Pick n Pay

Unaudited interim condensed consolidated results for the six months ended 31 August 2011

Financial highlights – continuing operations

	Turnover R'billion	Headline earnings cents per share	Interim dividend cents per share
2011:	27.1	54.73	22.50
2010:	25.2	90.17	37.00

REVIEW OF OPERATIONS

We have seen encouraging turnover growth, above the market for the first time in a few years, however the investments we have made in transforming Pick n Pay into a world class retailer have had a material impact on earnings. The most significant of these are the launch and set up of our loyalty programme Smart Shopper, the investment in building a specialised category buying function, and supply chain improvements. These initiatives will enable us to better serve our customers in the future.

Notwithstanding the challenges facing the Group and the scale of the work still to come, there have been a number of highlights over the last 6 months, which give us a renewed momentum going forward.

Strategic update

The core of our strategy is focused on realising the full potential of our South African businesses. To do so we are closely focused on improving our customer offer and streamlining our operations. We are consolidating and upgrading our support functions so that they can better enable our colleagues to deliver outstanding products in great stores at competitive prices. The first steps in this consolidation are the set-up of our specialist category buying function and the centralisation of our supply chain. At the same time, improving our customer offer was significantly enhanced by the launch of our Smart Shopper loyalty programme. Looking ahead, we will be simplifying our regional and store structures and our administration functions.

Smart Shopper – We successfully launched our Smart Shopper loyalty programme in March, which has been extremely well received. We aimed to sign up 3 million cardholders in the first year and achieved 4.1 million in the first 6 months. Although still in its infancy, we believe the encouraging growth in turnover is due in part to this programme. Substantial set-up costs have impacted the earnings of the Group in the first half of the year, but we expect the programme to drive turnover growth in the medium to long-term and generate additional value through more effective marketing to our customers.

Specialised buying – We are investing a great deal of time and resources in transforming our buying into a focused, centralised category management function. This will enable us to improve our customer offer and work more efficiently with our suppliers. Regional work undertaken to date has already had a positive impact on gross margin. Costs associated with this project have also had a significant impact on the earnings for the last 6 months. The new category management team was announced in mid-October and will be functional by March 2012.

Central distribution – Centralising distribution continues. We plan to optimise the Longmeadow operation before proceeding with our new distribution centres in the Western Cape, KwaZulu-Natal, Eastern Cape and Gauteng over the next 5 years. We have achieved operational improvements at Longmeadow over the last 6 months, with a decrease in distribution cost per case. Our Western Cape distribution centre is due to open in May 2012.

Expense control – The 13.7% increase in operating expenses over last year reflects the investment phase we are in. General expense control was satisfactorily maintained during the six months, with the majority of the increase in expenses being contributed by Smart Shopper. However, we remain resolutely focused on expense control to ensure that our cost of doing business is in line with, or lower than, that of our competition.

Labour – In line with Group strategy, much work is being done to achieve optimal labour utilisation. We have just completed a CCMA facilitation process with SACCAWU, without the parties reaching a solution to retrenchments. We will do everything feasible to minimise dismissals.

Franklins, Australia – We have completed the sale of Franklins to Metcash after a 15-month delay due to opposition by the Australian Competition and Consumer Commission (the ACCC) and subsequent Federal Court proceedings. The sale proceeds, subject to final working capital adjustments, will be approximately R1.3 billion, all of which will be invested in our core South African operations. Although the ACCC have appealed the court's decision, we are very confident that the initial verdict, which was comprehensively in our favour, will be upheld. In the unlikely event of the ACCC succeeding with their appeal, Pick n Pay has agreed to share any divestiture costs or penalties equally with Metcash. As the Group concluded the sale of Franklins on 30 September 2011, it continues to be disclosed as a discontinued operation at 31 August 2011, and its results have been reflected separately from continuing operations.

Financial highlights

Group turnover at R27.1 billion for the period is 7.4% above last year, with strong growth from like–for-like stores. This is encouraging in a highly competitive environment and gives us confidence that our Smart Shopper programme is proving popular with customers. While our own internal selling price inflation remains below CPI we are seeing increases which when combined with economic uncertainty will lead our customers to exercise caution.

Gross profit margin has declined slightly from 17.8% last year to 17.7% this year. The margin benefits from improved specialist buying have been offset by the discounts offered under the Smart Shopper programme. We anticipate that we will be able to strengthen our margins over the next few years while maintaining our competitive price position through our work on category management and supply chain improvements.

Trading profit is down 31.7% to R492.2 million due to significant costs relating to our strategic transformation initiatives. A major portion of these costs are initial set-up costs relating to Smart Shopper and category management.

EBITDA (earnings before interest, tax, depreciation and amortisation) is down 17.8% to R882.4 million.

Net cash from operating activities at R1 190.0 million is up from R185.9 million for the same period last year, due to improved working capital management.

The interim dividend per share at 22.50 cents per share for Pick n Pay Stores Limited and 10.91 cents per share for Pick n Pay Holdings Limited is down 39.2% in line with the decrease in headline earnings per share from continuing operations.

Operational highlights

Pick n Pay and Boxer – Turnover growth is encouraging, with particularly strong performances from private label, clothing, pharmacy and liquor. In addition Boxer continues to trade well in the highly competitive LSM 4-7 market.

During the period we opened 4 corporate supermarkets, 5 franchise supermarkets, 14 corporate liquor stores, 6 franchise liquor stores, and 9 clothing stores. In addition we converted 3 franchise supermarkets to corporate stores. Boxer opened 4 new superstores, 6 Punch stores, 1 Boxer Build and 1 liquor store.

In the next 6 months we plan to open 9 new supermarkets (6 corporate and 3 franchise), 12 liquor stores, 6 clothing stores, and 9 Boxer superstores and 3 Punch stores.

Our steady growth into Africa continues. We now have 2 stores in Zambia, both trading extremely well, and our first store in Mozambique opened in June 2011, with our first store opening in Mauritius just after the 6 month period. In the next 6 months we will open 2 more stores in Zambia, 1 in Mozambique and 2 in Mauritius. We are still waiting for approval from the Zimbabwean Indigenisation Board in order to purchase an additional 24% of TM Supermarkets in Zimbabwe, to take our stake to 49%.

GENERAL COMMENTS

We welcome Richard van Rensburg as Deputy CEO. Richard, who has been a valuable non-executive director on our Stores Board for a number of years, brings with him much experience in accounting, retail, supply chain and information systems. He has been appointed to assist us in steering our change programme to successful completion.

We are making good progress in transforming the business. Although challenges lie ahead, we believe in our people and in this exceptional Group. We continue to look forward with excitement and anticipation at all we will be able to achieve. We thank the team for their continued commitment and hard work.

For and on behalf of the board

Gareth Ackerman
Chairman

Nick Badminton
Chief Executive Officer

18 October 2011

PICK N PAY STORES LIMITED – REG. NO. 1968/008034/06 SHARE CODE: PIK ISIN CODE: ZAE000005443

Statement of comprehensive income

	Unaudited Six months ended Aug 2011 Rm	Growth %	Aug 2010 Rm	Audited Year to Feb 2011 Rm
Continuing operations				
Revenue (note 3)	27 213.1		25 347.9	52 216.7
Turnover	27 082.8	7.4	25 208.4	51 945.8
Cost of merchandise sold	(22 282.4)		(20 716.5)	(42 859.6)
Gross profit	4 800.4		4 491.9	9 086.2
Other trading income	116.8		117.6	231.4
Trading expenses	(4 421.1)		(3 889.2)	(7 899.9)
Loss on sale of property, equipment and vehicles	(3.9)		—	—
Trading profit	492.2		720.3	1 417.7
Interest received	13.5		21.9	39.5
Interest paid	(71.8)		(60.1)	(111.0)
Gain on recognition of investment in associate	—		—	7.5
Share of associate's (loss)/income	(2.0)		—	2.4
Profit before tax	431.9		682.1	1 356.1
Tax	(174.5)		(253.8)	(447.8)
Profit for the period from continuing operations	257.4		428.3	908.3
Loss from discontinued operation (note 5)	(65.8)		(74.0)	(123.4)
Profit for the period	191.6		354.3	784.9
Other comprehensive income				
Exchange rate differences on translating foreign operations	48.1		(58.5)	50.1
Net loss on hedge of net investment in foreign operation	(49.9)		—	(52.2)
Retirement benefit actuarial profit/(loss)	4.5		(4.8)	(12.5)
Total comprehensive income for the period	194.3		291.0	770.3
EBITDA	882.4	(17.8)	1 074.0	2 160.9
Gross profit margin (%)	17.7		17.8	17.5
Trading profit margin (%)	1.8		2.9	2.7
Earnings per share – cents				
Basic	40.14		74.58	164.99
Continuing operations	53.92		90.17	190.92
Discontinued operation	(13.78)		(15.59)	(25.93)
Diluted	39.62		73.04	162.20
Continuing operations	53.23		88.30	187.68
Discontinued operation	(13.61)		(15.26)	(25.48)
Headline earnings reconciliation				
Profit for the period	191.6		354.3	784.9
Headline adjustments (net of tax):				
Loss on sale of property, equipment and vehicles	3.9		—	—
Loss on sale of equipment and vehicles – discontinued operation	0.8		3.4	7.0
Gain on recognition of investment in associate	—		—	(7.5)
Headline earnings	196.3		357.7	784.4
Continuing operations	261.3	(39.0)	428.3	900.8
Discontinued operation	(65.0)		(70.6)	(116.4)
Headline earnings per share - cents	41.11		75.31	164.90
Continuing operations	54.73	(39.3)	90.17	189.35
Discontinued operation	(13.62)		(14.86)	(24.45)
Diluted headline earnings per share – cents	40.59		73.74	162.10
Continuing operations	54.03	(38.8)	88.30	186.14
Discontinued operation	(13.44)		(14.56)	(24.04)
Interim dividend – No. 87 payable	22.50	(39.2)	37.00	

Statement of financial position

	Unaudited Aug 2011 Rm	Aug 2010 Rm	Audited Feb 2011 Rm
Assets			
Non-current assets			
Intangible assets	543.3	406.9	404.5
Property, equipment and vehicles	3 566.7	3 129.4	3 401.8
Operating lease asset	43.9	31.5	37.7
Participation in export partnerships	48.1	49.7	48.2
Deferred tax	107.4	75.3	85.8
Investment in associate	7.8	—	9.9
Loans	79.7	109.8	90.2
Investments	0.2	0.2	0.2
	4 397.1	3 802.8	4 078.3
Current assets			
Assets held for sale – discontinued operation (note 5)	2 117.3	1 993.7	2 120.1
Inventory	3 173.8	2 944.6	3 162.7
Trade and other receivables	1 928.1	1 734.2	1 739.2
Cash and other equivalents	360.7	344.6	—
	7 579.9	7 017.1	7 022.0
Total assets	11 977.0	10 819.9	11 100.3
Equity and liabilities			
Total shareholders' equity	1 903.2	1 837.1	2 158.8
Non-current liabilities			
Long-term debt	1 033.1	660.0	626.9
Retirement scheme obligations	20.8	36.4	27.1
Operating lease liability	762.6	707.9	729.3
	1 816.5	1 404.3	1 383.3
Current liabilities			
Liabilities held for sale – discontinued operation (note 5)	838.9	762.9	826.6
Cash and cash equivalents	—	—	547.4
Short-term debt	49.1	36.7	50.2
Tax	94.1	212.4	96.2
Trade and other payables	7 275.2	6 566.5	6 037.8
	8 257.3	7 578.5	7 558.2
Total equity and liabilities	11 977.0	10 819.9	11 100.3
Shares in issue – millions	480.4	480.4	480.4
Weighted average shares in issue – millions (note 4)	477.4	475.1	475.7
Net asset value – cents per share (property value based on directors' valuation)	430.6	447.6	503.0

Cash flow statement

	Unaudited Six months ended Aug 2011 Rm	Aug 2010 Rm	Audited Year to Feb 2011 Rm
Cash flows from operating activities			
Trading profit	492.2	720.3	1 417.7
Loss on sale of property, equipment and vehicles	3.9	—	—
Depreciation and amortisation	392.2	353.7	733.3
Share options expense	42.6	31.3	73.8
Net operating lease obligations	27.0	14.0	29.3
Cash generated before movements in working capital	957.9	1 119.3	2 254.1
Movements in working capital:	1 034.8	(76.1)	(844.8)
Increase / (decrease) in trade and other payables	1 234.7	(155.0)	(678.1)
Increase in inventory	(11.2)	(109.5)	(349.1)
(Increase) / decrease in trade and other receivables	(188.7)	188.4	182.4
Cash generated by trading activities	1 992.7	1 043.2	1 409.3
Interest received	13.5	21.9	39.5
Interest paid	(71.8)	(60.1)	(111.0)
Cash generated by operations	1 934.4	1 005.0	1 337.8
Dividends paid	(498.0)	(633.5)	(808.0)
Tax paid	(180.6)	(230.9)	(526.3)
Net cash from operating activities – continuing operations	1 255.8	140.6	3.5
Net cash (utilised in) / from operating activities – discontinued operation	(65.8)	45.3	13.9
Total net cash from operating activities	1 190.0	185.9	17.4
Cash flows from investing activities			
Intangible asset additions	(117.3)	(52.5)	(82.5)
Property, equipment and vehicle additions	(551.0)	(521.2)	(1 163.2)
Purchase of operations	(58.7)	—	—
Proceeds on sale of property, equipment and vehicles	27.4	—	21.9
Loans repaid	10.4	14.9	34.5
Net cash utilised in investing activities – continuing operations	(689.2)	(558.8)	(1 189.3)
Net cash utilised in investing activities – discontinued operation	(17.9)	(78.0)	(151.4)
Total net cash utilised in investing activities	(707.1)	(636.8)	(1 340.7)
Cash flows from financing activities			
Debt raised / (repaid)	405.1	(13.0)	(32.5)
Share repurchases	(25.5)	(68.3)	(90.2)
Proceeds from employees on settlement of share options	30.7	36.4	25.1
Net cash from / (utilised in) financing activities – continuing operations	410.3	(44.9)	(97.6)
Net cash from financing activities – discontinued operation	12.4	10.0	10.0
Total net cash from / (utilised in) financing activities	422.7	(34.9)	(87.6)
Net increase / (decrease) in cash and cash equivalents	905.6	(485.8)	(1 410.9)
Cash and cash equivalents at 1 March	(431.8)	1 055.3	1 055.3
Effect of exchange rate fluctuations on cash and cash equivalents	(81.5)	(10.4)	(76.2)
Cash and cash equivalents at 31 August / 28 February	392.3	559.1	(431.8)
Continuing operations	360.7	344.6	(547.4)
Discontinued operation	31.6	214.5	115.6

Pick n Pay Holdings Limited ("PIKWIK")

Reg. No. 1981/009610/06
Share Code: PWK ISIN code: ZAE000005724

Pikwik's only asset is its 53.85% (2010: 53.97%) effective holding in Pick n Pay Stores Limited (excluding treasury shares). The Pikwik Group earnings are directly related to those of this investment.
Headline earnings for the period amount to R105.3 million (2010: R193.2 million).
Headline earnings per share is 20.40 cents (2010: 37.45 cents).
Headline earnings per share from continuing operations is 27.19 cents (2010: 44.87 cents).
Diluted headline earnings per share is 19.94 cents (2010: 36.21 cents).
Diluted headline earnings per share from continuing operations is 26.68 cents (2010: 43.56 cents).
The total number of shares in issue is 527.2 million (2010: 527.2 million) and the weighted average number of shares in issue during the period is 516.4 million (2010: 515.9 million). Pikwik's interim dividend per share is 10.91 cents (2010: 17.94 cents), a decrease of 39.2%.

Statement of changes in equity

	Unaudited Six months ended Aug 2011 Rm	Aug 2010 Rm	Audited Year to Feb 2011 Rm
At 1 March	2 158.8	2 144.6	2 144.6
Total comprehensive income for the period	194.3	291.0	770.3
Dividends paid	(498.0)	(633.5)	(808.0)
Share repurchases	(25.5)	(68.3)	(90.2)
Net effect of settlement of employee share options	31.0	72.0	68.3
Share options expense	42.6	31.3	73.8
At 31 August / 28 February	1 903.2	1 837.1	2 158.8

Dividend declarations

The directors have declared the following cash dividends:
Pick n Pay Stores Limited (No. 87) **22.50 cents per share**
Pick n Pay Holdings Limited (No. 60) **10.91 cents per share**
For both Companies, the last day of trade in order to participate in the dividend (CUM dividend) will be Friday, 2 December 2011. The shares will trade EX dividend from the commencement of business on Monday, 5 December 2011 and the record date will be Friday, 9 December 2011.
The dividends will be paid on Monday, 12 December 2011.
Share certificates may not be dematerialised or rematerialised between Monday, 5 December 2011 and Friday, 9 December 2011, both dates inclusive.

On behalf of the boards of directors
DE Muller – *Company Secretary* 18 October 2011

Notes to the financial information

1. The Group's interim condensed consolidated financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting. The accounting policies and methods of computation applied in the preparation of these financial statements are in accordance with IFRS and are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 28 February 2011.
2. During the period, certain companies within the Group entered into transactions with each other. These intra-group transactions have been eliminated on consolidation. Related parties are unchanged from those reported at 28 February 2011. For further information, please refer to note 28 of the 2011 annual report.
3. Revenue comprises turnover, other trading income and interest received.
4. The weighted average number of shares is lower than that in issue due to the treasury shares held by the Group being treated as cancelled for this calculation.
5. Discontinued operation – InterFrank Group Holdings Pty Limited ("Franklins"):

As the Group completed the sale of Franklins on 30 September 2011 it continues to be disclosed as a discontinued operation at 31 August 2011. The net proceeds from the sale were approximately R1.3 billion, which will be invested in the Group's South African operations. The transaction will only be accounted for in the second half of the financial year. Notwithstanding our decision to complete the sale, the ACCC's appeal has been expedited with a three day hearing scheduled to begin on 24 October 2011. Our confidence in a successful outcome has been boosted by the comprehensive judgment in our favour in the Federal Court in late August 2011 and by the court's denial of the ACCC's application for an interim injunction.

The salient financial information of the discontinued operation is as follows:

Franklins	Unaudited Aug 2011 Rm	Aug 2010 Rm	Audited Feb 2011 Rm
Statement of comprehensive income			
Revenue	2 904.1	2 790.3	5 617.4
Turnover	2 904.0	2 787.5	5 613.0
Trading expenses	683.6	665.1	1 281.6
Loss on sale of equipment and vehicles	(0.8)	(3.4)	(7.0)
Trading loss for the period	(65.8)	(75.0)	(123.2)
Loss for the period after tax	(65.8)	(74.0)	(123.4)
Statement of financial position			
Total assets	2 117.3	1 993.7	2 120.1
Total liabilities	838.9	762.9	826.6
Cash flow statement			
Net cash (utilised in) / from operating activities	(65.8)	45.3	13.9
Net cash utilised in investing activities	(17.9)	(78.0)	(151.4)
Net cash from financing activities	12.4	10.0	10.0

Directors of Pick n Pay Stores Limited:

Executive: NP Badminton *(CEO)*, RSJ van Rensburg *(Deputy CEO appointed 1 October 2011)*, A Jakoet *(CFO)*, JG Ackerman, SD Ackerman-Berman

Non-executive: GM Ackerman *(Chairman)*, D Robins *(German)*

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

Directors of Pick n Pay Holdings Limited:

Non-executive: RD Ackerman *(Chairman)*, GM Ackerman, W Ackerman

Independent non-executive: RP de Wet, HS Herman, J van Rooyen

Alternate: JG Ackerman, SD Ackerman-Berman, D Robins *(German)*

Operating segment report

	Pick n Pay and Boxer Aug 2011 Rm	Pick n Pay and Boxer Aug 2010 Rm	Insurance Aug 2011 Rm	Insurance Aug 2010 Rm	Total continuing operations Aug 2011 Rm	Total continuing operations Aug 2010 Rm
External revenue	27 211.7	25 346.5	1.4	1.4	27 213.1	25 347.9
Inter-segment revenue	(9.9)	(9.3)	9.9	9.3	—	—
External turnover	27 082.8	25 208.4	—	—	27 082.8	25 208.4
– Australian dollars (millions)						
Profit / (loss) before tax	421.4	673.2	10.5	8.9	431.9	682.1
– Australian dollars (millions)						
Total assets	9 801.4	8 796.8	58.3	29.4	9 859.7	8 826.2

	Discontinued operation Franklins Aug 2011 Rm	Discontinued operation Franklins Aug 2010 Rm	Total operations Aug 2011 Rm	Total operations Aug 2010 Rm
External revenue	2 904.1	2 790.3	30 117.2	28 138.2
Inter-segment revenue	—	—	—	—
External turnover	2 904.0	2 787.5	29 986.8	27 995.9
– Australian dollars (millions)	398.7	417.5		
Profit / (loss) before tax	(65.8)	(74.0)	366.1	608.1
– Australian dollars (millions)	(9.1)	(11.3)		
Total assets	2 117.3	1 993.7	11 977.0	10 819.9

Registered office: 101 Rosmead Avenue, Kenilworth, Cape Town, 7708
Sponsor: Investec Bank Limited, 100 Grayston Drive, Sandton, 2196
Transfer secretaries: Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001

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www.picknpay.co.za

BASTION GRAPHICS