors

Penelope Gerber
Company Secretary

3 May 2023



GROUP STATEMENT OF COMPREHENSIVE INCOME

for the period ended

	Note	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Revenue	2	109 278.2	100 902.4
Turnover	2	106 561.8	97 872.8
Cost of merchandise sold		(85 625.2)	(79 476.7)
Gross profit		20 936.6	18 396.1
Other income		2 265.3	2 505.1
Franchise fee income	2	447.7	428.3
Operating lease income	2	157.4	115.6
Commissions and other income	2	1 399.5	1 213.0
Insurance recoveries	2	260.7	748.2
Trading expenses		(20 153.9)	(18 014.7)
Employee costs		(8 347.9)	(7 836.3)
Occupancy		(3 054.2)	(2 662.1)
Operations		(5 384.3)	(4 535.1)
Merchandising and administration*		(3 367.5)	(2 981.2)
Trading profit		3 048.0	2 886.5
Finance income	2	451.1	524.5
Finance costs	3	(1 773.9)	(1 674.9)
Share of associate's earnings	7	75.0	71.6
Profit before tax before capital items		1 800.2	1 807.7
Loss on capital items		(92.6)	(46.2)
(Loss)/profit on disposal of assets and insurance recoveries on scrapping of assets		(20.1)	241.8
Loss from impairments and scrapping of assets		(66.8)	(273.6)
Impairment loss on investment in associate	7	(5.7)	(14.4)
Profit before tax		1 707.6	1 761.5
Tax		(537.7)	(547.0)
Profit for the period		1 169.9	1 214.5
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss		(0.2)	25.4
Remeasurement in retirement scheme assets		(1.6)	35.3
Tax on items that will not be reclassified to profit or loss		1.4	(9.9)
Items that may be reclassified to profit or loss		(38.1)	16.2
Foreign currency translations		(67.3)	19.0
Movement in cash flow hedge		29.7	(0.2)
Tax on items that may be reclassified to profit or loss		(0.5)	(2.6)
Total comprehensive income for the period		1 131.6	1 256.1
Earnings per share		Cents	Cents
Basic earnings per share	4	243.37	253.34
Diluted earnings per share	4	242.54	252.43

* Included in merchandising and administration expenses is expected credit loss allowances, related to the Group's trade and other receivables, of R198.9 million (2022: R89.7 million).

GROUP STATEMENT OF FINANCIAL POSITION

	Note	As at 26 February 2023 Rm	As at 27 February 2022 Rm
ASSETS			
Non-current assets			
Intangible assets		1 424.4	987.1
Property, plant and equipment		8 893.2	7 150.5
Right-of-use assets		11 195.0	9 588.9
Net investment in lease receivables		1 949.1	2 069.0
Deferred tax assets		734.1	822.5
Investment in associate	7	72.4	106.0
Loans		117.8	85.9
Retirement scheme assets		68.6	122.0
Investment in insurance cell captive	11	71.3	47.4
Operating lease assets		8.9	7.9
Trade and other receivables		84.7	106.5
		24 619.5	21 093.7
Current assets			
Inventory		10 647.0	8 277.3
Trade and other receivables		4 472.0	4 207.6
Cash and cash equivalents		1 997.8	6 425.3
Net investment in lease receivables		333.4	319.1
Right-of-return assets		23.4	21.5
Derivative financial instruments	10	22.0	-
		17 495.6	19 250.8
Non-current asset held for sale		250.0	-
Total assets		42 365.1	40 344.5
EQUITY AND LIABILITIES			
Equity			
Share capital	5	6.0	6.0
Treasury shares	6	(643.8)	(702.1)
Retained earnings		4 685.2	4 717.3
Other reserves		20.1	(8.6)
Foreign currency translation reserve		(364.7)	(296.9)
Total equity		3 702.8	3 715.7
Non-current liabilities			
Lease liabilities		15 133.2	13 656.5
		15 133.2	13 656.5
Current liabilities			
Trade and other payables*		14 661.0	12 976.4
Lease liabilities		2 470.8	2 431.4
Deferred revenue		377.9	385.1
Bank overdraft and overnight borrowings		2 800.0	2 800.0
Borrowings		2 869.4	4 003.1
Current tax liabilities		269.8	279.8
Provisions*		80.2	88.8
Derivative financial instruments	10	-	7.7
		23 529.1	22 972.3
Total equity and liabilities		42 365.1	40 344.5
Number of ordinary shares in issue – thousands	5.1	493 450.3	493 450.3
Weighted average number of ordinary shares in issue – thousands	4.2	480 702.1	479 389.3
Diluted weighted average number of ordinary shares in issue – thousands	4.2	482 344.2	481 128.4
Net asset value (property value based on directors' valuation) – cents per share		803.0	827.1

* In order to improve disclosure, the Group has separately disclosed provisions previously recorded within trade and other payables

GROUP STATEMENT OF CHANGES IN EQUITY

for the period ended

	Share capital Rm	Treasury shares Rm	Retained earnings Rm	Other reserves Rm	Foreign currency translation reserve Rm	Total equity Rm
At 28 February 2021	6.0	(873.4)	4 573.5	(6.6)	(313.3)	3 386.2
Total comprehensive income for the period	-	-	1 239.9	(0.2)	16.4	1 256.1
Profit for the period	-	-	1 214.5	-	-	1 214.5
Foreign currency translations	-	-	-	-	16.4	16.4
Movement in cash flow hedge	-	-	-	(0.2)	-	(0.2)
Remeasurement in retirement scheme assets	-	-	25.4	-	-	25.4
Other reserve movements	-	-	-	(1.8)	-	(1.8)
Transactions with owners	-	171.3	(1 096.1)	-	-	(924.8)
Dividends paid	-	-	(959.6)	-	-	(959.6)
Share purchases	-	(114.2)	-	-	-	(114.2)
Net effect of settlement of employee share awards	-	285.5	(285.5)	-	-	-
Share-based payments expense	-	-	149.0	-	-	149.0
At 27 February 2022	6.0	(702.1)	4 717.3	(8.6)	(296.9)	3 715.7
Total comprehensive income for the period	-	-	1 169.7	29.7	(67.8)	1 131.6
Profit for the period	-	-	1 169.9	-	-	1 169.9
Foreign currency translations	-	-	-	-	(67.8)	(67.8)
Movement in cash flow hedge	-	-	-	29.7	-	29.7
Remeasurement in retirement scheme assets	-	-	(0.2)	-	-	(0.2)
Other reserve movements	-	-	-	(1.0)	-	(1.0)
Transactions with owners	-	58.3	(1 201.8)	-	-	(1 143.5)
Dividends paid	-	-	(1 112.8)	-	-	(1 112.8)
Share purchases	-	(90.1)	-	-	-	(90.1)
Net effect of settlement of employee share awards	-	148.4	(148.4)	-	-	-
Share-based payments expense	-	-	59.4	-	-	59.4
At 26 February 2023	6.0	(643.8)	4 685.2	20.1	(364.7)	3 702.8

GROUP STATEMENT OF CASH FLOWS

for the period ended

	Note	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Cash flows from operating activities		3 048.0	2 886.5
Trading profit		3 626.3	3 391.5
Adjusted for non-cash items			
Depreciation of property, plant and equipment		1 320.5	1 216.0
Depreciation of right-of-use assets		2 148.2	1 979.9
Amortisation of intangible assets		96.6	123.4
Share-based payments expense		59.4	149.0
Lease adjustments		(28.9)	(42.4)
Movement in operating lease assets		(1.0)	3.1
Movement in retirement scheme assets		51.8	(4.0)
Fair value and foreign exchange adjustments		(20.3)	(33.5)
Cash generated before movements in working capital		6 674.3	6 278.0
Movements in working capital		(968.2)	(563.6)
Movements in trade and other payables, provisions and deferred revenue		1 668.9	898.2
Movements in inventory and right-of-return assets		(2 338.2)	(1 074.2)
Movements in trade and other receivables		(298.9)	(387.6)
Cash generated from trading activities		5 706.1	5 714.4
Other interest received		251.7	300.1
Other interest paid		(431.4)	(341.0)
Interest received on net investment in lease receivables		191.9	203.7
Interest paid on lease liabilities		(1 446.0)	(1 364.4)
Cash generated from operations		4 272.3	4 512.8
Dividends received	7	16.0	20.1
Dividends paid		(1 112.8)	(959.6)
Tax paid		(458.4)	(403.9)
Cash generated from operating activities		2 717.1	3 169.4
Cash flows from investing activities			
Investment in intangible assets		(231.5)	(88.1)
Investment in property, plant and equipment		(3 401.9)	(1 990.1)
Purchase of operations	11	(329.7)	(55.7)
Proceeds on disposal of intangible assets		25.7	4.0
Proceeds on disposal of property, plant and equipment		42.6	135.9
Insurance proceeds on capital items		13.8	210.5
Principal net investment in lease receipts		299.1	251.6
Lease incentives received		89.6	52.0
Loans repaid		62.4	14.8
Loans advanced		(94.3)	(41.5)
Cash utilised in investing activities		(3 524.2)	(1 506.6)
Cash flows from financing activities			
Principal lease liability payments		(2 408.8)	(2 059.8)
Borrowings raised		6 804.8	6 020.4
Repayment of borrowings		(7 938.5)	(5 348.5)
Share purchases		(90.1)	(114.2)
Cash utilised in financing activities		(3 632.6)	(1 502.1)
Net (decrease)/increase in cash and cash equivalents		(4 439.7)	160.7
Net cash and cash equivalents at beginning of period		3 625.3	3 463.7
Foreign currency translations		12.2	0.9
Net cash and cash equivalents at end of period		(802.2)	3 625.3
Consisting of:			
Cash and cash equivalents		1 997.8	6 425.3
Overnight borrowings		(2 800.0)	(2 800.0)

NOTES TO THE FINANCIAL INFORMATION

for the period ended 26 February 2023

1 Basis of preparation and accounting policies

The summarised Group annual financial statements for the period ended 26 February 2023 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 annual financial statements do not include all the information required by IFRS for full financial statements and should be read in conjunction with the 2023 audited Group annual financial statements. The accounting policies applied in the preparation of the audited Group annual financial statements, from which the summarised Group annual financial statements were derived, are in terms of IFRS and are consistent with those applied in the financial statements for the 52 weeks ended 27 February 2022.

These summarised Group annual 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. Refer to Appendix 4 for an extraction of the key audit matters included in the auditor's report, and for an extraction of the relevant notes to the Group annual financial statement to which those key audit matters relate. The audited Group annual financial statements and the auditor's report thereon are available for inspection at the Company's (Pick n Pay Stores Limited) registered office.

The directors take full responsibility for the preparation of these summarised Group annual financial statements and the correct extraction of financial information from the underlying audited Group annual financial statements.

These summarised Group annual financial statements have been prepared by the Finance Division under the supervision of the Chief Finance Officer, Lerena Olivier CA(SA).

2 Revenue

2.1 Revenue

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Revenue from contracts with customers	108 409.0	99 514.1
Turnover (note 2.2)	106 561.8	97 872.8
Franchise fee income	447.7	428.3
Commissions and other income	1 399.5	1 213.0
Insurance recoveries**	260.7	748.2
Operating lease income	157.4	115.6
Finance income	451.1	524.5
Bank balances and investments	196.5	268.9
Trade receivables and other	63.8	50.7
Net investment in lease receivables	190.8	204.9
	109 278.2	100 902.4

2.2 Disaggregation of turnover*

South Africa operating segment (note 9)	102 721.3	94 535.2
Pick n Pay	71 372.2	68 450.4
Boxer	31 349.1	26 084.8
Rest of Africa operating segment (note 9)	3 840.5	3 337.6
Pick n Pay	3 292.5	2 839.7
Boxer	548.0	497.9
	106 561.8	97 872.8

* In order to improve disclosure, the Group has disaggregated turnover by operating segments and further by brand. Refer to note 8 for further information.

** Insurance recoveries includes insurance proceeds of R145.2 million received during the current year which related to the losses suffered in the prior year as a result of the civil unrest which occurred in South Africa during July 2021.

3 Finance costs

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Lease liabilities	1 342.5	1 333.9
Borrowings and other	431.4	341.0
	1 773.9	1 674.9

4 Basic, headline and diluted earnings per share

	52 weeks to 26 February 2023 Cents per share	52 weeks to 27 February 2022 Cents per share
Basic earnings per share	243.37	253.34
Diluted earnings per share	242.54	252.43
Headline earnings per share	259.25	262.59
Diluted headline earnings per share	258.36	261.65
	Rm	Rm

4.1 Reconciliation between basic and headline earnings

Profit for the period – basic earnings for the period	1 169.9	1 214.5
Adjustments:	76.3	44.4
Loss/(profit) on disposal of assets	33.9	(31.6)
Tax effect of (loss)/profit on disposal of assets	(9.5)	3.5
Loss from impairments and scrapping of assets	66.8	273.6
Tax effect of loss from impairments and scrapping of assets	(10.7)	(63.9)
Insurance recoveries on scrapping of assets due to civil unrest	(13.8)	(210.5)
Tax effect of insurance recoveries on scrapping of assets due to civil unrest	3.9	58.9
Impairment loss on investment in associate	5.7	14.4
Headline earnings for the period	1 246.2	1 258.9

For pro forma headline earnings per share and pro forma diluted headline earnings per share, refer to Appendix 3.

4.2 Number of ordinary shares

Number of ordinary shares in issue (note 5.1)	493 450.3	493 450.3
Weighted average number of ordinary shares in issue (excluding treasury shares)	480 702.1	479 389.3
Diluted weighted average number of ordinary shares in issue	482 344.2	481 128.4
Reconciliation of weighted average number of ordinary shares to diluted weighted average number of ordinary shares:		
Weighted average number of ordinary shares in issue (excluding treasury shares)	480 702.1	479 389.3
Dilutive effect of share awards	1 642.1	1 739.1
Diluted weighted average number of ordinary shares in issue	482 344.2	481 128.4

Any outstanding restricted shares granted in terms of the Group's executive restricted share plan, that have not yet met required performance hurdles, have no dilutive impact on the weighted average number of shares in issue.

5 Share capital

5.1 Ordinary share capital

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Authorised		
800 000 000 (2022: 800 000 000) ordinary shares of 1.25 cents each	10.0	10.0
Issued		
493 450 321 (2022: 493 450 321) ordinary shares of 1.25 cents each	6.0	6.0
	000's	000's
The number of shares in issue is made up as follows:		
Treasury shares (note 6)	12 380.1	13 224.8
Shares held outside the Group	481 070.2	480 225.5
Total shares in issue at end of period	493 450.3	493 450.3

The Company can issue new shares to settle the Group's obligations under its employee share schemes, but issues in this regard are limited, in aggregate, to 5% of total issued share capital or 24 672 516 (2022: 24 672 516) shares. To date, 15 743 000 (2022: 15 743 000) shares have been issued, resulting in 8 929 516 (2022: 8 929 516) shares remaining for this purpose.

The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at meetings of the Company.

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

5.2 B share capital

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Authorised		
1 000 000 000 (2022: 1 000 000 000) unlisted, non-convertible, non-participating, no par value B shares	-	-
Issued		
259 682 869 (2022: 259 682 869) unlisted, non-convertible, non-participating, no par value B shares	-	-

B shares are stapled to certain 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 5.1.

6 Treasury shares

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
At beginning of period	702.1	873.4
Shares purchased during the period	90.1	114.2
Settlement of employee share awards	(148.4)	(285.5)
At end of period	643.8	702.1
	000's	000's

The movement in the number of treasury shares held is as follows:

At beginning of period	13 224.8	15 268.6
Shares purchased during the period	1 617.9	2 200.0
Shares sold during the period pursuant to the take-up of share options by employees	(1 647.1)	(681.8)
Shares delivered to participants of restricted share plan	(815.5)	(3 562.0)
At end of period	12 380.1	13 224.8

7 Investment in associate

7.1 Accounting for investment in associate

The Group has a 49% investment in TM Supermarkets (Pvt) Limited (TM Supermarkets), a private company incorporated in Zimbabwe, and which operates supermarkets throughout Zimbabwe. The Group accounts for its investment in associate under the equity method of accounting in accordance with IAS 28 *Investment in Associates and Joint Ventures*.

In accordance with the provisions of IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29), entities operating in Zimbabwe have been assessed to be operating in a hyperinflationary economy. The equity accounted results of TM Supermarkets included in this Group result have therefore been prepared in accordance with IAS 29, with the following key accounting principles applied within the results of TM Supermarkets:

- All previously published financial information was restated to reflect the current buying power of the Zimbabwe dollar (ZWLS), and
- All assets and liabilities were revalued to reflect current values, which resulted in a non-cash net monetary adjustment recognised in the statement of comprehensive income of TM Supermarkets.

As the Group's presentation currency is not that of a hyperinflationary economy, the comparative information of the Group's financial results related to TM Supermarkets is not restated. Any difference between the Group's share of the TM Supermarkets adjusted equity balance after applying IAS 29 and the balance previously recorded by the Group is recognised in other comprehensive income in the current period, as part of foreign currency translations.

7.2 Exchange rates applied in translating the results of investment in associate

The share of associate's income and net asset value of TM Supermarkets have been translated into the Group's presentation currency at the closing rate in accordance with the hyperinflationary provisions of IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Zimbabwe operates a formal market-based foreign exchange trading system to establish formalised trading in ZWLS with other currencies (referred to as the auction rate). The intention of this auction rate system is expected to bring transparency and efficiency in the trading of foreign currency in the economy.

7 Investment in associate (continued)

7.2 Exchange rates applied in translating the results of investment in associate (continued)

In line with prior period assessments, management assessed that the closing auction rate of 0.020 ZWLS (2022: 0.123 ZWLS) to the South African rand is not available for immediate settlement, as shortages of foreign currency results in the official exchange rate not being liquid, and is therefore not an appropriate rate to use when accounting for the Group's investment in associate. An estimated exchange rate of 0.019 ZWLS (2022: 0.082 ZWLS) to the South African rand was used when translating the result of TM Supermarkets as at 26 February 2023. Inputs considered in this estimate include the official inflation rate, the in-country fuel price and the exchange rate applicable to dividends received from the Group's investment in associate during the period.

The table below summarises the exchange rates at which the results of TM Supermarkets have been translated into South African rand, for the relevant periods under review. The closing ZWLS to ZAR exchange rate was calculated using the official USD to ZAR exchange rate divided by the management estimated USD to ZWLS exchange rate. For comparative informational purposes, exchange rates based on the USD to ZWLS auction rate have also been presented.

	ZWLS : ZAR	USD : ZAR	USD : ZWLS
Closing rates at 26 February 2023			
Exchange rates used by management	0.019	18.22	966.00
Auction rate	0.020	18.22	889.10
Closing rates at 27 February 2022			
Exchange rates used by management	0.082	15.29	186.00
Auction rate	0.123	15.29	124.00

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
At beginning of period	106.0	69.7
Share of associate's earnings	75.0	71.6
Share of associate's earnings before net monetary adjustments	98.4	96.7
Share of associate's hyperinflation net monetary adjustments	(23.4)	(25.1)
Foreign currency translations	(86.9)	(0.8)
Impairment loss	(5.7)	(14.4)
Dividend declared and received	(16.0)	(20.1)
At end of period	72.4	106.0

7.3 Reconciliation of investment in associate

7.4 Impairment of investment in associate

During the period under review, significant judgement was applied by management in determining that the following impairment indicators of the Group's investment in associate exist:

- The devaluation and illiquidity of currency in Zimbabwe and the resultant impact on the Zimbabwean economy;
- Currency shortages and currency devaluation led to high levels of food and other inflation;
- The economy was subjected to increases in Zimbabwe inflation rates as published by the Reserve Bank of Zimbabwe; and
- The upward valuation of the assets of TM Supermarkets attributable to the application of hyperinflation accounting in terms of IAS 29.

Impairment reviews were performed and the Group concluded that the carrying value of its investment in associate exceeded its recoverable amount, resulting in an impairment loss of R5.7 million (2022: R14.4 million) recognised by the Group.

7 Investment in associate (continued)

7.4 Impairment of investment in associate (continued)

The recoverable amount of TM Supermarkets was determined based on value-in-use calculations. The calculation discounts future cash flow forecasts at an appropriate pre-tax rate that reflects the specific risks and challenges relating to TM Supermarkets. Management-approved future cash flow forecasts, over a period of five years, were based on past experience and the expected performance of the retail market in Zimbabwe. Cash flows beyond this period were extrapolated by applying a nil growth rate. The pre-tax discount rate applied to cash flow projections was 42.1% (2022: 44.9%).

Management believes that the carrying value of the Group's investment in associate of R72.4 million is reflective of the value of its investment in TM Supermarkets and that any reasonable possible change in key assumptions on which the recoverable amounts are based would not result in significant impairment losses. Refer to note 7.5.

7.5 Sensitivity analysis

The following tables represent the sensitivity analysis performed by management on the significant judgements applied in the accounting of the Group's investment in associate for the 52 weeks ended 26 February 2023.

7.5.1 Exchange rates applied in the translation of the results of the Group's investment in associate

If the exchange rate applied by management had been 10% higher or 10% lower, or the auction rate was applied, with all other variables held constant, the impact on the statement of comprehensive income and statement of financial position would have been as follows:

	Exchange rate applied by management			
	+10%		-10%	Auction rate*
	1.0 ZWL\$: 0.0170 ZAR	1.0 ZWL\$: 0.0189 ZAR	1.0 ZWL\$: 0.0208 ZAR	1.0 ZWL\$: 0.0205 ZAR
Impact on statement of comprehensive income				
Share of associate's earnings (Rm)	68.2	75.0	83.4	81.5
Impairment loss on investment in associate (Rm)	5.2	5.7	6.3	6.2
Impact on statement of financial position				
Investment in associate (Rm)	65.8	72.4	80.4	78.6

* Calculated by applying the auction rate of 1 USD to 889.1 ZWL\$

7 Investment in associate (continued)

7.5 Sensitivity analysis (continued)

7.5.2 Discount rate applied in the assessment of the recoverable amount of the Group's investment in associate

If the discount rate had been 10% higher or 10% lower, with all other variables held constant, the impact on the statement of comprehensive income and statement of financial position would have been as follows:

	+10%	As reported	-10%
Impact on statement of comprehensive income			
(Impairment loss on)/reversal of impairment on investment in associate (Rm)	(22.7)	(5.7)	23.4
Impact on statement of financial position			
Investment in associate (Rm)	55.4	72.4	101.5

7.5.3 Growth rate applied in the assessment of the recoverable amount of the Group's investment in associate

The sensitivity of the Group's exposure to the growth rate risk is estimated by assessing the impact of a reasonable expected movement in the relevant growth rates on our investment in TM Supermarkets. A sensitivity analysis is not presented as the estimated impact is not considered to be material.

8 Operating segments

52 weeks to 26 February 2023

	South Africa Rm	Rest of Africa Rm	Total operations Rm
Sales from customers	102 721.3	5 086.5	107 807.8
Turnover (note 2)	102 721.3	3 840.5	106 561.8
Direct deliveries*	–	1 246.0	1 246.0
Sales from customers disaggregated by brand	102 721.3	5 086.5	107 807.8
Pick n Pay	71 372.2	4 538.5	75 910.7
Boxer	31 349.1	548.0	31 897.1
Revenue	105 358.3	3 919.9	109 278.2
Revenue from contracts with customers (note 2)	104 553.6	3 855.4	108 409.0
Operating lease income (note 2)	155.2	2.2	157.4
Insurance recoveries (note 2)	245.0	15.7	260.7
Finance income (note 2)	404.5	46.6	451.1
Pro forma profit before tax, before capital items and before net monetary adjustments**^	1 524.1	154.3	1 678.4
Profit before tax before capital items	1 669.3	130.9	1 800.2
Hyperinflation net monetary adjustments	–	23.4	23.4
Insurance recoveries	(145.2)	–	(145.2)
Profit before tax **	1 596.5	111.1	1 707.6
Other information			
Statement of comprehensive income			
Depreciation and amortisation	3 491.3	74.0	3 565.3
Finance costs (note 3)	1 734.9	39.0	1 773.9
Share of associate's earnings (note 7)	–	75.0	75.0
Loss on disposal of assets and insurance recoveries on scrapping of assets	20.1	–	20.1
Loss from impairments and scrapping of assets	52.7	14.1	66.8
Impairment loss on investment in associate (note 7)	–	5.7	5.7
Statement of financial position			
Total assets	40 405.0	1 960.1	42 365.1
Total liabilities	37 681.3	981.0	38 662.3
Investment in associate (note 7)	–	72.4	72.4
Additions to non-current assets	7 745.5	100.4	7 845.9

* Included in sales from customers, as reviewed by the CODM of the Group, are deliveries made directly to franchisees by in-country suppliers, in those countries where the Group does not have a statutory presence. These deliveries do not qualify as sales, or turnover, in terms of IFRS but are included in sales from customers for the purposes of the Group's review of operating segments. In those countries where the Group has a statutory presence, including South Africa, direct deliveries are included in the Group's reported turnover.

** "Segmental profit before tax" and "segmental pro forma profit before tax, before capital items and before net monetary adjustments" are reported measures used for evaluating the performance of the Group's operating segments. On an overall basis, these metrics equal the Group's reported "profit before tax", and "pro forma profit before tax, before capital items and before net monetary adjustments", respectively. These metrics, for the Rest of Africa segment, comprise the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental costs incurred by the South Africa segment relating to the Rest of Africa segment.

^ Calculated as profit before tax before capital items, excluding the Group's share of hyperinflation net monetary adjustments recognised by the Group's associate attributable to the application of IAS 29 for the current and prior period and, for the current period only, excluding insurance recoveries received of R145.2 million. Refer to Appendix 1 for further information.

8 Operating segments (continued)

52 weeks to 27 February 2022

	South Africa Rm	Rest of Africa Rm	Total operations Rm
Sales from customers*	94 535.2	4 438.8	98 974.0
Turnover (note 2)	94 535.2	3 337.6	97 872.8
Direct deliveries*	–	1 101.2	1 101.2
Sales from customers disaggregated by brand*	94 535.2	4 438.8	98 974.0
Pick n Pay	68 450.4	3 940.9	72 391.3
Boxer	26 084.8	497.9	26 582.7
Revenue*	97 521.9	3 380.5	100 902.4
Revenue from contracts with customers (note 2)	96 163.1	3 351.0	99 514.1
Operating lease income (note 2)	114.9	0.7	115.6
Insurance recoveries (note 2)	748.2	–	748.2
Finance income (note 2)	495.7	28.8	524.5
Pro forma profit before tax, before capital items and before net monetary adjustments**^	1 859.0	119.0	1 978.0
Profit before tax before capital items	1 713.8	93.9	1 807.7
Hyperinflation net monetary adjustments	–	25.1	25.1
Insurance recoveries	145.2	–	145.2
Profit before tax **	1 672.5	89.0	1 761.5
Other information			
Statement of comprehensive income			
Depreciation and amortisation	3 235.7	83.6	3 319.3
Finance costs (note 3)	1 641.3	33.6	1 674.9
Share of associate's earnings (note 7)	–	71.6	71.6
Profit on disposal of assets and insurance recoveries on scrapping of assets	237.3	4.5	241.8
Loss from impairments and scrapping of assets	235.7	37.9	273.6
Impairment loss on investment in associate (note 7)	–	14.4	14.4
Statement of financial position			
Total assets	38 735.1	1 609.4	40 344.5
Total liabilities	35 726.1	902.7	36 628.8
Investment in associate (note 7)	–	106.0	106.0
Additions to non-current assets	4 328.5	105.3	4 433.8

* Included in sales from customers, as reviewed by the CODM of the Group, are deliveries made directly to franchisees by in-country suppliers, in those countries where the Group does not have a statutory presence. These deliveries do not qualify as sales, or turnover, in terms of IFRS but are included in sales from customers for the purposes of the Group's review of operating segments. In those countries where the Group has a statutory presence, including South Africa, direct deliveries are included in the Group's reported turnover.

** "Segmental profit before tax" and "segmental pro forma profit before tax, before capital items and before net monetary adjustments" are reported measures used for evaluating the performance of the Group's operating segments. On an overall basis, these metrics equal the Group's reported "profit before tax", and "pro forma profit before tax, before capital items and before net monetary adjustments", respectively. These metrics, for the Rest of Africa segment, comprise the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental costs incurred by the South Africa segment relating to the Rest of Africa segment.

^ Calculated as profit before tax before capital items, excluding the Group's share of hyperinflation net monetary adjustments recognised by the Group's associate attributable to the application of IAS 29 for the current and prior period, and for the prior period only, including insurance recoveries received post year-end of R145.2 million. Refer to Appendix 1 for further information.

In line with improvements to current year disclosures, prior year disclosures were amended.

9 Related party transactions

During the period under review, in the ordinary course of business, certain companies within the Group entered into transactions with each other. These intergroup transactions and related balances are eliminated on consolidation. Intergroup transactions are similar to those in the prior year and related parties remain unchanged from those reported at 27 February 2022.

10 Financial instruments

All financial instruments held by the Group are measured at amortised cost, with the exception of financial instruments at fair value through profit or loss and derivatives designated as hedging instruments, as set out below:

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Financial assets at fair value through profit or loss		
Investment in insurance cell captive – Level 2	71.3	47.4
Derivative financial instruments (designated as hedging instruments)		
Forward exchange contract assets/(liabilities) – Level 2	22.0	(7.7)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data, where it is available, and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The carrying value of all other financial instruments held at amortised cost 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.

11 Purchase of operations

The Group converted 22 (2022: seven) franchise stores to Pick n Pay and Boxer company owned stores, none of which is individually material to the Group. These acquisitions had no significant impact on the Group's results, but are now delivering stronger store sales growth and improved store profitability. The goodwill arising from these acquisitions represents the value creation that the Group expects to realise in the future.

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
The net assets arising from these acquisitions were as follows:		
Identifiable net assets		
Property, plant and equipment	30.0	27.9
Inventory	34.4	13.8
Total identifiable net assets at fair value	64.4	41.7
Goodwill		
Purchase price of acquisitions at fair value	397.2	69.5
Less: total identifiable net assets at fair value	(64.4)	(41.7)
Goodwill acquired	332.8	27.8
Net cash paid in respect of acquisitions		
Purchase price of acquisitions at fair value	397.2	69.5
Less: amounts net settled against trade and other receivables	(67.5)	(13.8)
Net cash paid	329.7	55.7

12 Commitments

Authorised capital expenditure

Contracted for	740.0	1 221.2
Not contracted for	3 260.0	2 778.8
Total commitments	4 000.0	4 000.0

The Group anticipates to spend R4 billion of capital expenditure to deliver on its Ekuseni strategic plan, balancing these investment requirements against what is needed to ensure we are energy resilient in light of the load shedding in South Africa. This will be funded through free cash flow generated and borrowings.

In addition to the commitments disclosed above, the Group has completed the development of Pick n Pay's new Eastport Distribution Centre in Gauteng in partnership with Fortress Reit Limited, replacing the Group's Longmeadow Distribution Centre. It is the intention to purchase 60% of the Eastport distribution centre at a projected value of R1.2bn, however the purchase is subject to conditions precedent in the sale agreement. The purchase will be funded by the proceeds from the sale of Longmeadow asset held for sale, and the Group is considering alternative financing arrangements for the 60% stake, including lease financing alternatives. As a result, the Group has made the commitment to lease any portion of the Eastport distribution centre that it will not own in the future.

13 Subsequent events Restructuring programmes

Companies within the Pick n Pay Stores Limited Group formalised and communicated a Voluntary Severance Programme (VSP), and a junior store management s189 restructuring programme aimed at delivering targeted benchmarks in terms of support office and store-level efficiency gains, during March 2023. Both these processes are currently underway and the financial impact will be reflected in the 2024 financial year.

Long-term funding

The Board approved an unsecured bilateral loan of R1 billion on 3 May 2023. The Group is currently in the final stages of concluding a syndicated loan process of R4.5 billion, with an expected completion date being the end of May 2023. Both of these loans are linked to our Environmental, Social and Governance (ESG) targets.

APPENDIX 1

Pro forma information

Certain financial information presented in these summarised Group annual financial statements constitutes pro forma financial information.

1 Pro forma earnings metrics

The pro forma earnings information presented in accordance with the JSE Listing Requirements and the SAICA guide on Pro forma Financial Information, is the responsibility of the Board of directors of the Group and is presented for illustrative purposes only. Because of its nature, the pro forma earnings information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows. The pro forma earnings information is based on the audited financial information of the Group for the period ended 26 February 2023 and has been prepared using the accounting policies of the Group which comply with IFRS and are consistent with those applied in the audited financial information.

Insurance proceeds received during the period under review

The financial result for the 52 weeks ended 26 February 2023 includes the cash receipt of R145.2 million (R104.5 million net of tax) of insurance proceeds. These insurance recoveries relate directly to the civil unrest losses suffered by the Group during the prior reporting period as a result of civil unrest, and which was accounted for in the pro forma earnings presented in the 52 weeks ended 27 February 2022. Refer to the 2022 audited Group annual financial statements.

In management's view, these losses and insurance recoveries should be viewed together. Recording the losses in one financial year and the recoveries in the next financial year does not provide users with an accurate assessment of the Group's comparable year-on-year earnings performance. As a result, the insurance recoveries were included in prior year pro forma earnings. The Group has therefore presented its current period earnings on a pro forma basis, by excluding the R145.2 million insurance proceeds (R104.5 million, net of tax) received during the period.

Hyperinflation net monetary adjustments

Zimbabwe is classified as a hyperinflationary economy. The equity accounted earnings of the Group's investment in associate operating in Zimbabwe is accounted for under IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29), with the impact presented below.

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Share of associate's earnings excluding net monetary adjustments	98.4	96.7
Share of associate's hyperinflation net monetary adjustments	(23.4)	(25.1)
Reported share of associate's earnings	75.0	71.6
Impairment loss on investment in associate as a result of hyperinflation accounting	(5.7)	(14.4)
	69.3	57.2

Reported profit before tax and reported headline earnings include the impact of hyperinflation accounting attributable to the Group's investment in associate. In management's view, this impact of hyperinflation accounting does not provide stakeholders with an accurate assessment of the Group's comparable year-on-year earnings performance. As a result, the Group has presented its earnings for the current and prior period on a pro forma basis, by excluding the Group's share of associate's hyperinflation net monetary loss of R23.4 million (2022: R25.1 million), with no impact on tax. Refer to note 7 of the summarised Group annual financial statements for more information.

Pro forma information (continued)

1 Pro forma earnings metrics (continued)

The table below presents the key changes to items presented on a pro forma basis:

The Group's external auditor, Ernst & Young Inc., has issued an independent reporting accountant's assurance report on the pro forma adjustments made by the Group (namely, removing the impact of IAS 29 and insurance recoveries received during the current year), which is available for inspection at the Company's (Pick n Pay Stores Limited) registered office.

	As reported Rm	Remove Impact of IAS 29 Rm	Remove insurance recoveries received during the period Rm	Pro forma Rm
52 weeks to 26 February 2023				
Group				
Other income	2 265.3	–	(145.2)	2 120.1
Trading profit	3 048.0	–	(145.2)	2 902.8
Profit before tax before capital items	1 800.2	23.4	(145.2)	1 678.4
Profit before tax	1 707.6	–	(145.2)	1 562.4
Tax	537.7	–	(40.7)	497.0
Profit for the period	1 169.9	–	(104.5)	1 065.4
Headline earnings (Appendix 3)	1 246.2	23.4	(104.5)	1 165.1
South Africa operating segment				
Profit before tax before capital items	1 669.3	–	(145.2)	1 524.1
Rest of Africa operating segment				
Profit before tax before capital items	130.9	23.4	–	154.3
	Cents	Cents	Cents	Cents
Headline earnings per share (Appendix 3)	259.25	4.87	(21.75)	242.37
Diluted headline earnings per share (Appendix 3)	258.36	4.85	(21.66)	241.55
	As reported Rm	Remove Impact of IAS 29 Rm	Add insurance recoveries received post year-end Rm	Pro forma Rm
52 weeks to 27 February 2022				
Group				
Other income	2 505.1	–	145.2	2 650.3
Trading profit	2 886.5	–	145.2	3 031.7
Profit before tax before capital items	1 807.7	25.1	145.2	1 978.0
Profit before tax	1 761.5	–	145.2	1 906.7
Tax	547.0	–	40.7	587.7
Profit for the period	1 214.5	–	104.5	1 319.0
Headline earnings (Appendix 3)	1 258.9	25.1	104.5	1 388.5
South Africa operating segment				
Profit before tax before capital items	1 713.8	–	145.2	1 859.0
Rest of Africa operating segment				
Profit before tax before capital items	93.9	25.1	–	119.0
	Cents	Cents	Cents	Cents
Headline earnings per share (Appendix 3)	262.59	5.25	21.80	289.64
Diluted headline earnings per share (Appendix 3)	261.65	5.22	21.72	288.59

Pro forma information (continued)

2 Constant currency disclosures

Constant currency information constitutes pro forma information. The Group discloses constant currency information in order to report on the Group's turnover and the Group's Rest of Africa sales from customers, excluding the impact of foreign currency fluctuations (collectively the "constant currency pro forma information").

The constant currency pro forma information has been presented to illustrate the impact of changes in the Group's major foreign currencies, namely the Zambia kwacha and the Botswana pula.

The Group's turnover growth in constant currency is calculated by translating the prior period local currency turnover at the current period average exchange rates on a country-by-country basis and then comparing that against the current period turnover translated at current period average exchange rates.

The sales from customers growth in constant currency is calculated by translating the prior period local currency sales from customers at the current period average exchange rates on a country-by-country basis and then comparing that against the current period sales from customers translated at the current period average exchange rates.

The average Zambia kwacha exchange rate to the South African rand for the 52 weeks ended 26 February 2023 was 1.02 (2022: 1.27) and the average Botswana pula exchange rate to the South African rand for the 52 weeks ended 26 February 2023 was 0.75 (2022: 0.75).

The constant currency pro forma information is presented in accordance with JSE Listings Requirements, is the responsibility of the Board of directors of the Group and is presented for illustrative purposes only. Because of its nature, the constant currency pro forma financial information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows.

The Group's external auditor has issued a reporting accountant's report on the constant currency pro forma information, which is available for inspection at the Company's (Pick n Pay Stores Limited) registered office.

	Increase reported currency	Increase constant currency
52 weeks to 26 February 2023		
Group turnover (%)	8.9	8.6
Rest of Africa sales from customers (%)	14.6	7.8

APPENDIX 2

Additional information

Additional information may not represent a defined term under IFRS and, as a result, it may not be comparable with similarly titled measures reported by other companies. Additional information is the responsibility of the Board of directors of the Group, is presented for illustrative purposes only and has not been reviewed nor reported on by the Group's auditors.

1 Like-for-like turnover and expense growth comparisons

Like-for-like turnover and expense growth comparisons remove the impact of store openings, closures; and conversions in the current and previous reporting periods.

2 Underlying earnings metrics

The Group has presented underlying metrics for gross profit margin and profit before tax before capital items.

Underlying gross profit margin for the 52 weeks ended 27 February 2022, excludes management's best estimate of the impact of the civil unrest which occurred in July 2021 in South Africa on gross profit. Refer to the 2022 audited Group annual financial statements for more detail.

Underlying profit before tax before capital items for the 52 weeks ended 26 February 2023, exclude the R430 million of net incremental energy costs incurred in the current period related to loadshedding in South Africa. The R430 million reflects management's best estimate of the incremental costs of running diesel generators to power the Group's estate during loadshedding (R522 million), net of estimated electricity cost savings we would have incurred if there was no loadshedding (R92 million).

APPENDIX 3

The table below presents the Group's earnings performance on a pro forma basis.

The Group has presented its earnings on a pro forma basis, by excluding R145.2 million (R104.5 million net of tax) of insurance proceeds received in the current period, but which related to the civil unrest losses suffered by the Group in the prior period. During the prior period the Group accounted for these insurance proceeds in pro forma earnings presented. Furthermore, the Group has excluded hyperinflation net monetary adjustments attributable to IAS 29 from the current and prior periods. Refer to Appendix 1 for further information.

	% change	52 weeks to 26 February 2023 Cents per share	52 weeks to 27 February 2022 Cents per share
Earnings per share			
Basic earnings per share	(3.9)	243.37	253.34
Diluted earnings per share	(3.9)	242.54	252.43
Headline earnings per share	(1.3)	259.25	262.59
Diluted headline earnings per share	(1.3)	258.36	261.65
Pro forma headline earnings per share			
Pro forma headline earnings per share	(16.3)	242.37	289.64
Pro forma diluted headline earnings per share	(16.3)	241.55	288.59
		Rm	Rm
Reconciliation between basic and headline earnings			
Profit for the period – basic earnings for the period		1 169.9	1 214.5
Adjustments:		76.3	44.4
Loss/(profit) on disposal of assets		33.9	(31.6)
Tax effect of (loss)/profit on disposal of assets		(9.5)	3.5
Loss from impairments and scrapping of assets		66.8	273.6
Tax effect of loss from impairments and scrapping of assets		(10.7)	(63.9)
Insurance recoveries on scrapping of assets due to civil unrest		(13.8)	(210.5)
Tax effect of insurance recoveries on scrapping of assets due to civil unrest		3.9	58.9
Impairment loss on investment in associate		5.7	14.4
Headline earnings for the period (note 4)		1 246.2	1 258.9
Adjusted for hyperinflation net monetary adjustment (note 7)		23.4	25.1
Adjusted for insurance proceeds received (Appendix 1)		(145.2)	145.2
Adjusted for tax effect of insurance proceeds received (Appendix 1)		40.7	(40.7)
Pro forma headline earnings		1 165.1	1 388.5
The table below presents the Group's share information			
		000's	000's
Number of ordinary shares in issue (note 5.1)		493 450.3	493 450.3
Weighted average number of ordinary shares in issue (excluding treasury shares)		480 702.1	479 389.3
Diluted weighted average number of ordinary shares in issue		482 344.2	481 128.4

APPENDIX 4

These summarised Group annual 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 table below, which provides information on the key audit matter applicable to the audit of the Group annual financial statements, is an extraction of Ernst & Young Inc. audit report and should be read in conjunction with the full audit report. An extraction of notes to the 2023 audited Group annual financial statements to which the key audit matter relates to has been included within this Appendix. The audited Group annual financial statements, and the auditor's report there on, are available for inspection at the Company's (Pick n Pay Stores Limited) registered office.

Extract of Ernst & Young Inc. Report on the Audit of the Pick n Pay Stores Limited Consolidated and Separate Financial Statements:

Key Audit Matters

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

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

The key audit matters only apply to the audit of the consolidated financial statements.

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in the audit
Allowance for impairment of franchise debtors	
<p>The current socio-economic conditions in Southern Africa continue to put pressure on customers with the added impacts of loadshedding further constraining franchisee finances and their ability to meet payment terms.</p> <p>Pick n Pay has franchise owners throughout South Africa, Botswana, Namibia, Lesotho and eSwatini, resulting in a significant amount of trade receivables from franchise fees and sales to franchisees with a gross debt balance of R4 003 million (2022: R3 787 million).</p> <p>In assessing the recoverability of franchise debtors and raising the estimated allowance for impairment of these franchise debtors in the consolidated annual financial statements of Pick n Pay Stores Limited, management exercised significant judgement.</p> <p>Management judgement included consideration of the lifetime expected credit loss from individual franchisees after taking into account their creditworthiness; whether the individual franchisee has financial difficulties; experience of default or delinquency in interest or principal payments and revised repayment terms; the age analysis of the outstanding debt; and, if applicable, the fair value of collateral provided by franchisees. The judgements applied by management are subjective and have a significant impact on determining the level of provision required for trade receivables.</p> <p>The allowance for impairment of franchise debtors is R195 million (2022: R141 million). Due to the materiality of the amount and the significant judgement applied by management, we considered this a key audit matter in the current year.</p> <p>The disclosures related to the allowance for credit losses on franchise debtors are reflected in notes 16, 119 and note 17 of the financial statements.</p>	<p>Our audit procedures, amongst others, included the following procedures to assess the adequacy of the allowance for impairment of franchise debtors:</p> <ul style="list-style-type: none"> • We obtained an understanding of management's controls and processes for identifying, quantifying and impairing franchise debtors. • We assessed and tested the design and operating effectiveness of the controls over the franchise debtors' data by testing on a sample basis: <ul style="list-style-type: none"> » The approval of credit limits for franchise debtors, » The aging of franchise debtors, » Confirmations from franchise debtors of the outstanding balance. • We recalculated a sample of individual expected credit losses making up the provision, considering various factors influencing the calculation, including: <ul style="list-style-type: none"> » Historical data adjusted for current market conditions, » Guarantees provided by the franchisee, » Subsequent receipts in our roll-forward testing period, » Stock balances, » VAT adjustments, » Variation agreements, » Loyalty fees deductible, » Conversion of foreign currency into Rands, » Together with our quantitative advisory specialists, we recalculated the probability given default and the loss given default for franchise debtors. • We also considered the sensitivity of the collective provisions to changes in modelling assumptions.
Goodwill and store impairments	
<p>Goodwill for the Group has a carrying value of R952.8 million at 26 February 2023 (2022: R624.7 million). Goodwill originated from the purchase of subsidiaries in prior years, and the purchase of individual stores in the current and prior years. Disclosures relating to goodwill is included in notes 16, 17, 115 and note 9 of the financial statements.</p> <p>The group also considers each store to be a separate cash generating unit (CGU). The disclosures of the impairment of property, plant and equipment and right of use assets is reflected in (notes 16, 18, 110, 115, 10 and note 11 of the financial statements).</p> <p>In assessing the recoverable amount of the goodwill and store cash generating unit, management applies judgement in determining the methodology used to determine which store cash generating units to test as well as assumptions and inputs to calculate the fair value less costs of disposal and value-in-use computations.</p> <p>We focused our attention on the assumptions applied and inputs used by management in forecasting cash flows as well as those used in the calculation of fair value less costs of disposal, including forecast growth rates for the explicit and terminal forecast periods and forecast trading margins. Furthermore, we focused our attention on the assumptions and inputs used in calculating discount rates, including the judgement involved in quantifying a specific risk premium for the increased number of stores to which the goodwill is attributable due to the significant increase in stores purchased compared to prior periods.</p> <p>Due to the difficult trading environment and deteriorating macro-economic conditions, the assessment of the reasonableness of assumptions relating to cash flow forecasts required robust dialogue and extensive use of internal valuation specialists. Accordingly, the matter has been considered a key audit matter.</p>	<p>With the assistance of our internal valuation specialists, our procedures relating to the goodwill and store impairment assessment, included, amongst others:</p> <ul style="list-style-type: none"> • Evaluation of the methodology applied by management in determining the fair value less costs of disposal and value in use for cash generating units, with reference to the requirements of accounting standards and our knowledge of the business. • Evaluating the key assumptions and judgements in management's forecasts, including the revenue growth rates, trading margins, cost growth rate assumptions, working capital and capital expenditure cash flows, and the weighted average cost of capital used to discount the forecast cash flows, by assessing the reasonableness of key assumptions against historic performance and market information. • Assessing the discount rates against external market references and recalculating the discount rates used. • Assessing the assumptions and calculations of fair value less cost of disposal for cash generating units with reference to recent market transactions and to evaluate the reasonableness of management's assessments. • Recalculating management's discounted cash flow models for arithmetical accuracy. • In conjunction with our internal financial reporting specialists, we assessed the completeness and accuracy of the disclosures relating to the impairment assessments with reference to the requirements of IAS 36 Impairment of Assets.

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in the audit
Supplier rebates and other income earned from suppliers	
<p>Refer to note 16 (Use of estimates and assumptions – Purchase rebates and other income earned from suppliers) of the group consolidated financial statements for the related disclosures.</p> <p>The Group earns significant amounts of rebates and other income and recognises the relevant portion of these as a reduction in the cost of inventory where the payments do not relate to a specific and genuine service. Management have applied significant judgement relating to the determination of these rebates and other income received as a reduction in the purchase price of inventory which has an impact on the measurement of inventory as at 26 February 2023.</p> <p>We had focused attention in this area due to the judgement required in assessing the accounting for various rebate and other income contracts, as well as the complexity of the calculation used in recognising the relevant portion of these as a reduction in the closing cost of inventory. In addition to the complexity of the calculation, we note that as a result of the volume and variety of rebate and other income agreements, for which the terms vary from period to period, there is significant audit effort required.</p> <p>This fact and the materiality of the impact to the valuation of the closing cost of inventory meant we considered this a key audit matter in the current period.</p>	<p>Our procedures relating to the effect of rebates and other income earned from suppliers as a reduction in the purchase price of inventories included, amongst others:</p> <ul style="list-style-type: none"> • We inspected several major supplier agreements to understand their terms and conditions. • We assessed management's conclusion as to whether the rebate relates to a specific and genuine service, and consequently the treatment of the rebate in relation to the measurement of the cost of inventory at year end. • We assessed the systems used to calculate rebates as well as the controls implemented in the process of rebate calculation. • We recalculated and assessed the rebate amounts recognised and the period in which they were recognised. This was based on the inspection of contractual performance obligations on a sample of contracts with suppliers to assess the conditions required for supplier rebates to be recognised and whether these had been met. • We assessed the recognition and classification of the rebates and other income from suppliers and related costs in terms of the requirements of IAS 2 Inventories.
Accounting treatment of the Eastport transaction	
<p>In the prior financial year, the Group entered into a head of agreement with Fortress REIT Limited for the development of the Eastport Distribution Centre ("DC"). We reviewed the agreement during the prior year audit; however, the core terms of the contract had not yet come into effect.</p> <p>During the period ended 26 February 2023, certain core terms came into effect including the leasing of the DC by the Group from Fortress. The effect of these terms resulted in the consideration of the following accounting standards:</p> <ul style="list-style-type: none"> • IFRS 5: Non-Current Assets Held for Sale; and • IFRS 16 Leases. <p>Given the complexity and materiality of the agreement additional effort was required in assessing the management's accounting treatment of the transaction. This matter was considered a key audit matter in our audit of the consolidated financial statements of the Group.</p> <p>The disclosures required by IFRS 16 Leases have been addressed in notes 116, 118 and note 25 of the financial statements. The disclosures of non-current assets held for sale have been reflected in note 10 of the financial statements.</p>	<p>Our procedures relating to the accounting for the Eastport transaction, amongst others, included:</p> <ul style="list-style-type: none"> • We obtained an understanding of the core terms of the contract. • We assessed management's accounting treatment of the transaction. • Our assessment involved our internal financial reporting specialists in assessing management's IFRS 5 and IFRS 16 considerations. • Applying the lease terms embedded in the heads of agreement, we recalculated management's computation of the lease liability and assessed the incremental borrowing rate. • In conjunction with our internal financial reporting specialists, we assessed the completeness and accuracy of disclosures with reference to the requirements of IFRS 16 Leases and IFRS 5 Non-current assets held for sale.

Provided on the following pages is an extract of relevant notes from the 2023 audited Group annual financial statements, to which the key audit matters refer to.

Extracts of the 2023 audited Group annual financial statements

Note 1.6 Accounting Policies: Use of estimates, judgements and assumptions

The preparation of these annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Estimates, judgements and assumptions used in the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include, but are not limited to, the following:

Purchase rebates and other income earned from suppliers

The Group enters into various agreements with suppliers and these agreements provide for various purchase rebates and other income.

Purchase rebates are accrued for as part of cost of inventory sold when they are closely related to the purchase of inventory. Management uses judgement when assessing the nature of the rebates earned for recognition as a reduction in the purchase price of inventories and when recognising the relevant portion as a reduction in the cost of inventory.

Taking into account cumulative purchases of inventory to date, as well as historical and forecasted performance, management uses judgement to estimate the probability of meeting contractual obligations and in determining the amount of volume-related rebates recognised. Rebates received may therefore differ from that which has been accrued.

Other income earned from suppliers is recognised in revenue, within other income, when services are provided to suppliers that are not closely related to the purchase of inventory and when the Group can reasonably estimate the fair value of the service. Management uses judgement in determining whether the services provided to suppliers are sufficiently separable from the purchase of inventory, by determining if the supplier could have entered into an agreement with a party, other than a purchaser of its inventory, in order to receive those services.

Provision for expected credit losses on net investment in lease receivables, loans and trade and other receivables

The Group has established a provision matrix that is based on historical credit loss experience and applicable credit insurance, adjusted for forward looking factors specific to net investment in lease receivables, loans and trade and other receivables and the economic environment. At each reporting period, the historical observed default rates are updated and changes in forward looking estimates are analysed. The assessment of historical observed default rates and forward-looking factors require significant judgement and estimates. The Group's historical credit loss experience and forecast economic conditions may therefore not be representative of the actual default in the future. Refer to notes 12, 15, 17 and 30 of the 2023 audited Group annual financial statements.

Estimates of useful lives and residual values of intangible assets

Intangible assets are amortised over their useful lives, taking into account applicable residual values. Useful lives and residual values are reviewed at each reporting date, taking into account factors such as the manner of recovery, innovation in technology and relevant market information.

Estimates of useful lives and residual values of property, plant and equipment

Property, plant and equipment are depreciated over their useful lives, taking into account applicable residual values. Useful lives and residual values are reviewed at each reporting date, considering factors such as the manner of recovery and relevant market information.

Extracts of the 2023 audited Group annual financial statements (continued)

Note 1.6 Accounting Policies: Use of estimates, judgements and assumptions (continued)

Estimates of useful lives of right-of-use assets

Right-of-use assets are depreciated over their useful lives and are directly linked to the lease term of the underlying lease agreement that has been accounted for in the measurement of the corresponding lease liabilities. Useful lives are reviewed at each reporting date, considering factors such as lease term extension and termination options.

Classification of leases

Judgement is applied when assessing whether an arrangement should be treated as a lease. Where the Group acts as lessor, judgement is applied in determining whether the risks and rewards of the underlying asset have been transferred in order to classify leases as either finance leases or operating leases.

Estimates of lease terms of lease agreements

Lease terms applicable to lease agreements, relating to the Group's net investment in lease receivables and lease liabilities, are negotiated on an individual basis and contain a wide range of various terms and conditions. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Management exercises judgement in determining the reasonable certainty of exercising termination or extension options in determining the lease term, including considerations of the age of the lease, the nature of the leased asset and the expected return on the underlying cash generating unit to which the leased asset belongs.

Subsequent to the commencement date of lease agreements, lease terms are reassessed when there is a significant event or change in circumstances that is within the Group's control and affects its ability to exercise or not to exercise the option to renew or to terminate. Significant events could include a change in the Group's assessment of whether it is reasonably certain to exercise a renewal or termination option, the incurrences of unanticipated significant leasehold improvements or the negotiation of unanticipated lease incentives.

Estimates of useful lives and residual values of intangible assets

Intangible assets are amortised over their useful lives, taking into account applicable residual values. Useful lives and residual values are reviewed at each reporting date, taking into account factors such as the manner of recovery, innovation in technology and relevant market information.

Note 1.7 Intangible assets

Intangible assets are held by the Group for use in the supply of goods or administrative purposes and are expected to be used for more than one financial period. Intangible assets acquired are initially recognised at cost if it is probable that associated future economic benefits will flow to the Group and the cost can be measured reliably.

If intangible assets are acquired via a business combination, initial recognition is at fair value.

Intangible asset development consists of two phases; research phase and development phase. Expenditure incurred during the research phase is expensed as incurred.

Intangible assets that are developed are initially recognised at cost if the cost can be measured reliably, the intangible assets are technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete the development. If not, the development expenses are recognised in the statement of comprehensive income when they are incurred.

Intangible assets are subsequently measured at cost less accumulated amortisation and impairment losses, with the exception of goodwill. Goodwill is measured at cost less accumulated impairment losses as it has an indefinite useful life and is not amortised.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised but are expensed in the statement of comprehensive income when they are incurred.

Extracts of the 2023 audited Group annual financial statements
(continued)

Note 1.7 Intangible assets (continued)

Cost

The cost of intangible assets includes expenditure that is directly attributable to the acquisition of the intangible asset. The cost of developed intangible assets includes the cost of materials, direct labour and any overhead costs directly attributable to preparing the intangible asset for its intended use.

The Group recognises in the carrying amount of intangible assets, subsequent expenditure when that cost is incurred, if it is probable that the future economic benefits embodied with the cost will flow to the Group and the cost can be measured reliably. All other costs, such as costs associated with the implementation or maintenance of intangible assets, are recognised in the statement of comprehensive income as an expense when incurred.

Goodwill is acquired through business combinations and initially measured at the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Amortisation

Amortisation is calculated on the cost of an intangible asset, less its residual value, over its useful life. The residual value is the estimated amount that the Group would receive from the disposal of the intangible asset, after deducting the estimated costs of disposal, if the intangible asset was already of the age and the condition expected at the end of its useful life.

Management determines the amortisation methods, useful lives and residual values at acquisition. These are reviewed at each reporting date and adjusted if appropriate. Any adjustments are accounted for prospectively as a change in estimate.

Amortisation is recognised as an expense in the statement of comprehensive income, within operational expenses, on a straight-line basis over the estimated useful life of each intangible asset from the date that it is available for its intended use.

Useful lives

The estimated useful lives, per category of intangible assets, are as follows:

Goodwill	Indefinite
Systems development	4 to 8 years
Licences	9 to 10 years

Impairment

Intangible assets are assessed for impairment as non-financial assets in accordance with note 1.15.

Derecognition

Intangible assets are derecognised upon disposal or when no future economic benefits are expected to flow to the Group from either their use or disposal. Gains or losses on derecognition of an intangible asset are determined by comparing the proceeds from disposal, if applicable, with the carrying amount of the intangible asset and are recognised directly in the statement of comprehensive income.

Extracts of the 2023 audited Group annual financial statements
(continued)

Note 1.8 Property, plant and equipment

Property, plant and equipment are tangible assets held by the Group for use in the supply of goods or for administrative purposes and are expected to be used for more than one financial period. Property, plant and equipment are initially recognised at cost if it is probable that associated future economic benefits will flow to the Group and the cost can be measured reliably. All property, plant and equipment are subsequently measured at cost less accumulated depreciation and impairment losses, with the exception of land. Land is measured at cost less impairment losses as it has an indefinite useful life and is not depreciated.

Cost

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

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

Depreciation

Depreciation is based on the cost of an asset, less its residual value, over its useful life. The residual value is the estimated amount that the Group would receive from the disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and the condition expected at the end of its useful life.

Management determines the depreciation methods, useful lives and residual values at acquisition. These are reviewed at each reporting date and adjusted, if appropriate. Any adjustments are accounted for prospectively as a change in estimate.

Depreciation is recognised as an expense in the statement of comprehensive income, within operational expenses, on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date that they are available for its intended use. Leasehold improvements are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Where significant components of an item of property, plant and equipment have different useful lives, they are depreciated separately.

Useful lives

The estimated useful lives, per category of property, plant and equipment, are as follows:

Property	
Land	Indefinite
Buildings and major components	10 to 40 years
Furniture, fittings, equipment and vehicles	
Furniture and fittings	5 to 14 years
Equipment	3 to 15 years
Vehicles	4 to 8 years
Leasehold improvements	8 years
Aircraft and major components	10 to 20 years

Impairment

Property, plant and equipment are assessed for impairment as non-financial assets in accordance with note 1.15.

Extracts of the 2023 audited Group annual financial statements (continued)

Note 1.8 Property, plant and equipment (continued)

Derecognition

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to flow to the Group from either their use or disposal. Gains or losses on derecognition of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if applicable, with the carrying amount of the item and are recognised directly in the statement of comprehensive income.

Note 1.10 Right-of-use assets

The Group enters into various lease agreements as the lessee of property, equipment and vehicles. Where leases convey the right to control the use of the underlying leased assets, the Group classifies these leases as right-of-use assets in a consistent manner to its property, plant and equipment. Right-of-use assets are initially recognised at cost at the date in which the Group gains control of the right to use the leased asset, referred to as the commencement date of lease agreements, and are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Cost

The cost of right-of-use assets include the initial measurement of the corresponding lease liabilities, any initial direct costs less any lease incentives received and less any dismantling or restoration costs expected to be incurred in order to restore the asset or the site on which it is located.

Depreciation

Depreciation is based on the cost of the right-of-use asset over its useful life. At the commencement date of lease agreements, management determines useful lives as the lease term of corresponding lease liabilities. These lease terms are reviewed at each reporting date and adjusted, if appropriate. Any adjustments are accounted for prospectively as a change in estimate.

Depreciation is recognised as an expense in the statement of comprehensive income, within occupancy costs, on a straight-lined basis over the estimated useful lives of the right-of-use assets.

Useful lives

The estimated useful lives, per category of right-of-use assets, are as follows:

Property	5 to 30 years
Equipment and vehicles	5 to 11 years

Impairment

Right-of-use assets are assessed for impairment as non-financial assets in accordance with note 1.15.

Derecognition

Right-of-use assets are derecognised upon the loss of control by the Group of the right to use the leased assets. Gains or losses on derecognition are determined by comparing the value of corresponding lease liabilities, with the carrying amount of right-of-use assets and are recognised directly in the statement of comprehensive income.

Note 1.15 Impairment of assets

The determination of whether an asset is impaired requires management judgement. Among others, the following factors will be considered: estimated profit and cash forecasts, discount rates, duration and extent of the impairment, regional economic factors and geographical and sector performance.

Financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Extracts of the 2023 audited Group annual financial statements (continued)

Note 1.15 Impairment of assets (continued)

The Group applies a simplified approach for measuring impairment on trade receivables and net investment in lease receivables at an amount equal to lifetime ECLs. To measure lifetime ECLs, trade receivables and net investment in lease receivables are assessed on an individual basis. The ECL rates are based on historical credit loss experienced during the period, adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the debtors to settle their receivables. The Group has identified CPI inflation and internal selling price inflation to be the most relevant factors and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group applies a general approach for measuring impairment on other receivables and loans, at an amount equal to expected credit losses, taking into account past experience and future macro-economic factors. The loss allowance is measured at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at reporting date, the credit risk has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to 12-month expected credit losses. The Group considers credit risk to have increased significantly since initial recognition, if there has been a significant change in the counterparty's ability to meet its obligations. In addition, changes in the general economic or market conditions, changes in internal and external credit ratings and changes in the amount of financial support available to the counterparty are considered.

The Group considers a financial asset in default when contractual payments are one to two weeks past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The carrying amounts of non-financial assets (other than inventory, defined-benefit assets and deferred tax assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For non-financial assets, such as goodwill, which have indefinite useful lives and are not subject to depreciation or amortisation, or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating units (CGUs) to which the asset belongs. A CGU is the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets.

Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination and, for the purposes of impairment testing, are evaluated at the lowest level at which goodwill is monitored for internal reporting purposes. The units or group of units are not larger than the operating segments identified by the Group.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. The carrying amount is impaired and the non-financial asset is written down to its recoverable amount with the related impairment loss recognised in the statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs (or groups of units) and then to reduce the carrying value of the other assets in the unit (or groups of units) on a pro rata basis.

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

Impairment losses for non-financial assets recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

Extracts of the 2023 audited Group annual financial statements (continued)

Note 1.18 Leases Liabilities

The Group enters into various lease agreements as the lessee of property, equipment and vehicles. Where lease agreements convey the right to control the use of underlying leased assets, the Group recognises the present value of future lease payments under the lease as lease liabilities.

Initial recognition

At the date when the Group gains the right to control the use of underlying leased assets, referred to as the commencement date, the Group measures the lease liability at the present value of the lease payments to be made over the lease term, discounted at an applicable discount rate.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Judgement is applied in determining the likelihood of exercising extension or termination options in determining the lease period.

Lease payments included in the measurement of the lease liability consist of fixed payments (including in substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised or termination options reasonably certain not to be exercised. Variable lease payments are initially measured using the index or rate at the commencement date.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used. The incremental borrowing rate is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The discount rate used for the Group's commercial vehicle fleet is the interest rate implicit in the lease agreement. All other lease payments are discounted using the Group's incremental borrowing rate specific to the lease term, country, currency and commencement date of the lease. Incremental borrowing rates are based on a series of inputs including the prime rate, the repo rate, credit risk adjustments and country specific adjustments.

The Group accounts for non-lease components together with the lease component to which it relates as a single lease component.

Subsequent measurement

Lease liabilities are subsequently measured at amortised cost using the effective interest method, reduced by future lease payments net of interest charged. Interest costs are recorded in the statement of comprehensive income.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments of lease payments based on an index or rate take effect, the lease liability is re-measured with a corresponding adjustment to the right-of-use asset. Further re-measurements occur when there is a change in future lease payments resulting from a rent review.

Lease terms are reassessed when there is a significant event or change in circumstance that is within the Group's control and affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Significant events may include a change in the Group's assessment of whether it is reasonably certain to exercise a renewal or termination options, the occurrence of unanticipated significant leasehold improvements or the negotiation of unanticipated lease incentives. Upon the occurrence of the significant event, lease liabilities are re-measured with a corresponding adjustment to corresponding right-of-use assets.

Extracts of the 2023 audited Group annual financial statements (continued)

Note 1.18 Leases Liabilities (continued)

Derecognition

Lease liabilities are derecognised upon the Group's loss of control of the right to use leased assets, or if the Group's obligations specified in the lease agreement expire, are discharged or cancelled. Gains or losses on derecognition are determined by comparing the carrying value of corresponding right-of-use assets with the carrying value of lease liabilities and are recognised directly in the statement of comprehensive income.

Variable lease payments

Certain property leases contain variable payment terms linked to sales generated from retail owned and franchise stores, referred to as turnover rent expense. Turnover rent expense is recognised in the statement of comprehensive income within occupancy costs, in the period in which the event or condition that triggers the payment occurs.

Leasing of low-value assets and short-term leases

The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying assets is of low value (low-value assets).

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Note 1.19 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

The classification of the Group's financial instruments at initial recognition depends on the financial instrument's contractual cash flow characteristics and the Group's model for managing them. The Group manages its financial assets in order to generate cash flows, by determining whether cash flows will result from collecting cash flows, selling the financial asset, or both, and whether the contractual cash flows are solely payments of principal amounts and interest.

The Group classifies its financial instruments into the following categories: financial assets at amortised cost, financial instruments at fair value through profit or loss, financial liabilities at amortised cost and derivatives designated as hedging instruments.

Financial instruments are recognised on trade date when the Group becomes a party to the contractual provisions of the instrument and are initially recognised at fair value, plus transaction costs for financial instruments not measured at fair value through profit or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Where there is no active market, the Group uses valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the annual financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Extracts of the 2023 audited Group annual financial statements (continued)

Note 1.19 Financial instruments (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Derecognition

Financial assets (or where applicable, a part of a financial asset or a group of similar financial assets) are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Group's obligations specified in the contract expire, are discharged or are cancelled. The resulting differences between the carrying values on derecognition of the financial instrument and the amount received or paid is recognised in the statement of comprehensive income.

Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position, when the Group has a legally enforceable right to offset the recognised amounts, and intends either to settle on a net basis, or to realise the net assets and settle the liability simultaneously.

Subsequent measurement

Financial assets at amortised cost

The Group measures financial assets at amortised cost if both the following conditions are met:

- The financial asset is held with the objective to hold the financial asset in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include net investment in lease receivables, trade and other receivables, cash and cash equivalents and loans. Net investment in lease receivables and trade and other receivables mainly comprise franchisee receivables. Certain net investment in lease receivables and trade and other receivables are considered to be long term in nature and are recorded as non-current in the statement of financial position. Loans mainly comprise housing and other employee loans.

Net investment in lease receivables, trade and other receivables and loans

Net investment in lease receivables, trade and other receivables and loans are measured at amortised cost using the effective interest method, less impairment losses. The effective interest amortisation is included in finance income in the statement of comprehensive income.

Extracts of the 2023 audited Group annual financial statements (continued)

9

Intangible assets

52 weeks to 26 February 2023

	Goodwill Rm	Systems development* Rm	Licences Rm	Total Rm
Carrying value	952.8	459.3	12.3	1 424.4
Cost	1 005.3	939.4	22.5	1 967.2
Accumulated amortisation and impairment losses	(52.5)	(480.1)	(10.2)	(542.8)
Reconciliation of carrying value				
At beginning of period	624.7	348.4	14.0	987.1
Additions	-	228.5	3.0	231.5
Expansion of operations	-	158.9	0.4	159.3
Maintaining operations	-	69.6	2.6	72.2
Amortisation	-	(92.2)	(4.4)	(96.6)
Impairment	(4.7)	-	-	(4.7)
Disposals	-	(25.4)	(0.3)	(25.7)
Purchase of operations	332.8	-	-	332.8
At end of period	952.8	459.3	12.3	1 424.4

52 weeks to 27 February 2022

Carrying value	624.7	348.4	14.0	987.1
Cost	678.0	765.2	19.8	1 463.0
Accumulated amortisation and impairment losses	(53.3)	(416.8)	(5.8)	(475.9)
Reconciliation of carrying value				
At beginning of period	603.5	382.3	20.2	1 006.0
Additions	-	88.1	-	88.1
Expansion of operations	-	30.4	-	30.4
Maintaining operations	-	57.7	-	57.7
Amortisation	-	(117.4)	(6.0)	(123.4)
Impairment	(6.6)	(1.0)	-	(7.6)
Scrapping of assets – civil unrest	-	(0.3)	-	(0.3)
Disposals	-	(3.8)	(0.2)	(4.0)
Purchase of operations	27.8	-	-	27.8
Foreign currency translations	-	0.5	-	0.5
At end of period	624.7	348.4	14.0	987.1

* Majority of additions to systems development assets during the current and prior period are internally generated.

Cash-generating units (CGUs) to which goodwill has been allocated have been identified as trading sites or clusters. The recoverable amount for each CGU was determined based on value-in-use calculations. The value-in-use calculations discount cash flow forecasts at an appropriate pre-tax rate that reflects the specific risks of the relevant CGU. Cash flow forecasts are based on financial budgets (informed by past experience and the expected performance on the retail market in the relevant areas) approved by management.

Extracts of the 2023 audited Group annual financial statements (continued)

9 Intangible assets (continued)

Goodwill that is significant to the Group's total carrying amount of goodwill, with a carrying value of R135.0 million (2022: R135.0 million), relates to the acquisition of the CGU trading as Boxer. The value-in-use was determined based on cash flow projections approved by management covering a five-year reporting period. Cash flows beyond these planning periods were extrapolated using an estimated growth rate of 6.5% (2022: 7.0%), derived from average industry retail sales growth. The growth rate does not exceed the long-term average growth rate for the business units in which this CGU operates. The pre-tax discount rate applied to cash flow projections was 15.3% (2022: 10.9%). Management believes that any reasonable possible change in the key assumptions on which this CGU's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The remaining goodwill, with a carrying value of R817.8 million (2022: R489.7 million), relates to various acquisitions or conversions of underperforming franchise stores to owned stores. Goodwill recognised by the Boxer CGU amounts to R270.4 million (2022: R178.4 million), and R113.2 million relates to the purchase of a single franchise store. The remaining purchases are immaterial in relation to the Group's total carrying amount of goodwill.

The value-in-use for each CGU was determined based on cash flow projections approved by management covering the relevant CGU's refurbishment cycles, which averages five years. The pre-tax discount rate applied to these cash flow projections was 16.7% (2022: 9.9%) in the South Africa operating segment and 16.0% (2022: 16.0%) in the Rest of Africa operating segment. Cash flows for CGUs in the South Africa operating segment beyond these planning periods were extrapolated using an estimated growth rate of 4.1% (2022: 4.8%). Management believes that any reasonable possible change in key assumptions on which these CGU's recoverable amounts are based would not result in any additional significant impairment losses.

The impairment charge in the current financial year of R4.7 million (2022: R6.6 million) arose in one (2022: nine) CGUs. These CGUs are individual owned stores, which is not material to the Group's overall portfolio of stores. This impairment was as a result of a significant reduction in the future expected revenue of the CGU due to a weakening in the general economic conditions in which the CGU operates.

During the period under review, the Group incurred R73.2 million on research activities, recorded as an expense within merchandising and administration in the statement of comprehensive income.

Extracts of the 2023 audited Group annual financial statements (continued)

	Property Rm	Furniture, fittings, equipment and vehicles Rm	Leasehold improvements Rm	Aircraft Rm	Total Rm
10 Property, plant and equipment					
52 weeks to 26 February 2023					
Carrying value	1 399.1	6 226.1	1 218.2	49.8	8 893.2
Cost	1 674.3	10 030.9	2 393.0	78.3	14 176.5
Accumulated depreciation and impairment losses	(275.2)	(3 804.8)	(1 174.8)	(28.5)	(5 283.3)
Reconciliation of carrying value					
At beginning of period	1 490.5	4 618.6	986.6	54.8	7 150.5
Additions	210.4	2 685.3	506.2	-	3 401.9
Expansion of operations	189.9	1 165.2	139.0	-	1 494.1
Maintaining operations	20.5	1 520.1	367.2	-	1 907.8
Depreciation	(40.0)	(1 019.9)	(255.6)	(5.0)	(1 320.5)
Impairment	-	(42.7)	(7.2)	-	(49.9)
Disposals	(11.8)	(52.9)	(11.8)	-	(76.5)
Purchase of operations	-	30.0	-	-	30.0
Transfer to non-current asset held for sale	(250.0)	-	-	-	(250.0)
Foreign currency translations	-	7.7	-	-	7.7
At end of period	1 399.1	6 226.1	1 218.2	49.8	8 893.2
52 weeks to 27 February 2022					
Carrying value	1 490.5	4 618.6	986.6	54.8	7 150.5
Cost	1 928.1	8 527.2	1 918.6	78.3	12 452.2
Accumulated depreciation and impairment	(437.6)	(3 908.6)	(932.0)	(23.5)	(5 301.7)
Reconciliation of carrying value					
At beginning of period	1 357.1	4 277.9	947.6	60.0	6 642.6
Additions	226.3	1 485.3	278.5	-	1 990.1
Expansion of operations	202.6	568.3	98.6	-	869.5
Maintaining operations	23.7	917.0	179.9	-	1 120.6
Depreciation	(35.8)	(953.4)	(221.6)	(5.2)	(1 216.0)
Impairment	-	(49.0)	(3.6)	-	(52.6)
Scrapping of assets - civil unrest	-	(144.9)	(11.6)	-	(156.5)
Disposals	(57.1)	(48.9)	(4.5)	-	(110.5)
Purchase of operations	-	27.9	-	-	27.9
Foreign currency translations	-	23.7	1.8	-	25.5
At end of period	1 490.5	4 618.6	986.6	54.8	7 150.5

Extracts of the 2023 audited Group annual financial statements (continued)

10 Property, plant and equipment (continued)

Property includes land with an indefinite useful life, with a carrying value of R342.7 million (2022: R366.7 million).

The Group treats each store as a separate CGU for impairment testing of property, plant and equipment. The recoverable amount of each CGU is the higher of its value-in-use and its fair value less costs of disposal. Each CGU is tested for impairment at the reporting date to determine if any indicators of impairment have been identified. Impairment loss indicators include loss-making stores.

The recoverable amount for each CGU was determined based on value-in-use calculations. The value-in-use calculations discount cash flow forecasts at an appropriate pre-tax rate that reflects the specific risks of the relevant CGU. Cash flow forecasts are based on financial budgets (informed by past experience and the expected performance on the retail market in the relevant areas) approved by management.

The value-in-use was determined based on cash flow projections approved by management covering the relevant CGU's refurbishment cycles, which averages five years. The pre-tax discount rate applied to these cash flow projections was 16.7% (2022: 9.9%) in the South Africa operating segment and 16.0% (2022: 16.0%) in the Rest of Africa operating segment. Cash flows for CGUs in the South Africa operating segment beyond these planning periods were extrapolated using an estimated growth rate of 4.1% (2022: 4.8%). Management believes that any reasonable possible change in key assumptions on which these CGU's recoverable amounts are based would not result in any additional significant impairment losses.

The impairment charge in the current financial year of R49.9 million (2022: R52.6 million) arose in 26 (2022: 21) CGUs. These CGUs are individual owned stores, which are not material to the Group's overall portfolio of stores. This impairment was as a result of a significant reduction in the future expected revenue of the CGU due to a weakening in the general economic conditions in which the CGU operates.

Non-current asset held for sale

The Group's Longmeadow Distribution Centre, with a property carrying value of R250 million, previously disclosed as property, plant and equipment, has been reclassified to non-current assets held for sale within the South Africa segment, as it is in the process of being sold. The Group is in the final stages of concluding the sale, which is expected to occur within the next 12 months. The Group is replacing its Longmeadow Distribution Centre with the new Eastport Distribution Centre. At period-end, the property is recognised at carrying value, which is the lower of carrying value and fair value less costs to sell and the reclassification had no impact on the statement of comprehensive income. Refer to the review of operations for more information.

Extracts of the 2023 audited Group annual financial statements (continued)

11 Right-of-use assets

The Group enters into various lease agreements as the lessee of property, equipment and vehicles. Where leases convey the right to control the use of the underlying leased assets, the Group classifies these leases as right-of-use assets in a consistent manner to its property, plant and equipment.

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Reconciliation of carrying value of right-of-use assets		
At beginning of period	9 588.9	10 050.6
Additions	3 849.7	2 299.9
Depreciation	(2 148.2)	(1 979.9)
Property	(1 806.1)	(1 654.6)
Equipment and vehicles	(342.1)	(325.3)
Other movements*	(87.8)	(747.2)
Impairment	(12.2)	(56.6)
Foreign currency translations	4.6	22.1
At end of period	11 195.0	9 588.9
Comprising of:		
Property	10 089.1	9 125.7
Equipment and vehicles	1 105.9	463.2

* Other movements include lease incentives received, remeasurements and termination of leases.

The Group treats each store as a separate CGU for impairment testing of right-of-use assets. The recoverable amount of each CGU is the higher of its value-in-use and its fair value less costs of disposal. Each CGU is tested for impairment at the reporting date to determine if any indicators of impairment have been identified. Impairment loss indicators include loss-making stores.

The recoverable amount for each CGU was determined based on value-in-use calculations. The value-in-use calculations discount cash flow forecasts at an appropriate pre-tax rate that reflects the specific risks of the relevant CGU. Cash flow forecasts are based on financial budgets (informed by past experience and the expected performance on the retail market in the relevant areas) approved by management.

The value-in-use was determined based on cash flow projections approved by management covering the relevant CGU's refurbishment cycles, which averages five years. The pre-tax discount rate applied to these cash flow projections was 16.7% (2022: 9.9%) in the South Africa operating segment and 16.0% (2022: 16.0%) in the Rest of Africa operating segment. Cash flows for CGUs in the South Africa operating segment beyond these planning periods were extrapolated using an estimated growth rate of 4.1% (2022: 4.8%). Management believes that any reasonable possible change in key assumptions on which these CGU's recoverable amounts are based would not result in any additional significant impairment losses.

The impairment charge in the current financial year of R12.2 million (2022: R56.6 million) arose in five (2022: 12) CGUs. These CGUs are individual owned stores, which is not material to the Group's overall portfolio of stores. This impairment was as a result of a significant reduction in the future expected revenue of the CGU due to a weakening in the general economic conditions in which the CGU operates.

Extracts of the 2023 audited Group annual financial statements (continued)

17 Trade and other receivables

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
Gross trade and other receivables	4 853.1	4 521.2
Trade receivables from contracts with customers	4 368.8	4 075.1
Prepayments	232.2	121.9
Other receivables	252.1	324.2
Allowance for impairment losses	(296.4)	(207.1)
Trade receivables from contracts with customers	(234.0)	(155.0)
Other receivables	(62.4)	(52.1)
Net trade and other receivables	4 556.7	4 314.1
Disclosed as:		
Non-current	84.7	106.5
Current	4 472.0	4 207.6

Current trade and other receivables are interest-free unless overdue and have payment terms ranging between 7 and 35 days (2022: 7 and 35 days). The carrying value approximates its fair value due to the short-term nature of the receivables.

17.1 Allowance for impairment losses

Set out below is the movement in the allowance for impairment on trade and other receivables.

	Trade and other receivables Rm	Trade receivables from contracts with customers Rm	Other receivables Rm
52 weeks to 26 February 2023			
At the beginning of the period	207.1	155.0	52.1
Irrecoverable debts written off	(109.6)	(109.3)	(0.3)
Additional impairment losses recognised	209.4	198.4	11.0
Prior allowances for impairment reversed	(10.5)	(10.1)	(0.4)
At end of period	296.4	234.0	62.4
52 weeks to 27 February 2022			
At the beginning of the period	199.7	156.4	43.3
Irrecoverable debts written off	(82.3)	(81.5)	(0.8)
Additional impairment losses recognised	92.8	80.1	12.7
Prior allowances for impairment reversed	(3.1)	-	(3.1)
At end of period	207.1	155.0	52.1

Impairment losses are recorded in the allowance account until the Group is satisfied that no recovery of the amount owing is possible, at which point the amount is considered irrecoverable and is written off against the financial asset directly. Impairment losses have been included in the statement of comprehensive income.

Extracts of the 2023 audited Group annual financial statements (continued)

17 Trade and other receivables (continued)

17.2 Credit risk exposure

Set out below is the credit risk exposure on the Group's trade and other receivables. The expected credit loss (ECL) relating to trade and other receivables within payment terms, and relating to trade and other receivables exceeding payment terms by less than 14 days, is insignificant as a result of the credit quality of these debtors, stringent credit-granting policies and the various forms of security and collateral held by the Group. Refer to note 30.2 of the 2023 audited Group annual financial statements for the Group's credit risk management disclosure.

	Gross receivables Rm	Within payment terms Rm	Exceeding payment terms by less than 14 days Rm	Exceeding payment terms by more than 14 days Rm
52 weeks to 26 February 2023				
	4 620.9	3 723.9	236.9	660.1
Trade receivables from contracts with customers	4 368.8	3 622.7	236.9	509.2
Other receivables	252.1	101.2	-	150.9
52 weeks to 27 February 2022				
	4 399.3	3 421.8	99.8	877.7
Trade receivables from contracts with customers	4 075.1	3 282.9	99.8	692.4
Other receivables	324.2	138.9	-	185.3

Extracts of the 2023 audited Group annual financial statements (continued)

25 Lease liabilities

The Group enters into various lease agreements as the lessee of property, equipment and vehicles. Where leases convey the right to control the use of underlying leased assets, the Group recognises the present value of future lease payments under the lease contract as lease liabilities. Future lease payments are discounted at an average borrowing rate of 8.1% (2022: 8.1%).

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
25.1 Reconciliation of lease liabilities		
At beginning of period	16 087.9	16 359.4
New leases	4 123.1	2 570.6
Lease payments	(3 869.8)	(3 452.8)
Principal lease liability payments	(2 423.8)	(2 088.4)
Interest paid	(1 446.0)	(1 364.4)
Rent concessions	(0.4)	(13.1)
Finance costs (note 3)	1 342.5	1 333.9
Other movements*	(91.2)	(731.6)
Foreign currency translations	11.9	21.5
At end of period	17 604.0	16 087.9
Lease liabilities are presented in the statement of financial position as follows:		
Current	2 470.8	2 431.4
Non-current	15 133.2	13 656.5

* Other movements include remeasurements and terminations of leases

25.2 Lease payments

Lease payments included in the measurement of lease liabilities	3 869.8	3 452.8
Variable lease payments not included in the measurement of lease liabilities	67.1	117.5
Short-term and low value lease payments	61.8	32.2
	3 998.7	3 602.5

Certain property head leases contain variable payment terms linked to sales generated from retail owned stores, referred to as turnover rent. Turnover rent expense averages 1.7% of turnover (2022: 1.7% of turnover).

Extracts of the 2023 audited Group annual financial statements (continued)

25 Lease liabilities (continued)

	52 weeks to 26 February 2023 Rm	52 weeks to 27 February 2022 Rm
25.3 Maturity analysis		
The undiscounted contractual maturities of lease liabilities are as follows:		
Less than one year	3 747.2	3 535.5
One year to five years	12 127.1	10 977.2
Five to ten years	6 760.9	6 875.2
More than ten years	1 057.3	944.1
Total undiscounted lease liabilities	23 692.5	22 332.0
Finance costs to be incurred in future	(6 088.5)	(6 244.1)
Lease liabilities	17 604.0	16 087.9

25.4 Lease terms

Lease terms include any non-cancellable periods and reasonably certain extension or termination options. Approximately 84% (2022: 68%) of the Group's portfolio of property leases contain extension options and approximately 16% (2022: 32%) contain termination options. The majority of extension and termination options held are exercisable by the Group and not by the respective lessor.

The average lease term of the Group's portfolio of qualifying leases are:

Property	11 years	11 years
Equipment and vehicles	6 years	6 years

AN OVERVIEW OF OUR STORE ESTATE

	Pick n Pay		Boxer		TM	
	Owned	Franchise	Owned	Associate		Total
South Africa	932	667	419	-		2 018
Namibia	-	35	-	-		35
eSwatini	-	22	9	-		31
Zambia	23	-	-	-		23
Botswana	-	19	-	-		19
Lesotho	-	4	-	-		4
Zimbabwe	-	-	-	72		72
Nigeria	2	-	-	-		2
	957	747	428	72		2 204
Supermarkets	349	484	279	60		1 172
Clothing	311	22	-	-		333
Liquor	297	241	118	12		668
Build	-	-	31	-		31

The total number of sites selling clothing

Hypermarkets	Supermarkets	Stand-alone clothing stores	Total clothing sites
21	149	333	503

South African store formats

Supermarkets

1039

Clothing

330

Liquor

621

Build

31

Total South African stores

2 018

NUMBER OF STORES

	27 February 2022	Opened	Closed	Converted openings	Converted closures	26 February 2023
Company-owned						
Pick n Pay	876	82	(13)	15	(3)	957
Hypermarkets	21	-	-	-	-	21
Supermarkets	317	12	(6)	7	(2)	328
Clothing	256	55	(2)	2	-	311
Liquor	282	15	(5)	6	(1)	297
Boxer	368	50	-	10	-	428
Supermarkets	243	30	-	6	-	279
Build	28	3	-	-	-	31
Liquor	97	17	-	4	-	118
Total company-owned	1 244	132	(13)	25	(3)	1 385
Franchise						
Pick n Pay						
Supermarkets	282	6	(5)	-	(11)	272
Market	36	1	(16)	-	-	21
Express	178	14	(1)	-	-	191
Clothing	21	4	(1)	-	(2)	22
Liquor	256	10	(16)	-	(9)	241
Total franchise	773	35	(39)	-	(22)	747
Associate						
TM Supermarkets	64	8	-	-	-	72
Total Group stores	2 081	175	(52)	25	(25)	2 204
African footprint						
- included in total stores above	171	21	(6)	-	-	186
Pick n Pay company-owned	22	3	-	-	-	25
Boxer company-owned	9	-	-	-	-	9
Pick n Pay franchise	76	10	(6)	-	-	80
TM Supermarkets - associate	64	8	-	-	-	72
African footprint - by country						
Botswana	13	6	-	-	-	19
Lesotho	4	-	-	-	-	4
Namibia	40	-	(5)	-	-	35
eSwatini	28	3	-	-	-	31
Zambia	21	3	(1)	-	-	23
Nigeria	1	1	-	-	-	2
Zimbabwe	64	8	-	-	-	72



CORPORATE INFORMATION

Pick n Pay Stores Limited

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

Board of directors

Executive

Pieter Boone (CEO)
Lerena Olivier (CFO)

Non-executive

Gareth Ackerman (Chair)
Suzanne Ackerman¹
Jonathan Ackerman²
David Robins

Independent non-executive

Haroon Bhorat
Mariam Cassim
James Formby³
David Friedland
Aboubakar Jakoet
Audrey Mothupi
Annamarie van der Merwe
Jeff van Rooyen

Registered office

Pick n Pay Office Park
101 Rosmead Avenue
Kenilworth
Cape Town 7708
Tel +27 21 658 1000
Fax +27 (0)86 675 1475

Postal address

PO Box 23087
Claremont
Cape Town 7735

Registrar

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
Tel +27 11 370 5000

Postal address

Private Bag X9000
Saxonwold 2132

JSE Limited sponsor

Investec Bank Limited
100 Grayston Drive
Sandton 2196

Auditors

Ernst & Young Inc.

Principal transactional bankers

Absa Limited
First National Bank

Company Secretary

Penelope Gerber⁴
Email address: CompanySecretary@pnp.co.za

Promotion of Access to Information Act

informationofficer@pnp.co.za

Investor relations

Stephen Carrott
Email address: StephenCarrott@pnp.co.za

Website

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

Customer careline

Pick n Pay
Tel: +27 860 30 30 30
Email address: customer@pnp.co.za

Boxer

Tel: +27 860 02 69 37
Email address: customer@boxer.co.za

Online shopping

Tel +27 860 30 30 30
www.picknpay.com

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¹ Suzanne Ackerman retired as an executive director on 31 March 2022 and was appointed as a non-executive director on that date.
² Jonathan Ackerman retired as an executive director on 31 March 2023 and was appointed as a non-executive director from that date.
³ James Formby was appointed as an independent non-executive director on 10 October 2022.
⁴ Penelope Gerber was appointed as Company Secretary on 31 July 2022.