

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 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 29 February 2012. The interim condensed consolidated financial statements have been prepared by the Pick n Pay Finance Division under the supervision of the Chief Finance Officer, Mr Bakar Jakoet (CA)SA.
2. During the period, certain companies within the Group entered into transactions with each other. These intra-group transactions are eliminated on consolidation. Related parties are unchanged from those reported at 29 February 2012. For further information, please refer to note 28 of the 2012 annual financial statements.
3. Revenue comprises turnover, other trading income and interest received. The Group has reviewed the terms of its franchise agreements in Botswana, Lesotho and Swaziland, and the interpretation of its role in the supply of inventory to those franchisees. In the past, Pick n Pay purchased inventory on behalf of its franchisees and sold this onto the franchisees at no margin. As such, the accounting treatment of the transaction was to recognise the purchases as part of Group cost of merchandise sold and the sales as part of Group turnover, with no impact on gross profit. The substance of the relationship has changed over time, with the franchisees ordering and receiving directly from the suppliers, albeit being facilitated through the Pick n Pay supply chain. We believe it more appropriate therefore to reflect Pick n Pay's role in the transaction as that of agent, earning a franchise fee only. Therefore we are no longer recognising the turnover and the corresponding cost of merchandise sold in the Group statement of comprehensive income. Prior period disclosures have been adjusted accordingly as follows:

	As previously stated Aug 2011 Rm	Prior year adjustment Aug 2011 Rm	As restated Aug 2011 Rm
Turnover	27 082.8	(359.6)	26 723.2
Cost of merchandise sold	(22 282.4)	359.6	(21 922.8)
Gross profit	4 800.4	—	4 800.4

No restatement of the prior period statement of financial position is required as the adjustment has had no impact on earnings.

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. In September 2011 we sold our Australian business, Franklins, to Metcash Limited for R1.2 billion, net of fees. Franklins is disclosed as a discontinued operation in the prior period.

Pick n Pay Holdings Limited (“Pikwik”)

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

Pikwik's only asset is its 53.81% (2011: 53.85%) 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 R91.8 million (2011: R105.3 million).

Headline earnings per share is 17.78 cents (2011: 20.40 cents).

Headline earnings per share from continuing operations is 17.78 cents (2011: 27.19 cents) a decrease of 34.6%.

Diluted headline earnings per share from continuing operations is 17.31 cents (2011: 26.68 cents).

The total number of shares in issue is 527.2 million (2011: 527.2 million) and the weighted average number of shares in issue during the period is 516.4 million (2011: 516.4 million).

Pikwik's interim dividend per share is 7.17 cents (2011: 10.91 cents per share), a decrease of 34.3%.

Directors of Pick n Pay Stores Limited:

Executive: GM Ackerman (*Chairman and acting CEO*), RSJ van Rensburg (*Deputy CEO*), A Jakoet (*CFO*), JG Ackerman, SD Ackerman-Berman

Non-executive: D Robins (*German*)

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

Gareth Ackerman, previously the non-executive Chairman of Pick n Pay Stores Limited, assumed an executive role on the resignation of then CEO Nick Badminton effective 29 February 2012.

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*)

Registered office: 101 Rosmead Avenue, Kenilworth, Cape Town, 7708

Sponsor: Investec Bank Limited, 100 Grayston Drive, Sandton, 2196

Transfer secretaries: Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001



www.picknpay.co.za

BASTION GRAPHICS



Unaudited interim condensed consolidated results
for the six months ended 31 August 2012

Key financial indicators – continuing operations

	Turnover R'billion	EBITDA R'million	Headline earnings cents per share	Interim dividend cents per share
2012:	28.3	737.4	35.91	14.75
2011:	26.7	882.4	54.73	22.50

REVIEW OF OPERATIONS

This has been a challenging six months for the Group. The combination of modest sales growth, significant investment in selling price and continued material investment in our strategic transformation programme has resulted in trading profit being R204.2 million (41.5%) below last year. We have tried to accomplish too much too quickly, and are now addressing the considerable operational challenges that large scale change brings. We have prioritised the major initiatives in our change programme to ensure that the basic principles are completely bedded down, and that we have a solid foundation in place from which to trade.

Financial review – continuing operations

Group turnover at R28.3 billion for the period is 5.9% above last year, with like-for-like growth of 3.2%. A number of factors have contributed to the disappointing turnover growth. The uncertain economic climate, characterised by escalating food and fuel prices, continued high levels of unemployment and household indebtedness, has resulted in cautious customer spend. We continue to invest in selling price, easing the burden for our customers, and entrenching our position as the best value supermarket in South Africa. We have lagged our competitors in space growth, which has eroded our market share and negatively impacted like-for-like sales growth. Expansion plans are in place in the short to medium-term, which will add to our footprint and provide opportunity to regain market share. In-store stock shortages, due to both disappointing operational execution and poor inventory availability, have hampered turnover growth. We are tackling this issue both internally and with suppliers, to ensure that all underlying reasons are addressed.

Gross profit margin for the period is 17.6% (2011: 18.0%). The deterioration in margin is largely attributable to some early missteps in the implementation of centralised category buying, increased distribution costs due to transitional difficulties in bringing the management of our Longmeadow distribution centre in-house, the increased participation of smartshopper loyalty sales and our continued investment in selling price. There is opportunity to strengthen margins, while maintaining our competitive price position, through supply chain improvements and further enhancements of our specialised category buying function.

Trading profit of R288.0 million (2011: R492.2 million) for the period, at a margin of 1.0% (2011: 1.8%) is 41.5% down on last year. In addition to the issues discussed above, this is mainly attributable to on-going strategic transformation costs, including accelerated investments in category buying, demand planning, supply chain and marketing capabilities. In addition, we have seen large increases in electricity, fuel and rates. We are encouraged by improvements in labour productivity and the savings which are beginning to come through from the flexibility we gained from our new labour agreement; however there is still opportunity for improvement.

EBITDA (earnings before interest, tax, depreciation and amortisation) is down 16.4% for the period to R737.4 million (2011: R882.4 million), with comfortable coverage of both interest and tax.

Net cash from operating activities for the period at R300.8 million is down from R1 190.0 million last year. An increased level of inventory, to compensate for reduced availability, has reduced the cash generated from operations. In addition, our new Philippi distribution centre in the Western Cape has added to inventory levels, with an anticipated lag in the compensating decrease at store level.

Headline earnings per share for the 6 months to 31 August 2012 is down 34.4% on the same period last year, to 35.91 cents per share. Excluding the effect of STC in the prior year, headline earnings per share is down 44.9%.

The interim dividend per share, of 14.75 cents for Pick n Pay Stores Limited and 7.17 cents for Pick n Pay Holdings Limited, is down 34.4% and 34.3% respectively, in line with the decrease in headline earnings per share.

Operational review

We have a total of 932 stores, consisting of 787 Pick n Pay and 145 Boxer stores (540 owned and 392 franchised), across all formats. Our smaller format stores are out-performing the larger formats, with our customers shopping more frequently for a smaller basket. Our expansion plans will therefore concentrate on smaller formats. We are also focused on ensuring our larger hyper format remains relevant. We are encouraged by the good growth shown by our liquor and clothing formats. Like-for-like growth in our emerging market stores is no longer outperforming the higher income stores, as our lower LSM stores are more affected by aggressive expansions in retail space. We are pleased with the achievements of our Boxer brand in this environment, which continues to deliver good results.

Pick n Pay owned stores – we opened 22 stores during the period, including 3 supermarkets, 10 clothing stores, 6 liquor stores and 3 pharmacies. We closed one supermarket during the period. We intend to open 9 supermarkets, 14 liquor stores and 10 clothing stores in the next 6 months.

Pick n Pay franchised stores – we opened 11 stores during the period, including 3 supermarkets, 1 mini-market and 7 liquor stores. We converted 1 store during the period to a Pick n Pay owned store and 1 to a Boxer and closed 4 non-performing stores. We intend to open a further 8 supermarkets, 15 express stores and 18 liquor stores in the second half of the year.

Boxer owned stores – we opened 17 stores during the period, including 11 Superstores, 2 Boxer Builds (hardware stores) and 4 liquor stores. 1 Boxer Punch closed during the period. We intend to open a further 7 Superstores, 4 Punch, 4 liquor and 2 Boxer Builds in the second half of the year.

Outside South Africa – we continue our steady growth outside of South Africa and at 31 August 2012, the total number of stores outside South Africa (both owned and franchised) was 100, including our 49% interest in 50 TM Supermarkets trading in Zimbabwe. We currently trade in Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.

Strategic update

Our focus remains on improving our customer offer and on streamlining operations, including consolidating and upgrading support functions, to better position us to deliver outstanding products and services in world class stores.

Central distribution – we opened our new Philippi distribution centre in the Western Cape in May 2012 and our in-house supply chain team has taken over the operation of the Longmeadow facility in Gauteng from our outsourced partner. Operational difficulties at Longmeadow, particularly during the transition phase of bringing the management of the facility in-house, have resulted in material operating losses during the period under review. There have been marked improvements in both cost control and productivity subsequent to our take-over of the facility and we look forward to enhanced performance going forward. The Philippi distribution centre is performing well ahead of expectation and is already achieving productivity substantially in excess of that of Longmeadow.

Category buying – our specialist category buying division was in place from March this year. This is a fundamental, large-scale change in the way we buy and range and has come with operational and administrative teething problems. The team is focused on a number of key enhancements, and as a result, consulting costs continue to impact earnings significantly. We are working towards eliminating these costs by February 2013.

Space growth – our new store pipeline is looking strong with 225 stores across all formats (138 corporate and 87 franchise) planned to open over the next 18 months, representing a 12.6% increase in trading space.

Smartshopper – it has been 18 months since the launch of our loyalty programme, which has experienced take-up well beyond expectations. We currently have 5.8 million smartshoppers, participating in 57% of total turnover and 36% of baskets, with the average value of a loyalty transaction being 2.7 times that of a non-smartshopper transaction. The main aim of the loyalty programme is to gain valuable consumer insights that will inform both ranging and positioning of stores, with this high value intelligence already informing both. The programme has required considerable capital investment and significant on-going operating costs and there is still work to be done before the full benefits of the programme are realised. We are currently focused on developing strategic partnerships with suppliers and third parties to drive maximum value to customers and to offset the costs of the programme.

Labour costs – the new flexibility and mobility agreement reached in December 2011, has enabled us to staff our stores more efficiently and cost-effectively. The positive effects of the agreement are starting to be felt, however it will take time before the full advantages are realised, as we are taking considered and measured steps in implementing the full terms and conditions of the agreement, while being sensitive to the labour relations issues that this change brings.

CLOSING COMMENTS

We will no doubt look back at this time as one of the most trying in our Group's history. Despite a challenging 6 months and the disappointing result, we have not lost sight of how far we have come in transforming the business, and the opportunities in place to improve our performance. The trading environment will remain tough in the foreseeable future and, coupled with the cost and effort still required by our strategic transformation programme, our short-term performance will remain under pressure. We are confident that we will meet our target of completing the foundation phase of our strategic transformation programme by 2014.

The Group is delighted by the appointment of Richard Brasher as the new Chief Executive Officer and believe he will bring focus, energy and directly relevant expertise to the Group at a very important time in its development. The news of his appointment has been well received both internally and externally and we look forward to him joining us in February 2013.

Gareth Ackerman Chairman and acting CEO
Richard van Rensburg Deputy CEO

23 October 2012



Statement of comprehensive income

	Unaudited Six months ended Aug 2012 Rm	Growth %	Aug 2011 Rm	Audited Year to Feb 2012 Rm
Continuing operations				
Revenue (note 3)	28 487.7		26 853.5	55 634.4
Turnover	28 306.0	5.9	26 723.2	55 330.5
Cost of merchandise sold	(23 310.8)		(21 922.8)	(45 350.0)
Gross profit	4 995.2		4 800.4	9 980.5
Other trading income	154.6		116.8	264.4
Trading expenses	(4 874.1)		(4 421.1)	(8 969.8)
Employee costs	(2 413.0)		(2 309.1)	(4 658.5)
Occupancy	(731.0)		(630.2)	(1 302.1)
Operations	(1 193.0)		(1 056.1)	(2 149.4)
Merchandising and administration	(537.1)		(425.7)	(859.8)
Profit/(loss) on sale of property, equipment and vehicles and intangible assets	12.3		(3.9)	(7.6)
Trading profit	288.0	(41.5)	492.2	1 267.5
Interest received	27.1		13.5	39.5
Interest paid	(65.6)		(71.8)	(135.1)
Share of associate's profit/(loss)	9.7		(2.0)	(1.9)
Profit before tax	259.2		431.9	1 170.0
Tax	(78.8)		(174.5)	(407.7)
Profit for the period from continuing operations	180.4	(29.9)	257.4	762.3
(Loss)/profit for the period from discontinued operation (note 5)	—		(65.8)	351.2
Profit on sale of discontinued operation	—		—	438.4
Loss from discontinued operation	—		(65.8)	(87.2)
Profit for the period	180.4	(5.8)	191.6	1 113.5
Other comprehensive income/(loss), net of tax	1.6		2.7	(358.3)
Exchange rate differences on translating foreign operations	5.1		48.1	224.1
Net loss on hedge of net investment in foreign operation	—		(49.9)	(49.9)
Foreign currency translation reserve realised on sale of discontinued operation (note 5)	—		—	(539.8)
Retirement benefit actuarial (loss)/gain	(3.5)		4.5	7.3
Total comprehensive income for the period	182.0		194.3	755.2
EBITDA	737.4	(16.4)	882.4	2 073.7
Gross profit margin	17.6%		18.0%	18.0%
Trading profit margin	1.0%		1.8%	2.3%
Earnings per share – cents				
Basic	37.73	(6.0)	40.14	233.21
Continuing operations	37.73	(30.0)	53.92	159.64
Discontinued operation	—		(13.78)	73.57
Diluted	37.13	(6.3)	39.62	228.69
Continuing operations	37.13	(30.2)	53.23	156.55
Discontinued operation	—		(13.61)	72.14
Headline earnings reconciliation				
Profit for the period	180.4		191.6	1 113.5
Headline adjustments (net of tax):				
Continuing operations	(8.7)		3.9	5.5
(Profit)/loss on sale of property, equipment and vehicles and intangible assets	(8.7)		3.9	5.5
Discontinued operation	—		0.8	(437.6)
Loss on sale of property, equipment and vehicles and intangible assets	—		0.8	0.8
Profit on sale of discontinued operation (note 5)	—		—	(438.4)
Headline earnings	171.7	(12.5)	196.3	681.4
Continuing operations	171.7	(34.3)	261.3	767.8
Discontinued operation	—		(65.0)	(86.4)
Headline earnings per share – cents	35.91	(12.6)	41.11	142.69
Continuing operations	35.91	(34.4)	54.73	160.78
Discontinued operation	—		(13.62)	(18.09)
Diluted headline earnings per share – cents	35.34	(12.9)	40.59	139.92
Continuing operations	35.34	(34.6)	54.03	157.67
Discontinued operation	—		(13.44)	(17.75)

Statement of changes in equity

	Unaudited Six months ended Aug 2012 Rm	Aug 2011 Rm	Audited Year to Feb 2012 Rm
At 1 March	2 404.1	2 158.8	2 158.8
Total comprehensive income for the period	182.0	194.3	755.2
Dividends paid	(513.4)	(498.0)	(605.4)
Share repurchases	(30.5)	(25.5)	(42.7)
Net effect of settlement of employee share options	11.9	31.0	42.5
Share options expense	43.9	42.6	95.7
At 31 August/29 February	2 098.0	1 903.2	2 404.1

Statement of financial position

	Unaudited Aug 2012 Rm	Aug 2011 Rm	Audited Feb 2012 Rm
Assets			
Non-current assets			
Intangible assets	907.0	658.6	799.6
Property, equipment and vehicles	3 817.5	3 451.4	3 863.9
Operating lease assets	95.5	43.9	84.8
Participation in export partnerships	38.0	48.1	41.5
Deferred tax assets	171.1	107.4	116.5
Investment in associate	120.2	7.8	110.5
Loans	85.1	79.7	80.8
Other investment	0.2	0.2	0.2
	5 234.6	4 397.1	5 097.8
Current assets			
Assets held for sale – discontinued operation	—	2 117.3	—
Inventory	3 981.1	3 173.8	3 334.9
Trade and other receivables	2 163.6	1 928.1	2 113.9
Cash and cash equivalents	1 044.8	360.7	1 271.7
	7 189.5	7 579.9	6 720.5
Total assets	12 424.1	11 977.0	11 818.3
Equity and liabilities			
Total shareholders' equity	2 098.0	1 903.2	2 404.1
Non-current liabilities			
Long-term debt	772.7	1 033.1	771.2
Retirement scheme obligations	1.3	20.8	9.0
Operating lease liabilities	879.4	762.6	829.1
	1 653.4	1 816.5	1 609.3
Current liabilities			
Liabilities held for sale – discontinued operation	—	838.9	—
Short-term debt	686.6	49.1	693.3
Tax	136.8	94.1	99.6
Trade and other payables	7 849.3	7 275.2	7 012.0
	8 672.7	8 257.3	7 804.9
Total equity and liabilities	12 424.1	11 977.0	11 818.3
Number of shares in issue – millions	480.4	480.4	480.4
Weighted average number of shares in issue – millions (note 4)	478.1	477.4	477.4
Net asset value – cents per share (property value based on directors' valuation)	514.2	430.6	548.0

Operating segment report

	Pick n Pay and Boxer		Insurance		Total continuing operations		Discontinued operation – Franklins		Total operations	
	Aug 2012 Rm	Aug 2011 Rm	Aug 2012 Rm	Aug 2011 Rm	Aug 2012 Rm	Aug 2011 Rm	Aug 2012 Rm	Aug 2011 Rm	Aug 2012 Rm	Aug 2011 Rm
External revenue	28 486.0	26 852.1	1.7	1.4	28 487.7	26 853.5	—	2 904.1	28 487.7	29 757.6
Inter-segment revenue	—	—	10.5	9.9	10.5	9.9	—	—	10.5	9.9
External turnover	28 306.0	26 723.2	—	—	28 306.0	26 723.2	—	2 904.0	28 306.0	29 627.2
Profit/(loss) before tax	249.9	421.4	9.3	10.5	259.2	431.9	—	(65.8)	259.2	366.1
Total assets	12 348.7	9 801.4	75.4	58.3	12 424.1	9 859.7	—	2 117.3	12 424.1	11 977.0

Dividend declarations

The directors have declared the following cash dividends:

Pick n Pay Stores Limited				Pick n Pay Holdings Limited			
2012	2011	Growth		2012	2011	Growth	
Cents per share	Cents per share	%		Cents per share	Cents per share	%	
Interim dividend	14.75	22.50	(34.4)	7.17	10.91	(34.3)	

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

Number of shares in issue: 480 397 321.

Notice is hereby given that the directors have declared an interim gross dividend (number 89) of 14.75 cents per share out of income reserves.

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

There is no Secondary Tax on Companies ("STC") to be taken into account when determining the dividend tax to withhold.

The tax payable is 2.2125 cents per share, leaving shareholders who are not exempt from dividends tax with a net dividend of 12.5375 cents per share.

Pick n Pay Holdings Limited – Tax reference number: 9050/141/71/3

Number of shares in issue: 527 249 082.

Cash flow statement

	Unaudited Six months ended Aug 2012 Rm	Aug 2011 Rm	Audited Year to Feb 2012 Rm
Cash flows from operating activities			
Trading profit	288.0	492.2	1 267.5
Depreciation and amortisation	439.7	392.2	808.1
(Profit)/loss on sale of property, equipment and vehicles and intangible assets	(12.3)	3.9	7.6
Share options expense	43.9	42.6	95.7
Net operating lease liabilities	39.6	27.0	52.7
Cash generated before movements in working capital	798.9	957.9	2 231.6
Movements in working capital	138.6	1 034.8	490.3
Increase in trade and other payables	824.7	1 234.7	1 030.4
Increase in inventory	(639.9)	(11.2)	(172.2)
Increase in trade and other receivables	(46.2)	(188.7)	(367.9)
Cash generated by trading activities	937.5	1 992.7	2 721.9
Interest received	27.1	13.5	39.5
Interest paid	(65.6)	(71.8)	(135.1)
Cash generated by operations	899.0	1 934.4	2 626.3
Dividends paid	(513.4)	(498.0)	(605.4)
Tax paid	(84.8)	(180.6)	(462.1)
Net cash generated by operating activities – continuing operations	300.8	1 255.8	1 558.8
Net cash utilised in operating activities – discontinued operation	—	(65.8)	(330.4)
Total net cash from operating activities	300.8	1 190.0	1 228.4
Cash flows from investing activities			
Investment in property, equipment and vehicles and intangible assets	(579.0)	(668.3)	(1 611.0)
Intangible asset additions	(123.0)	(117.3)	(271.7)
Property additions	(80.0)	(117.4)	(446.8)
Equipment and vehicle additions	(376.0)	(433.6)	(892.5)
Increase in investment in associate	—	—	(102.5)
Purchase of operations	(94.4)	(58.7)	(106.4)
Proceeds on disposal of property, equipment and vehicles and intangible assets	192.2	27.4	44.5
Loans (advanced to)/repaid by employees	(4.3)	10.4	9.4
Net cash utilised in investing activities – continuing operations	(485.5)	(689.2)	(1 766.0)
Net cash (utilised in)/generated by investing activities – discontinued operation	—	(17.9)	1 459.6
Total net cash utilised in investing activities	(485.5)	(707.1)	(306.4)
Cash flows from financing activities			
Debt (repaid)/raised	(5.3)	405.1	787.5
Share repurchases	(30.5)	(25.5)	(42.7)
Net proceeds from employees on settlement of share options	1.7	30.7	31.1
Net cash (utilised in)/generated by financing activities – continuing operations	(34.1)	410.3	775.9
Net cash generated by financing activities – discontinued operation	—	12.4	—
Total net cash (utilised in)/generated by financing activities	(34.1)	422.7	775.9
Net (decrease)/increase in cash and cash equivalents	(218.8)	905.6	1 697.9
Cash and cash equivalents at 1 March	1 271.7	(431.8)	(431.8)
Effect of exchange rate fluctuations on cash and cash equivalents	(8.1)	(81.5)	5.6
Cash and cash equivalents at 31 August / 29 February	1 044.8	392.3	1 271.7
Continuing operations	1 044.8	360.7	1 271.7
Discontinued operation	—	31.6	—

Notice is hereby given that the directors have declared an interim gross dividend (number 62) of 7.17 cents per share out of income reserves.

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

There is no Secondary Tax on Companies ("STC") to be taken into account when determining the dividend tax to withhold.

The tax payable is 1.0755 cents per share, leaving shareholders who are not exempt from dividends tax with a net dividend of 6.0945 cents per share.

Dividend dates

For both Companies, the last day of trade in order to participate in the dividend (CUM dividend) will be Friday, 7 December 2012.

The shares will trade EX dividend from the commencement of business on Monday, 10 December 2012 and the record date will be Friday, 14 December 2012.

The dividends will be paid on Tuesday, 18 December 2012.

Share certificates may not be dematerialised or rematerialised between Monday, 10 December 2012 and Friday, 14 December 2012, both dates inclusive.

On behalf of the boards of directors

Debbie Muller – Company Secretary

23 October 2012