Pick n Pay Stores Limited
Unaudited interim condensed consolidated results
for the 26 week period ended 31 August 2014

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Key financial indicators

	26 weeks to 31 August 2014	26 weeks to 1 September 2013	% change
Total till sales	**R37.4 billion**	R35.0 billion	7.1
Turnover	**R32.1 billion**	R30.1 billion	6.8
Gross profit margin	**17.7%**	17.9%	
Trading profit	**R386.6 million**	R317.5 million	21.8
Trading profit margin	**1.2%**	1.1%	
Profit before tax	**R366.8 million**	R271.8 million	35.0
Profit before tax margin	**1.1%**	0.9%	
Basic earnings per share	**54.39 cents**	40.05 cents	35.8
Headline earnings per share	**53.98 cents**	40.81 cents	32.3
Interim dividend per share	**19.60 cents**	14.80 cents	32.4

Results summary

Pick n Pay delivered a substantially improved profit performance for the half-year ending 31 August 2014, demonstrating sustained progress against our plan to improve the business.

A determined focus on cost control and operating efficiency is strengthening our business and is continuing to drive our profit growth in a challenging trading environment. Trading profit increased by 21.8% on last year. Improved working capital management resulted in stronger cash balances and a considerable saving on net interest paid, driving profit before tax up 35.0% on last year. The profit before tax margin is 1.1%, up from 0.9% last year.

Headline earnings per share are 32.3% up on the same period last year. The Group declared an interim dividend of 19.60 cents, up 32.4% on last year.

Turnover growth of 6.8% reflects the growing financial pressure faced by customers in a very competitive market. Our core customers are becoming increasingly price sensitive in the face of rising utility, transport and commodity prices and higher borrowing costs. The situation is even more challenging in the emerging markets which Boxer serves, where unemployment remains a major concern and there is considerable reliance on social grants.

We supported our customers over the period through substantive investment in price, containing food price increases at 6.7%, against CPI food inflation of 8.4%. This price investment is reflected in a decrease in our gross margin from 17.9% to 17.7%. We are encouraged by the progress we are making in improving our business. Our supply chain and store operations are simpler and more effective. As a result, operating costs and like-for-like stock holdings are lower. Centralisation of our administrative functions means better support for our stores, and benefits our customers through improved availability, better service and more innovation.

Review of operations continued

Operational review

Growth in a competitive market

We opened 46 new stores over the period, bringing Pick n Pay and Boxer to a number of communities in which we had not traded before. We are on track to create more than 3 000 new jobs this financial year, a significant contribution to the national priority of building employment, training and skills. To improve the quality of our estate, we closed five under-performing stores and invested R110 million on improving existing stores.

The Group now has 1 117 stores, comprising 665 company-owned stores and 452 franchise stores, across multiple retail formats and six southern African countries. In addition 52 stores, four of which trade under the Pick n Pay brand, are operated in Zimbabwe by our associate, TM Supermarkets.

Our space growth over the period was behind that of our sector. We are determined that new space should deliver acceptable and sustainable returns, and have reviewed our plans against this requirement. By using the flexibility available across our Pick n Pay and Boxer formats, and the opportunity to satisfy the growing demand for convenience, we are confident that we can grow sustainably. We will therefore accelerate our opening programme, with more than 80 new stores planned to open in the second half of the year.

Improved financial control and operational efficiencies

We are pleased with the enhanced efficiencies and cost reductions that are being achieved through our investment in centralised category-based procurement, distribution, administration and related systems. In the first half of this year we completed the rollout of our fully integrated forecast and replenishment system, and substantively improved our two main distribution centres. We implemented a specialised high-density picking area (pick tunnel) in our Philippi Distribution Centre in the Western Cape, significantly increasing the efficiency of handling slow-moving and single-item units. This has increased the capacity of the facility from 8 000 line items to 14 500, enabling us to centralise an additional 50 suppliers in the Western Cape. We have implemented the EWM SAP warehousing system in our Longmeadow Distribution Centre in Gauteng. This system had been introduced successfully at Philippi, and we expect it to contribute to a 40% increase in picking efficiency at Longmeadow by the end of the financial year. Notwithstanding the costs associated with these two initiatives, we reduced our distribution costs in both facilities compared to the same period last year.

Our improved systems have enabled more effective inventory management, with stock levels reduced by two days in the distribution centres and the total value of stock on hand being down 6% on a like-for-like basis. Stock availability remains a challenge, and while we have seen a 2% improvement over the period, we continue to work closely with suppliers to achieve further improvement.

We have reduced trading expenses as a percentage of sales by 0.2 percentage points, from 17.7% to 17.5%, largely through improved labour scheduling and productivity at store level, and a more streamlined support office function following the head office restructure in the previous financial year.

Investing in our customer offer

As well as driving profit growth, cost and operational improvements strengthen our ability to enhance the shopping trip for customers. This is crucial to our strategic aim of sales-led growth. Lower costs enable us to invest more in the customer offer in a period of high inflation. Internal food inflation for the half-year was held to 6.7%, compared to food CPI of 8.4%.

We recognise that our customers are increasingly price sensitive in this current market and are shopping around for the best deals. We responded through the launch of Pick n Pay Brand Match at the end of August. Customer feedback and the results to date have been very encouraging. Brand Match is strengthening confidence in the competitiveness of our prices, and building even greater loyalty in Pick n Pay.

We have improved the quality of our fresh, perishable and pre-packaged convenience ranges. Through our "Fresh Promise" we have reaffirmed our commitment to the quality of our fresh produce, and this has been positively received by our customers. We have used smart shopper insight to enhance our in-store offer, and have added new value-added areas into stores, such as biltong bars and fresh flowers.

Customers are seeking greater convenience. As a result, our smaller, more convenient stores have out-performed our larger hypermarket format. However, hypermarkets remain a valuable part of our business, attracting a large number of customers and generating significant revenue for the Group. There are substantial opportunities to improve their efficiency and offer for customers, and we are developing an overall strategy as well as an individual plan for each hyper. We have already refitted three larger stores as part of this strategy. We have appointed a member of our senior management team, Neal Quirk, as the head of our Hypermarket business. Neal's focus and operational expertise will ensure that trading densities improve through better use of space and stronger customer focus.

Our clothing business delivered strong growth over the period, through both an expanded range and additional space allocations in our supermarkets.

We continue to invest in our online business, which we believe will become an increasingly valuable asset in the future of South African retail. We have built confidence in the online experience, through improved availability, quality and reliability and as a result, we have delivered 37% growth in customers over last year.

We continue to innovate, offering our customers a wide range of value-added services aimed at increased convenience and lower household costs. Mobile money, our partnership with MTN, continues to perform well. The service has 1.8 million customers, 400 000 of whom use money transfers regularly and 250 000 utilise their mobile money account as their low-cost bank account.

Our smart shopper loyalty programme was recently voted the best loyalty programme in South Africa for the second year running at the *Sunday Times* Top Brands awards. More than 10% of South Africans now have a smart shopper card, with 10 cards swiped every second that our doors are open. Loyalty sales account for 65% of our turnover, with the value of a smart shopper basket consistently and meaningfully growing ahead of a non-loyalty basket. Our smart shopper programme is a key differentiator for Pick n Pay, and we are determined to keep it relevant and meaningful for customers. We have built on the point of sale enhancements introduced last year, with the introduction of targeted promotions, personalised cash off vouchers and a number of new partners. As a result, our smart shoppers are more engaged than ever, with redemptions of customer offers up 42% over last year. We have given back R1.5 billion in smart shopper points since the inception of the programme.

Rest of Africa: establishing a second engine of growth

We continue to strengthen our position outside South Africa with established franchise businesses in Botswana, Lesotho, Namibia and Swaziland, and a growing company-owned business in Zambia. These operations have performed well over the period. Segmental revenue is up 15.0% to R1.7 billion, with like-for-like growth of 7.8%. Segmental profit has grown by 43.0% to R135.1 million, partly driven by the Group's strategic decision to exit Mozambique and Mauritius last year.

TM Supermarkets, the Group's 49% held investment in Zimbabwe, has had a more difficult time over the period, with our share of their income falling by 22.9% to R11.1 million. This reflects significant deflation in Zimbabwe, resulting in price decreases across a broad range of categories. We remain confident of the prospects for this business, which has embarked on a substantial store refurbishment programme.

We continue to actively examine opportunities for sustainable growth outside South Africa. As a result, we plan to extend our operations in the medium term by opening stores in Ghana, one of the most rapidly growing markets in Africa. We are also close to completing our analysis of the opportunities available to us in Nigeria. Our approach outside our borders remains measured, and no investment will be undertaken without a comprehensive understanding of a market and its supply chain capacities.

Creating a high-performance team

We are beginning to benefit from our new talent-spotting and performance management processes. We are investing more in training and development to ensure we have the right skills and capabilities in place, and are continuously reviewing our head office structure to ensure we offer an efficient and effective support function for our stores.

We have made a number of new senior management appointments from within the talent pool at Pick n Pay. This strengthens our decision-making capacity and demonstrates our commitment to recognising and developing talent within the business, and rewarding successful leadership. In addition, Jonathan Muthige has joined Pick n Pay as our head of human resources, replacing Isaac Motaung, who is retiring after 42 years of incredible service to our business. Jonathan will add momentum and experience to our determination to make Pick n Pay the employer of choice wherever we operate.

Doing good is good business

We remain determined to play a strong and positive role in the communities we serve and in the prosperity of the country as a whole. We have expanded the number of Pick n Pay Women's Walks in association with Pink Drive, helping to increase public awareness of breast cancer. We have increased our support for Community Food Gardens and other community programmes. On sustainability, we have exceeded our target to reduce our energy use by 30% against a 2008 baseline. Our overall climate change strategy has been recognised by our inclusion in the renowned CPD Global Leaders Index and the international Dow Jones Sustainability Index.

Conclusion: More to come

The Group is encouraged by this improved profit performance. Good expense control and improved operational efficiency is delivering higher returns and strengthening the capacity of the business to deliver on our strategy of customer-focused, sales-led growth. We are impatient to lead more change in Pick n Pay and accelerate progress on our plan. A great deal of hard work remains to be done under increasingly challenging economic conditions, but we intend to sustain the momentum we have built up over the past 18 months.

Financial review

Turnover

Group turnover increased by 6.8% to R32.1 billion (2013: R30.1 billion). Total sales growth has slowed over the period, due in part to lower growth from net new space. New stores contributed 2.8% to our turnover growth, compared to 4.4% in the prior year. Net trading space grew by 1.6% over the period. We are pleased, however, with the improvement in our like-for-like turnover growth, which has increased to 4.0% from 2.7% for the year ended February 2014. The Group demonstrated stronger growth at overall point of sale level, with owned and franchise stores collectively growing till sales by 7.1%, with like-for-like growth of 4.7%.

Gross profit

Gross profit of R5.7 billion is 5.8% up on last year. The gross margin has decreased from 17.9% to 17.7%, reflecting our ongoing commitment to keeping prices as low as possible for our customers in challenging economic times.

Other trading income

Certain elements of trading income previously included under cost of merchandise sold (within gross profit) were reclassified during the 2014 financial year and disclosed separately. This was done to improve the visibility of all other trading

Review of operations continued

income, specifically commissions received. The prior period has been restated to align with the current year disclosures, please refer to note 6 of the summarised financial information presented on page 16. The 15.4% increase in other income is largely attributable to the increase in commissions received, which reflects the launch of a number of new initiatives, such as mobile money and the sale of iTunes vouchers, which attracted high commissions on launch.

Trading profit

The trading profit margin improved from 1.1% to 1.2%, due to improved expense control and operating efficiency. Trading expenses increased by 5.3% and as a percentage of turnover decreased from 17.7% to 17.5%. The Group contained like-for-like expense growth (removing the impact of new and closed stores) at 3.0%, against CPI growth for the period of 6.3%. We are very pleased with the meaningful and sustainable progress being made across all areas of the business.

- Employee costs increased by 5.3% over the period, with like-for-like growth contained at 3.0%, notwithstanding new store growth and a wage rate increase in line with CPI. The Group remains resolutely focused on reducing labour costs in the business through improved productivity and efficiencies.

- Occupancy costs have increased by 12.9%, reflecting our space growth since the beginning of September last year. Like-for-like occupancy costs are up 8.3%, reflecting above-CPI regulatory increases in rates and taxes.

- Costs of operations are down 0.1% on last year, and down 3.0% on a like-for-like basis. This is mainly due to reduced amortisation and depreciation charges as a result of assets impaired in the prior year. Our operational teams have improved the cost of opening new stores and improved the efficiencies of existing stores. We have exceeded our target to reduce our energy usage by 30.0% against our 2008 baseline, which is saving the business money in the face of increasing energy costs.

- Merchandise and administration costs have increased by 7.4% or 8.8% on a like-for-like basis. The main driver in this category is bank charges. As South Africa's largest acceptor of electronic tender, we are sensitive to increases in bank charges, particularly as our customers move from debit cards to hybrid cards. The Reserve Bank has taken action to reduce bank inter-change fees with the benefits expected to flow in the 2016 financial year.

Interest

The net interest expense of R33.9 million is R21.0 million better than the prior year's expense of R54.9 million. Improved working capital management, particularly our focus on optimising inventory levels, has resulted in stronger cash balances and enabled the repayment of short-term debt under our DMTN programme.

Tax

The tax rate improved from 29.5% to 28.6%, as a result of our increased profit margin and with no change in the value of our non-deductible expenses.

Earnings per share

Basic earnings per share (EPS) increased 35.8% from 40.05 to 54.39 cents per share.

Headline earnings per share (HEPS) increased 32.3% from 40.81 to 53.98 cents per share.

Profits on the sale of assets, net of tax, of R2.0 million have been deducted from headline earnings, against an add-back of losses on the sale of assets, net of tax, of R3.6 million in 2013.

Financial position

	Sunday, 31 August 2014 Rm	Sunday, 1 September 2013 Rm
Inventory	**4 153.6**	3 950.7
Trade and other receivables	**2 709.4**	2 390.1
Cash and cash equivalents	**965.4**	1 340.3
Current liabilities	**(9 162.7)**	(9 157.2)
Net working capital	**(1 334.3)**	(1 476.1)

We are pleased with the improvement in net working capital of R141.8 million, particularly in the context of the store expansion programme. Inventory has increased by R202.9 million or 5.1%, with like-for-like inventory (excluding the impact of new stores) decreasing by 6.0%, mainly due to efficiencies derived from our supply chain channel, including the benefits from our enhanced forecast and replenishment system.

The increase in trade and other receivables of R319.3 million relates both to new franchise stores and a reduction in our bad debt provision. On a like-for-like basis, our cash position is R425.1 million stronger, which is testament to the good work being done in respect of inventory management and improved control over both capital and operating expenditure. The decrease in cash and cash equivalents of R374.9 million is after the repayment of R800 million of short-term debt over the last 12 months.

Shareholder distribution

The Board declared an interim dividend of 19.60 cents per share, 32.4% up on last year.

We would like to thank our whole team for their efforts in refocusing the Group, and for all their hard work which has delivered this improved result.

Gareth Ackerman

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

15 October 2014

Dividend declarations

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

Number of shares in issue: 487 322 321

Notice is hereby given that the directors have declared an interim dividend (number 93) of 19.60 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 2.94000 cents per share, leaving shareholders who are not exempt from dividends tax with a net dividend of 16.66000 cents per share.

Dividend dates

The last day of trade in order to participate in the dividend (CUM dividend) will be Friday, 5 December 2014.

The shares will trade EX dividend from the commencement of business on Monday, 8 December 2014 and the record date will be Friday, 12 December 2014. The dividends will be paid on Monday, 15 December 2014.

Share certificates may not be dematerialised or rematerialised between Monday, 8 December 2014 and Friday, 12 December 2014, both dates inclusive.

On behalf of the board of directors

Debra Muller
Company Secretary

15 October 2014

Consolidated statement of comprehensive income

for the period ended

	Unaudited 26 weeks to 31 August 2014 Rm	Change %	Unaudited 26 weeks to 1 September 2013 Rm	Audited 52 weeks to 2 March 2014 Rm
Revenue	**32 452.6**	7.2	30 278.0	63 661.9
Turnover	**32 110.6**	6.8	30 067.6	63 117.0
Cost of merchandise sold	**(26 424.7)**	7.0	(24 693.8)	(52 077.1)
Gross profit	**5 685.9**	5.8	5 373.8	11 039.9
Other trading income	**316.0**	15.4	273.9	500.6
Trading expenses	**(5 615.3)**	5.3	(5 330.2)	(10 530.2)
Employee costs	**(2 818.6)**	5.3	(2 677.9)	(5 326.3)
Occupancy	**(897.0)**	12.9	(794.3)	(1 613.9)
Operations	**(1 281.2)**	(0.1)	(1 282.0)	(2 580.5)
Merchandising and administration	**(618.5)**	7.4	(576.0)	(1 009.5)
Trading profit	**386.6**	21.8	317.5	1 010.3
Profit/(loss) on sale of property, plant and equipment	**3.0**		(5.2)	(5.5)
Impairment loss on intangible assets	**–**		–	(104.1)
Interest received	**26.0**	35.4	19.2	44.3
Interest paid	**(59.9)**	(19.2)	(74.1)	(143.9)
Share of associate's income	**11.1**	(22.9)	14.4	32.0
Profit before tax	**366.8**	35.0	271.8	833.1
Tax	**(104.9)**	30.8	(80.2)	(249.4)
Profit for the period	**261.9**	36.7	191.6	583.7
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement in retirement scheme assets	**1.7**		4.7	57.1
Items that may be reclassified to profit or loss				
Exchange rate differences on translating foreign operations	**(6.5)**		(3.7)	6.4
Other comprehensive income, net of tax	**(4.8)**		1.0	63.5
Total comprehensive income for the period	**257.1**	33.5	192.6	647.2
	Cents	Change %	Cents	Cents
Basic earnings per share	**54.39**	35.8	40.05	122.01
Diluted basic earnings per share	**53.52**	34.8	39.69	120.21
Headline earnings per share	**53.98**	32.3	40.81	138.51
Diluted headline earnings per share	**53.12**	31.3	40.45	136.46

Consolidated statement of financial position

	Unaudited As at 31 August 2014 Rm	Unaudited As at 1 September 2013 Rm	Audited As at 2 March 2014 Rm
ASSETS			
Non-current assets			
Property, plant and equipment	**3 947.8**	3 980.7	4 039.3
Intangible assets	**1 016.3**	959.5	987.6
Operating lease assets	**145.8**	116.3	132.8
Investment in associate	**177.0**	148.3	165.9
Participation in export partnerships	**26.9**	25.4	25.1
Loans	**108.7**	95.1	92.0
Retirement scheme assets	**94.3**	12.0	85.1
Deferred tax assets	**206.9**	205.4	212.1
	5 723.7	5 542.7	5 739.9
Current assets			
Inventory	**4 153.6**	3 950.7	3 979.8
Trade and other receivables	**2 709.4**	2 390.1	2 841.1
Cash and cash equivalents	**1 285.4**	1 340.3	1 540.3
Derivative financial instruments	**–**	–	3.5
	8 148.4	7 681.1	8 364.7
Total assets	**13 872.1**	13 223.8	14 104.6
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**6.0**	6.0	6.0
Share premium	**–**	–	–
Treasury shares	**(162.7)**	(140.1)	(145.7)
Retained earnings	**2 709.7**	2 458.6	2 849.1
Foreign currency translation deficit	**(13.3)**	(16.9)	(6.8)
Total shareholders' interest	**2 539.7**	2 307.6	2 702.6
Non-current liabilities			
Borrowings	**741.1**	772.3	747.1
Operating lease liabilities	**1 108.6**	986.7	1 042.7
	1 849.7	1 759.0	1 789.8
Current liabilities			
Trade and other payables	**9 069.0**	8 231.1	8 085.1
Bank overdraft and overnight borrowings	**320.0**	–	670.0
Borrowings	**40.2**	829.6	737.8
Tax	**45.9**	80.2	111.2
Provisions	**4.5**	9.6	8.1
Derivative financial instruments	**3.1**	6.7	–
	9 482.7	9 157.2	9 612.2
Total equity and liabilities	**13 872.1**	13 223.8	14 104.6
Net asset value – cents per share (property valued based on directors' valuation)	**613.6**	543.1	645.6

Consolidated statement of changes in equity

for the period ended 31 August 2014

Unaudited	Share capital Rm	Share premium Rm	Treasury shares Rm	Retained earnings Rm	Foreign currency translation deficit Rm	Total shareholders' interest Rm
At 3 March 2013	6.0	–	(139.4)	2 562.6	(13.2)	2 416.0
Total comprehensive income for the period	–	–	–	196.3	(3.7)	192.6
Profit for the period	–	–	–	191.6	–	191.6
Exchange rate differences on translating foreign operations	–	–	–	–	(3.7)	(3.7)
Remeasurement in retirement scheme assets	–	–	–	4.7	–	4.7
Transactions with owners	–	–	(0.7)	(300.3)	–	(301.0)
Dividends paid	–	–	–	(328.2)	–	(328.2)
Share repurchases	–	–	(10.6)	–	–	(10.6)
Net effect of settlement of employee share options	–	–	9.9	(6.8)	–	3.1
Share options expense	–	–	–	34.7	–	34.7
At 1 September 2013	**6.0**	**–**	**(140.1)**	**2 458.6**	**(16.9)**	**2 307.6**
Total comprehensive income for the period	**–**	**–**	**–**	**444.5**	**10.1**	**454.6**
Profit for the period	**–**	**–**	**–**	**392.1**	**–**	**392.1**
Exchange rate differences on translating foreign operations	**–**	**–**	**–**	**–**	**10.1**	**10.1**
Remeasurement in retirement scheme assets	**–**	**–**	**–**	**52.4**	**–**	**52.4**
Transactions with owners	**–**	**–**	**(5.6)**	**(54.0)**	**–**	**(59.6)**
Dividends paid	**–**	**–**	**–**	**(70.2)**	**–**	**(70.2)**
Share repurchases	**–**	**–**	**(35.1)**	**–**	**–**	**(35.1)**
Net effect of settlement of employee share options	**–**	**–**	**29.5**	**(20.6)**	**–**	**8.9**
Share options expense	**–**	**–**	**–**	**36.8**	**–**	**36.8**
At 2 March 2014	**6.0**	**–**	**(145.7)**	**2 849.1**	**(6.8)**	**2 702.6**
Total comprehensive income for the period	**–**		**–**	**263.6**	**(6.5)**	**257.1**
Profit for the period	**–**	**–**	**–**	**261.9**	**–**	**261.9**
Exchange rate differences on translating foreign operations	**–**	**–**	**–**	**–**	**(6.5)**	**(6.5)**
Remeasurement in retirement scheme assets	**–**	**–**	**–**	**1.7**	**–**	**1.7**
Transactions with owners	**–**	**–**	**(17.0)**	**(403.0)**	**–**	**(420.0)**
Dividends paid	**–**	**–**	**–**	**(366.8)**	**–**	**(366.8)**
Share repurchases	**–**	**–**	**(122.7)**	**–**	**–**	**(122.7)**
Net effect of settlement of employee share options	**–**	**–**	**105.7**	**(75.5)**	**–**	**30.2**
Share-based payments expense	**–**	**–**	**–**	**39.3**	**–**	**39.3**
At 31 August 2014	**6.0**	**–**	**(162.7)**	**2 709.7**	**(13.3)**	**2 539.7**

Consolidated statement of cash flows

for the period ended

	Unaudited 26 weeks to 31 August 2014 Rm	Unaudited 26 weeks to 1 September 2013 Rm	Audited 52 weeks to 2 March 2014 Rm
Cash flows from operating activities			
Trading profit	**386.6**	317.5	1 010.3
Depreciation and amortisation	**427.3**	478.8	948.4
Share-based payment expense	**39.3**	34.7	71.5
Movement in net operating lease liabilities	**52.9**	51.4	90.8
Movement in provisions	**(3.6)**	9.6	(0.9)
Fair value adjustments	**6.6**	3.6	(6.6)
Cash generated before movements in working capital	**909.1**	895.6	2 113.5
Movements in working capital	**943.9**	1 386.6	780.7
Movements in trade and other payables	**983.9**	1 357.1	1 229.1
Movements in inventory	**(171.7)**	45.8	31.6
Movements in trade and other receivables	**131.7**	(16.3)	(480.0)
Cash generated by trading activities	**1 853.0**	2 282.2	2 894.2
Interest received	**26.0**	19.2	44.3
Interest paid	**(59.9)**	(74.1)	(143.9)
Cash generated by operations	**1 819.1**	2 227.3	2 794.6
Dividends paid	**(366.8)**	(328.2)	(398.4)
Tax paid	**(136.3)**	(113.1)	(270.2)
Cash generated by operating activities	**1 316.0**	1 786.0	2 126.0
Cash flows from investing activities			
Investment in intangible assets	**(67.6)**	(103.8)	(289.2)
Investment in property, plant and equipment	**(281.4)**	(453.9)	(882.4)
Purchase of operations	**(50.9)**	–	(103.3)
Proceeds on disposal of intangible assets	**1.6**	–	11.1
Proceeds on disposal of property, plant and equipment	**27.8**	15.2	38.2
Loans (advanced)/repaid	**(16.7)**	3.5	6.5
Participation in export partnerships	**(1.8)**	(9.9)	3.0
Retirement obligation	**(6.8)**	5.1	(4.0)
Cash utilised in investing activities	**(395.8)**	(543.8)	(1 220.1)
Cash flows from financing activities			
Borrowings (repaid)/raised	**(703.6)**	397.9	280.9
Share repurchases	**(122.7)**	(10.6)	(45.7)
Proceeds from employees on settlement of share options	**0.8**	0.6	1.3
Cash (utilised in)/generated by financing activities	**(825.5)**	387.9	236.5
Net increase in cash and cash equivalents	**94.7**	1 630.1	1 142.4
Cash and cash equivalents at beginning of period	**870.3**	(269.9)	(269.9)
Effect of exchange rate fluctuations on cash and cash equivalents	**0.4**	(19.9)	(2.2)
Net cash and cash equivalents at end of period	**965.4**	1 340.3	870.3
Consisting of:			
Cash and cash equivalents	**1 285.4**	1 340.3	1 540.3
Bank overdraft and overnight borrowings	**(320.0)**	–	(670.0)

Notes to the financial information
for the period ended 31 August 2014

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards, IAS 34 *Interim Financial Reporting*, the SAICA *Financial Reporting Guides* as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the financial statements for the 52 weeks ended 2 March 2014. These interim financial statements have been prepared by the Finance Division under the supervision of the Chief Financial Officer, Mr Bakar Jakoet CA(SA), and have not been audited or reviewed by the Group's external auditors, KPMG Inc.

2. RELATED PARTY TRANSACTIONS

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 2 March 2014. For further information please refer to note 27 of the 2014 Group financial statements and note 8 of the 2014 Company financial statements.

3. SHARE CAPITAL

	Unaudited 26 weeks to 31 August 2014 Rm	Unaudited 26 weeks to 1 September 2013 Rm	Audited 52 weeks to 2 March 2014 Rm
Authorised			
800 000 000 (2013: 800 000 000) ordinary shares of 1.25 cents each	**10.0**	10.0	10.0
Issued			
487 322 321 (2013: 480 397 321) ordinary shares of 1.25 cents each	**6.1**	6.0	6.0

24 019 866 of the unissued shares of the Company may be utilised to settle the Company's obligations under the employee share schemes. To date, 9 615 000 shares have been issued, resulting in 14 404 866 remaining.

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.

During the 26 weeks ended 31 August 2014, 6 925 000 shares were issued with a value of R57.31 per share to subsidiary companies within the Group to be utilised as share based payments in terms of a forfeitable share plan (FSP) as approved by shareholders at the extra ordinary general meeting held on 12 February 2014. Refer to note 8.

Notes to the financial information continued

for the period ended 31 August 2014

4. OPERATING SEGMENTS

Unaudited	South Africa Rm	Rest of Africa Rm	Total operations Rm
2014			
Total segment revenue	**31 030.1**	**1 732.4**	**32 762.5**
External revenue	**31 030.1**	**1 422.5**	**32 452.6**
Direct deliveries*	**–**	**309.9**	**309.9**
Segment external turnover	**30 688.1**	**1 422.5**	**32 110.6**
Segmental profit**	**231.7**	**135.1**	**366.8**
Other information			
Statement of comprehensive income			
Interest received	**23.5**	**2.5**	**26.0**
Interest paid	**59.9**	**–**	**59.9**
Depreciation and amortisation	**416.3**	**11.0**	**427.3**
Share of associate's income	**–**	**11.1**	**11.1**
Statement of financial position			
Total assets	**12 853.1**	**1 019.0**	**13 872.1**
Total liabilities	**11 011.2**	**321.2**	**11 332.4**
2013			
Total segment revenue	29 046.9	1 506.1	30 553.0
External revenue	29 046.9	1 231.1	30 278.0
Direct deliveries*	–	275.0	275.0
Segment external turnover	28 836.5	1 231.1	30 067.6
Segmental profit**	177.3	94.5	271.8
Other information			
Statement of comprehensive income			
Interest received	19.1	0.1	19.2
Interest paid	73.8	0.3	74.1
Depreciation and amortisation	469.2	9.6	478.8
Share of associate's income	–	14.4	14.4
Statement of financial position			
Total assets	12 299.3	924.5	13 223.8
Total liabilities	10 382.8	533.4	10 916.2

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

** *Segmental profit is the reported measure used for evaluating the Group's operating segments performance. On an overall basis the segmental profit is equal to the Group's reported profit before tax. The Rest of Africa segment's segmental profit comprises the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental cost incurred by the South Africa segment relating to the Rest of Africa segment.*

5. EARNINGS PER SHARE

	Unaudited 26 weeks to 31 August 2014 Cents per share	Unaudited 26 weeks to 1 September 2013 Cents per share	Audited 52 weeks to 2 March 2014 Cents per share
Basic	**54.39**	40.05	122.01
Diluted basic	**53.52**	39.69	120.21
Headline	**53.98**	40.81	138.51
Diluted headline	**53.12**	40.45	136.46
	Rm	Rm	Rm
5.1 Basic and headline earnings			
Reconciliation between basic and headline earnings:			
Basic earnings (profit for the period)	**261.9**	191.6	583.7
Adjustments:	**(2.0)**	3.6	78.9
(Profit)/loss on sale of property, plant and equipment	**(3.0)**	5.2	5.5
Tax effect of profit/(loss) on sale of property, plant and equipment	**1.0**	(1.6)	(1.6)
Impairment of intangible assets	**–**	–	104.1
Tax effect of impairment of intangible assets	**–**	–	(29.1)
Headline earnings	**259.9**	195.2	662.6
	000's	000's	000's
5.2 Number of shares			
Weighted average number of ordinary shares in issue	**481 536.3**	478 364.1	478 386.8
Diluted weighted average number of ordinary shares in issue	**489 333.6**	482 680.7	485 577.4
Number of shares in issue	**487 322.3**	480 397.3	480 397.3

Notes to the financial information continued

for the period ended 31 August 2014

6. RECLASSIFICATIONS

6.1 Other trading income

In line with the reclassification for the 52 weeks ended 2 March 2014, trading income of R82.7 million previously included under cost of merchandise sold has been reclassified and disclosed separately. This has been done to improve the visibility of all other trading income, specifically commissions received. The prior period has been restated to align with the current period disclosures.

	Unaudited 26 weeks to 31 August 2014 Rm	Unaudited 26 weeks to 1 September 2013 Rm	Adjustment Rm	Unaudited 26 weeks to 1 September 2013 As previously stated Rm
Gross profit	**5 685.9**	5 373.8	(82.7)	5 456.5
Other trading income	**316.0**	273.9	82.7	191.2

6.2 Trading expenses

The Group completed the centralisation of its buying, operational and finance support functions during the previous period. As a result, the Group reviewed all allocations of trading expenses in the statement of comprehensive income for the 52 weeks ended 2 March 2014 to ensure that it accurately reflected the new operating costs structures within the Group. Trading expenses presented for the 26 weeks ended 1 September 2013 have been adjusted in line with the full-year classifications. The reclassifications had no impact on information presented for prior financial period-ends as the centralised operating structures and related cost implications have not been in effect during those periods.

	Unaudited 26 weeks to 31 August 2014 Rm	Unaudited 26 weeks to 1 September 2013 Rm	Adjustment Rm	Unaudited 26 weeks to 1 September 2013 As previously stated Rm
Trading expenses	**(5 615.3)**	(5 330.2)	–	(5 330.2)
Employee costs	**(2 818.6)**	(2 677.9)	–	(2 677.9)
Occupancy	**(897.0)**	(794.3)	75.3	(869.6)
Operations	**(1 281.2)**	(1 282.0)	(108.9)	(1 173.1)
Merchandising and administration	**(618.5)**	(576.0)	33.6	(609.6)

6.3 Provisions

In line with the reclassification for the 52 weeks ended 2 March 2014 and in order to improve disclosure, provisions previously included under trade and other payables during the 26 weeks ended 1 September 2013 are now presented separately on the face of the statement of financial position and the related adjustments made to the statement of cash flows.

6. RECLASSIFICATIONS continued

6.4 Operating segments

Total segment revenue – Rest of Africa

In line with reclassifications done during the 52 weeks ended 2 March 2014, inter-segment revenue previously disclosed of R90.1 million has been removed as this was actual intra-segment revenue between businesses within the Rest of Africa segment.

	Unaudited 26 weeks to 31 August 2014 Rm	Unaudited 26 weeks to 1 September 2013 Rm	Adjustment Rm	Unaudited 26 weeks to 1 September 2013 As previously stated Rm
Total segment revenue – Rest of Africa	**1 732.4**	1 506.1	(90.1)	1 596.2
External revenue	**1 422.5**	1 231.1	–	1 231.1
Direct deliveries	**309.9**	275.0	–	275.0
Inter-segment revenue	**–**	–	(90.1)	90.1

Segment external turnover

Segment external turnover presented previously inappropriately included direct deliveries of R275 million under the Rest of Africa segment. This was not included in the total external turnover and therefore resulted in the South Africa segment external turnover being understated by R275million. In line with reclassifications for the 52 weeks ended 2 March 2014, the prior year segment external turnover has been restated to reflect the correct segmentation between the Rest of Africa and South Africa.

	Unaudited 26 weeks to 31 August 2014 Rm	Unaudited 26 weeks to 1 September 2013 Rm	Adjustment Rm	Unaudited 26 weeks to 1 September 2013 As previously stated Rm
Total segment external turnover	**32 110.6**	30 067.6	–	30 067.6
South Africa	**30 688.1**	28 836.5	275.0	28 561.5
Rest of Africa	**1 422.5**	1 231.1	(275.0)	1 506.1

Notes to the financial information continued

for the period ended 31 August 2014

6. RECLASSIFICATIONS continued

6.4 Operating segments continued

Segmental profit

Segmental profit previously included internal administration fees between South Africa and the Rest of Africa of R29.4 million. This was not eliminated and therefore resulted in an overstatement of segmental profit under South Africa and an understatement of segmental profit under the Rest of Africa. The prior year segmental profit has been restated to reflect the correct segmentation between South Africa and the Rest of Africa. No such reclassification was required for the 52 weeks ended 2 March 2014.

	Unaudited 26 weeks to 31 August 2014 Rm	Unaudited 26 weeks to 1 September 2013 Rm	Adjustment Rm	Unaudited 26 weeks to 1 September 2013 As previously stated Rm
Total segmental profit	**366.8**	271.8	–	271.8
South Africa	**231.7**	177.3	(29.4)	206.7
Rest of Africa	**135.1**	94.5	29.4	65.1

Total assets

Total assets for the Rest of Africa presented previously excluded the Group's investment in its associate, TM Supermarkets, and therefore resulted in the Rest of Africa segment total assets being understated by R148.3 million. The prior year total assets have been restated to reflect the correct segmentation between South Africa and the Rest of Africa. No such reclassification was required during the 52 weeks ended 2 March 2014.

	Unaudited 26 weeks to 31 August 2014 Rm	Unaudited 26 weeks to 1 September 2013 Rm	Adjustment Rm	Unaudited 26 weeks to 1 September 2013 As previously stated Rm
Total assets	**13 872.1**	13 223.8	–	13 223.8
South Africa	**12 853.1**	12 299.3	(148.3)	12 447.6
Rest of Africa	**1 019.0**	924.5	148.3	776.2

7. FINANCIAL INSTRUMENTS

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

8. ISSUE OF SHARES IN RESPECT OF FORFEITABLE SHARE PLAN

Pick n Pay Stores Limited issued 6 925 000 shares in June 2014, in order to meet the share obligations under its new employee forfeitable share plan (FSP), which was approved by shareholders in February 2014. The FSP brings our approach to providing share incentives in line with international best practice, further aligning the interests of senior management with those of our shareholders.

The shares were awarded to FSP participants during August 2014. The participants, although benefiting from full voting rights and full rights to any dividends declared, cannot dispose of their shares during a three-year employment period. In addition, the shares are subject to further performance conditions linked to the Pick n Pay Stores Limited Group's compound annual growth in headline earnings per share. Should the employment condition or performance conditions not be met, the shares (or a portion thereof) are forfeited. Please refer to our 2014 integrated annual report for further information.

The total employee cost in respect of the FSP is recognised on a straight-line basis over the employment period, commencing on the award date. The current period expense is not material.

Store numbers report

	February 2014	Opened	Closed	Converted – openings	Converted – closings	August 2014
COMPANY OWNED						
Pick n Pay	**464**	**19**	**(2)**	**3**	**(3)**	**481**
Hypermarkets	20	–	–	–	–	20
Supermarkets	200	8	(1)	2	(2)	207
Clothing	88	7	(1)	–	–	94
Liquor	152	4	–	1	(1)	156
Pharmacy	4	–	–	–	–	4
Boxer	**179**	**5**	**(1)**	**1**	**–**	**184**
Superstores	123	2	(1)	1	–	125
Hardware	19	1	–	–	–	20
Liquor	21	1	–	–	–	22
Punch	16	1	–	–	–	17
Total company owned	**643**	**24**	**(3)**	**4**	**(3)**	**665**
FRANCHISE						
Pick n Pay						
Family	254	4	(1)	5	(3)	259
Mini Market	22	–	(1)	–	(3)	18
Daily	1	–	–	–	–	1
Express	21	10	–	–	–	31
Liquor	121	6	–	1	(1)	127
Clothing	14	2	–	–	–	16
Total franchise	**433**	**22**	**(2)**	**6**	**(7)**	**452**
Total Group stores	**1 076**	**46**	**(5)**	**10**	**(10)**	**1 117**
TM Supermarkets – associate	52	1	(1)	–	–	**52**
Total including associate	**1 128**	**47**	**(6)**	**10**	**(10)**	**1 169**
FOOTPRINT OUTSIDE SOUTH AFRICA (included in the number above)						
Pick n Pay company-owned	8	–	–	–	–	8
Boxer company-owned	5	–	(1)	–	–	4
Pick n Pay franchise	33	2	(1)	–	–	34
TM Supermarkets – associate	52	1	(1)	–	–	52
Total	**98**	**3**	**(3)**	**–**	**–**	**98**

Corporate information

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

Board of directors
Executive
Richard Brasher (CEO)
Richard van Rensburg (deputy CEO)
Aboubakar (Bakar) Jakoet (CFO)
Suzanne Ackerman-Berman
Jonathan Ackerman

Non-executive
Gareth Ackerman (Chairman)
David Friedland
David Robins

Independent non-executive
Hugh Herman
Lorato Phalatse
Ben van der Ross
Jeff van Rooyen
Audrey Mothupi
John Gildersleeve

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Promotion of Access to Information Act
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Investor relations: www.picknpayinvestor.co.za

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Engage with us on

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