Unaudited condensed consolidated interim financial statements

for the 26 weeks ended
26 August 2018

Contents

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Key metrics

Turnover

+6.4% R41.2 billion

2017: R38.8 billion*

Normalised HEPS

+17.0% 100.18 cents

2017: 85.62 cents*

Interim dividend per share

+17.1% 39.10 cents

2017: 33.40 cents

* *Restated, refer overleaf.*

WINNING CUSTOMERS IN TOUGH TIMES

Key financial indicators	**26 weeks to 26 August 2018**	26 weeks to 27 August 2017*	% change	**Normalised 26 weeks to 27 August 2017***	**Normalised % change**
Turnover	**R41.2 billion**	R38.8 billion	6.4		
Gross profit margin	**18.6%**	18.6%			
Trading profit	**R631.8 million**	R399.1 million	58.3	R599.1 million	5.5
Trading profit margin	**1.5%**	1.0%		1.5%	
Trading profit – South Africa	**R576.4 million**	R315.2 million	82.9	R515.2 million	11.9
Profit before tax, before capital items	**R651.6 million**	R368.5 million	76.8	R568.5 million	14.6
Profit before tax	**R670.2 million**	R362.8 million	84.7	R562.8 million	19.1
Profit before tax margin	**1.6%**	0.9%		1.5%	
Profit for the period, after tax	**R489.0 million**	R263.2 million	85.8	R408.2 million	19.8
Basic earnings per share (EPS)	**102.98 cents**	54.66 cents	88.4	84.77 cents	21.5
Diluted earnings per share (DEPS)	**101.13 cents**	53.69 cents	88.4	83.27 cents	21.4
Headline earnings per share (HEPS)	**100.18 cents**	55.51 cents	80.5	85.62 cents	17.0
Diluted headline earnings per share (DHEPS)	**98.38 cents**	54.53 cents	80.4	84.11 cents	17.0
Interim dividend per share	**39.10 cents**			33.40 cents	17.1

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

For the first half of last year, the Group provided shareholders with a normalised result, removing the once-off earnings impact of the voluntary severance programme undertaken in May 2017. The Group removed R200 million cost, net of tax, from reported earnings in the prior period, being the R250 million cost of severance packages, net of related labour cost savings. The result commentary that follows is on a normalised basis.

Result highlights

- Action to reduce operating costs in FY18 created a leaner and stronger business, able to deliver better value to customers in H1 FY19, with positive results despite a tough operating environment
- Group turnover up 6.4%, with like-for-like turnover up 3.8%
- Volume growth of 3.5% and market share gains over six months
- Gross profit margin maintained at 18.6% despite investment in price, with internal inflation held at 0.3% against CPI food of 3.5%
- Greater operating efficiency: like-for-like growth in trading expenses in the Group's South Africa division held in line with like-for-like turnover growth
- Improved working capital management, with like-for-like inventory value down 11.6%
- Strong cash generation: net funding position R816.6 million stronger than FY18, and R579.2 million up on August 2017, with net interest paid down 17.8% year-on-year
- Strong earnings contribution from South African operations – with trading profit up 11.9% and profit before tax (before capital items) up 16.7%
- Rest of Africa division delivered profit before tax growth of 7.3%, underpinned by a strong performance from TM Supermarkets in Zimbabwe
- Headline earnings and diluted headline earnings per share up 80.5% and 80.4% respectively. Normalised headline earnings per share and normalised diluted headline earnings per share, excluding the cost impact of voluntary severance payments in the prior year, are up 17.0% year-on-year
- Interim dividend up 17.1% to 39.10 cents per share

Result highlights

The Group delivered its strongest six-month trade performance, measured by volume, for more than five years, with turnover growth of 6.4%, like-for-like growth of 3.8%, and clear market share gains over the period. Internal selling price inflation was contained at 0.3%, with like-for-like volume growth of 3.5%.

The Group benefitted from the decisive action taken last year to reduce operating costs and increase productivity, creating headroom to invest in lower prices, better promotions and greater value for customers.

The Group has found momentum in an increasingly tough economy, without any sacrifice in earnings. Its core South Africa segment delivered an 11.9% increase in trading profit, with profit before tax (before capital items) up 16.7%. This result is underpinned by turnover growth of 6.7% in the region (4.2% like-for-like), cost and efficiency savings across its operations, and a reduced interest bill as a result of stronger cash generation and working capital management.

Headline earnings per share and diluted headline earnings per share are up 17% year-on-year, with a commensurate increase in the interim dividend declared to 39.10 cents per share.

Performance highlights over the period include:

Lower prices, more value

The Group's improved performance over the past six months was anchored by a strategy of delivering lower prices and better value to customers. Pick n Pay reduced prices across 2 500 every day grocery lines, and delivered a more exciting and competitive fresh meat and produce offer. The division streamlined its promotional calendar, and reduced the number of advertised product lines by 40% year-on-year, delivering simpler and more meaningful promotions. This approach enabled better planning and collaboration with suppliers, improved in-store execution, higher stock availability, and more impactful customer engagement.

Alongside keen pricing and focused promotions, Pick n Pay's Smart Shopper programme provided greater personalised value for customers. Pick n Pay offered its Smart Shoppers R2.4 billion in personalised discounts over the last six months, and saw the number of customer redemptions more than double.

Loyalty customers are now able to load all discounts received, whether via email or sms, directly onto their Smart Shopper card via the app. Recognising the scope for strong volume returns, suppliers are participating more in the planning and provision of weekly personalised discounts.

Boxer provided exceptional deals on basic commodity lines for customers seeking unbeatable value, delivering strong growth across food, grocery and health and beauty lines. Boxer is one of the fastest growing retailers serving middle- and lower-income communities in South Africa and Swaziland, giving customers confidence that they do not need to shop around for best value.

Our fresh promise

The Group's fresh offer is critical in satisfying and delighting customers. Pick n Pay launched its Fresh Promise in May 2018, guaranteeing high-quality meat, fish and produce, responsibly sourced, at competitive prices. In delivering on its promise, Pick n Pay has strengthened its partnerships with fresh suppliers, working with them to deliver higher quality products. Greater economies of scale, more consistent supply, and operational excellence across the supply chain are resulting in less waste, lower cost and better value for customers. This has delivered double digit sales growth across key fresh categories, including produce, meat and prepared meals. Boxer complements its core grocery offer with strong butchery and fresh produce departments, much valued by its customers.

Own brand innovation

Own brand is an important growth lever for Pick n Pay and Boxer, providing customers with trusted quality at better value. Pick n Pay introduced over 630 own brand products this year, across fresh produce and grocery lines, including from suppliers mentored through its enterprise development programmes. Own brand categories delivered strong sales growth over the period, particularly in fresh convenience, fresh poultry and dairy lines in Pick n Pay and basic commodity lines in Boxer. Own brand participation now stands at 21% in Pick n Pay, across relevant categories. Plans for the second half of the year include more convenient meal solutions, tailored health ranges, health and beauty products, and an exciting Christmas offer following on the success of Pick n Pay's Easter range.

Tailored range

One of the key strengths of the Pick n Pay brand is its broad demographic appeal. The division aims not only to provide a consistent Pick n Pay experience and core offer, but to satisfy individual needs by tailoring its product range to local taste and demand. An increasingly centralised supply chain provides the flexibility to deliver on these objectives.

By optimising the offer for local customers, the division has reduced its inventory levels, which has improved store execution, on-shelf availability and waste management. The success of this programme has been particularly evident in stores serving Pick n Pay's middle- and lower-income customers, with like-for-like sales growth ahead of the rest of the estate.

A modern estate with a wider reach

The Group opened 60 new stores over the past six months. This included 21 Pick n Pay company-owned stores and 11 Boxer stores across all formats; and 28 franchise stores, including 4 supermarkets and 14 Pick n Pay Express stores. The evolution in customer demographics and tastes provides new opportunities for growth, for example through smaller neighbourhood convenience stores and formats supplementary to the core supermarket offer. The Pick n Pay clothing division delivered strong double digit turnover growth this year, underpinned by a solid performance in both its womenswear and menswear departments. The Group opened 16 standalone clothing stores during the period. The Group's liquor division continued to perform well, with like-for-like turnover growth of almost 20%, driven by a strong promotional calendar. The Group opened 15 standalone Pick n Pay and Boxer liquor stores during the period, on an owned and franchise basis.

The Group's measured approach to capital investment is delivering stronger like-for-like turnover growth. Last year's refurbishment programme targeted flagship hypermarkets and supermarkets. This year the Group launched a broader investment programme, completing 33 smaller revamps across the estate to deliver greater impact for customers. These refreshed supermarkets deliver the enhanced Next Generation Pick n Pay and Boxer experience, with wider aisles, lower shelf heights and modern fixtures and fittings.

The Group closed 13 under-performing stores during the period. Refurbishments and store closures inevitably caused some disruption to trade. However, the negative pressure was mitigated by stronger sales growth delivered by stores refurbished in the preceding two years.

The Group is pleased with the performance of its larger hypermarket format, which is delivering substantially improved trading densities and strong sales growth from its refurbished stores. The Group has repositioned the hypermarket format as a destination shop, with a differentiated general merchandise offer and a strong promotional calendar. A compelling wholesale offer is now provided in six of our hypermarkets for customers looking for unbeatable bulk deals. The Group's wholesale offer grew over 40% year-on-year.

At the end of August, the Group had 1 732 stores, including 57 stores held through its investment in TM Supermarkets.

Leading online offer

Pick n Pay's online distribution centres delivered sales growth of 25% year-on-year, with system enhancements to give customers more convenience and innovation. Pick n Pay's new online website saw an increase in traffic of almost 70% year-on-year, with a 30% increase in customer registrations. Pick n Pay's business to business online sales are up 21% year-on-year. In response to the success of this offer, Pick n Pay introduced a dedicated 'B2B' website in July 2018, which features a bespoke range of business products, catering uniquely for our business customers.

Pick n Pay's two dedicated online distribution centres are successfully delivering small and single pick orders to Express and Spaza stores in Gauteng and the Western Cape on a short-order lead time, improving stock availability in our smallest convenience formats.

Stronger value-added services

Services allied to the shopping trip are an important growth engine for the Group. Income from value-added services grew over 60% year-on-year, with growth across all services, including bill payments, prepaid electricity and ticketing services. Pick n Pay is now the number one retailer selling prepaid electricity in South Africa, and the largest processor of third-party bill payments.

Customers are doing a greater level of banking in our stores, with cash withdrawals of R14 billion over the past six months, and money transfers up almost 30% year-on-year. Pick n Pay introduced cross-border money transfers this year, bringing the service to over 40 000 customers in just 90 days. Pick n Pay looks forward to collaborating with its banking partner TymeDigital over the coming months to provide customers with greater access to convenient and low-cost banking services.

The Pick n Pay store account, underwritten by RCS, provides responsible and low-cost credit to 100 000 customers. Customer feedback confirms that customers are switching to the Pick n Pay card from other more expensive forms of credit, and many of our customers avoid all interest charges by paying off their accounts in full each month.

Improved operational effectiveness

Greater levels of centralisation have delivered cost savings across Pick n Pay's distribution channel. Pick n Pay added 300 new suppliers to its distribution network in the first six months, including through its new distribution centre in KwaZulu-Natal which opened in March 2018. Centralised supply has reached 72% of Pick n Pay volume, with grocery centralisation close to 80% nationally and fresh centralisation past the 80% mark. Greater scale has unlocked value, with a 12% increase in issues out of distribution centres year-on-year, and increased distribution allowances from suppliers. Effective forecast and replenishment systems have led to improved strike rates, a reduction in stock holdings and improved shrink and waste management. Improvements in logistics included the successful implementation of fixed night delivery windows and the identification of backhauling opportunities. Boxer is also benefitting from increased centralisation across its supply chain, with greater volumes and improved operational effectiveness driving a lower cost per case delivered and improved availability.

The Group's customer offer has been further strengthened through its buy better programmes in Pick n Pay and Boxer. The programmes are driving closer engagement with suppliers, including on category reviews, range optimisation and promotion planning and execution.

Review of financial performance

The result is presented on a normalised and restated basis. For further information on accounting restatements and the adoption of new accounting standards during the period, refer to note 10 of the summarised financial statements. The restatements had an insignificant impact on the profitability and financial position of the Group.

Turnover

Group turnover increased 6.4% to R41.2 billion, with like-for-like turnover growth of 3.8%. Selling price inflation was contained at 0.3% over the period, against CPI food inflation of 3.5%. Challenging trading conditions and currency weakness in Zambia weighed on reported Group turnover growth. On a constant currency basis, Group turnover grew 6.6%, with like-for-like turnover growth of 4%.

The Group's South Africa division delivered turnover growth of 6.7%, with like-for-like growth of 4.2%.

Refer to the appendix provided for further information on constant currency and like-for-like calculations.

Gross profit

Gross profit increased 6.4% to R7.7 billion, with gross profit margin unchanged at 18.6% of turnover. Achieving the Group's more competitive price position while maintaining the gross profit margin was achieved by running an effective buy better programme, improving in-store management of shrink and waste, and extracting efficiencies from a more centralised distribution channel.

Other income

Other income increased 9.5% to R920.7 million and, at 2.2% of turnover, was in line with last year.

Franchise fee income – was down 3% on last year to R196.4 million. The decrease reflects a change in our agreement with BP, in respect of Pick n Pay Express stores on BP forecourts, designed to accelerate our strategic franchise partnership and drive the growth of this convenience format. The reduction in franchise fee income will be offset by a greater level of related volume through the Pick n Pay supply chain.

The Group opened 14 new Pick n Pay Express stores during the period (against 4 in the first half of last year), bringing its footprint to 133 stores across South Africa. On a comparable basis, excluding the impact of the new Express franchise agreement, franchise fee income was up 4.9% on last year.

Operating lease income – increased 14.3% to R264.0 million. The increase reflects annual rental escalations and new head leases secured to protect the long-term tenancy of strategic franchise sites. The increase in rental income received is matched by a corresponding increase in occupancy costs.

Commissions and other income, including value-added services (VAS) – grew 13% to R460.3 million, underpinned by the Group's compelling value-added services offer. VAS delivered strong growth across the platform, including income from bill payments, prepaid electricity, banking and other related services.

Trading expenses

Trading expenses of R8.0 billion were up 6.9% year-on-year, with like-for-like expense growth contained at 4.2%. Trading expenses expressed as a percentage of turnover are unchanged at 19.3%. This demonstrates the Group's determination to control costs in a difficult economy, particularly in the Group's core South Africa division, where like-for-like expense growth was in line with like-for-like turnover growth.

Employee costs – increased 5.5% to R3.4 billion driven by growth across the Group's store estate and centralised supply chain. Like-for-like employee costs grew at 3.3%, with like-for-like Pick n Pay store employee costs up just 2.8%, notwithstanding salary and wage increases ahead of CPI.

Occupancy costs – grew 7.5% to R1.6 billion, with a net 61 company-owned stores added over the past 12 months, and the addition of a number of head leases in respect of strategic franchise sites. Occupancy costs grew 3.7% on a like-for-like basis, notwithstanding above-inflation increases in the cost of security, insurance and property rates.

Operations costs – increased 11% to R1.8 billion, with like-for-like growth of 7.8%. Higher repairs and maintenance costs reflect broad maintenance programmes across Pick n Pay and Boxer stores. These complement the Group's capital investment programme, to ensure that our enhanced Next Generation customer experience is maintained consistently across the estate. Depreciation and amortisation costs are up 12% on last year, reflecting the Group's continued investment in the expansion and improvement of its estate, driven in particular by large hypermarket and supermarket refurbishments undertaken last year.

Like-for-like energy consumption per square metre in Pick n Pay owned stores is now 38% lower than its 2008 baseline, with sustainability initiatives reducing usage by 2.4 million kilowatt hours on last year, providing some counterbalance to high regulatory increases. The recent water crisis in the Western Cape has brought the importance of the management of this scarce resource into sharp focus. By the middle of this year, the Group reduced its water consumption in the Western Cape by 45% year-on-year, and we will continue to run our stores using as little water as possible.

Merchandising and administration costs – grew 4.2% to R1.2 billion, with like-for-like growth of 2.3%, with ongoing discipline on professional fees and other administrative costs mitigating the increase in year-on-year advertising costs.

Net interest

Net interest paid decreased 17.8% year-on-year, from R70.6 million to R58.0 million. Interest savings reflected increased cash generation and lower borrowings over the period, underpinned by the stronger trade performance and good control over capital and operating spend. The cost of borrowings has been actively reduced through an effective balance of cost-effective overnight borrowings and 3-month capital market debt.

Capital items

The Group realised capital profits of R18.6 million during the period, against capital losses of R5.7 million last year. Capital profits arose on the sale of land and the sale of assets to franchisees on the conversion of company-owned stores to franchise stores.

Rest of Africa segment

The Group's Rest of Africa operations contributed R2.3 billion of segmental revenue, up 0.4% on last year, with negative like-for-like growth of 2.9%. Removing the impact of currency weakness, segmental revenue is up 3.9% in constant currency terms, with like-for-like growth of 0.6%. This performance reflects the pressure of a tough trading environment in Zambia, characterised by a constrained consumer, intense retail competition, import restrictions, and selling price deflation across broad product categories. The team in Zambia mitigated the impact of the difficult trading conditions through determined cost control and tight working capital management.

Profit before tax was up 7.3% to R136.1 million, driven by an outstanding performance from the Group's associate in Zimbabwe, TM Supermarkets (TM).

TM delivered turnover growth of 30.4% in local currency terms, anchored by improved stock availability and an effective promotional calendar. The Group's share of TM's after-tax earnings grew 94.5% year-on-year.

Profit before tax

Profit before tax and before capital items was up 14.6% on last year, with an underlying margin improvement from 1.5% to 1.6% of turnover. Profit before tax and before capital items in the core South Africa division was up 16.7% on last year, a resilient performance in a trying economic environment. Including the positive impact of capital profits, Group profit before tax was up 19.1% on last year.

Tax

The effective tax rate of 27.0% is in line with the 2018 financial year. The tax rate reflects the contribution of the Group's share of its associate's after tax profits to profit before tax. The tax rate is sustainable over the foreseeable future.

Normalised earnings per share

Normalised basic earnings per share (EPS) – increased 21.5% from 84.77 to 102.98 cents per share.

Normalised headline earnings per share (HEPS) – increased 17% from 85.62 to 100.18 cents per share. The difference between the growth in normalised headline earnings of 16.1% and normalised headline earnings per share of 17% is due to the increase in the weighted average number of treasury shares held by the Group under its employee share incentive schemes.

The difference between the growth in normalised basic earnings per share of 21.5% and normalised headline earnings per share of 17% relates to capital items. Capital profits of R13.3 million net of tax, were excluded from the determination of normalised headline earnings in the current period, against R4.1 million of capital losses net of tax in the prior period.

Normalised diluted headline earnings per share (DHEPS) – increased 17% from 84.11 to 98.38 cents per share. Normalised DHEPS reflects the dilution effect of share options held by participants in the Group's employee share incentive schemes.

Review of financial position

The increase in Group assets reflects the positive impact of a measured and sustained capital investment programme, specifically in its centralised distribution capacity, strengthened IT support structure, and a modernised store estate. Capital investments have been funded through internally generated cash and cost-effective short-term borrowings, delivering consistent returns over a number of years. The Group's net asset value per share increased by 17.7% year-on-year to 913.3 cents per share, in line with earnings generated over the past 12 months.

Working capital

The Group generated cash from working capital of R945.1 million over the first half of the year, compared with R832.6 million last year.

The year-on-year improvement in working capital is attributable to tighter inventory management. Inventory at R5.6 billion was almost flat on last year, notwithstanding the addition of a net 61 new company-owned stores over the last 12 months and greater levels of centralisation across the Group.

On a like-for-like basis, excluding the impact of new stores and cost inflation, the value of inventory on hand was down 11.6% on the prior year, reflecting substantial progress on the Group's range optimisation initiatives, and a determination to remove slow moving product lines from the business.

Trade and other payables at R11.9 billion was 4.5% up on last year, in line with cost inflation.

Trade and other receivables (current and non-current) increased 13.1% to R4.0 billion, with the addition of 57 net new franchise stores over the past 12 months. The Group is providing greater support to franchisees in a challenging economic environment, including through extended payment terms, where appropriate. The Group is satisfied with the overall quality of its debtors' book.

Cash and cash equivalents

	26 August 2018 Rm	25 February 2018 Rm	27 August 2017 Rm
Cash balances	**1 209.0**	1 129.1	966.3
Cost-effective overnight borrowings	**(500.0)**	(1 800.0)	(1 800.0)
Cash and cash equivalents	**709.0**	(670.9)	(833.7)
3-month borrowings	**(1 075.0)**	(400.0)	–
Secured borrowings	**(17.1)**	(128.8)	(128.6)
Net funding position	**(383.1)**	(1 199.7)	(962.3)

The Group's net funding position improved by R816.6 million over the past six months and R579.2 million on last year, buoyed by stronger cash generation, improved working capital management and proceeds from the sale of capital assets. The Group raised R1.1 billion of 3-month debt to take advantage of competitive interest rates offered from institutional investors. The Group's long-term secured debt will be fully repaid in October 2018. The Group's liquidity position is strong, with R6.2 billion of unutilised borrowing facilities available at period-end.

Capital investment

The Group invested R655.0 million in capital improvements over the first half of the year, with R223.7 million on store expansion, R208.2 million on store refurbishment and R223.1 million in respect of supply chain capability and systems infrastructure.

Share capital

The Group issued 5 million shares in August 2018 under current shareholder approvals. The shares will fund the Group's employee share scheme obligations, which have increased as a result of strong share price growth over recent years. The shares are currently held as treasury shares with minimal future dilution to shareholders.

Shareholder distribution

The Board declared an interim dividend of 39.10 cents per share, up 17.1% on last year, in line with the growth in normalised headline earnings per share.

Financial calendar

The Group follows a 52-week retail financial calendar, which requires the inclusion of an additional week every few years. The 2019 financial year will be a 53-week period, and the Group will provide additional pro forma disclosures on a comparable 52-week basis on the publication of its full year result.

A stronger and more competitive business

Trading conditions are not expected to ease significantly over the coming months. With a constrained consumer and an economy under pressure, growth across the sector is likely to remain low. However, the Group has demonstrated in the first six months of the financial year an ability to compete effectively in a low-growth trading environment. This underlines the tangible progress delivered on the Group's long-term strategy. Strong discipline on cost, improved in-store execution, and an increasingly effective supply chain provide a sustainable platform for growth, including through a stronger and more relevant customer offer.

Success in retail is always based on hard work and an unstinting focus on delivering for customers. The Group is determined to continue displaying these characteristics in the second half of the year, and to build on the momentum displayed in this result.

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

15 October 2018

APPENDIX TO RESULT SUMMARY

Normalised statement of comprehensive income

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

Unaudited	As reported 26 weeks to 26 August 2018 Rm	% of turnover	% change	Normalised* 26 weeks to 27 August 2017 Rm	% of turnover
Revenue	42 293.6		6.6	39 693.3	
Turnover	41 244.0		6.4	38 755.6	
Cost of merchandise sold	(33 554.0)		6.4	(31 530.7)	
Gross profit	7 690.0	18.6	6.4	7 224.9	18.6
Other income	920.7	2.2	9.5	841.0	2.2
Franchise fee income	196.4	0.5	(3.0)	202.5	0.5
Operating lease income	264.0	0.6	14.3	231.0	0.6
Commissions and other income	460.3	1.1	13.0	407.5	1.1
Trading expenses	(7 978.9)	19.3	6.9	(7 466.8)	19.3
Employee costs	(3 446.7)	8.4	5.5	(3 267.5)	8.4
Occupancy	(1 614.9)	3.9	7.5	(1 502.1)	3.9
Operations	(1 751.5)	4.2	11.0	(1 578.1)	4.1
Merchandising and administration	(1 165.8)	2.8	4.2	(1 119.1)	2.9
Trading profit	631.8	1.5	5.5	599.1	1.5
Finance income	128.9	0.3	33.3	96.7	0.2
Finance costs	(186.9)	0.5	11.7	(167.3)	0.4
Share of associate's income	77.8	0.2	94.5	40.0	0.1
Profit before tax before capital items	651.6	1.6	14.6	568.5	1.5
Profit/(loss) on capital items	18.6			(5.7)	
Profit/(loss) on sale of property, plant and equipment	18.6			(4.3)	
Impairment loss on property, plant and equipment	–			(1.4)	
Profit before tax	670.2	1.6	19.1	562.8	1.5
Tax	(181.2)	0.4	17.2	(154.6)	0.4
Profit for the period, after tax	489.0	1.2	19.8	408.2	1.1
Normalised earnings per share	Cents			Cents	
Basic earnings per share	102.98		21.5	84.77	
Diluted earnings per share	101.13		21.4	83.27	
Headline earnings per share	100.18		17.0	85.62	
Diluted headline earnings per share	98.38		17.0	84.11	

* *The prior period financial numbers have been restated, in line with the restatements applied in the 52 weeks ended February 2018, and as a result of the adoption of new accounting standards. Refer to note 10 for further information.*

Summary of prior period non-recurring items

The Group provides a normalised result for the prior period, removing the once-off earnings impact of the voluntary severance programme (VSP) undertaken in May 2017. The Group removed R200 million cost, net of tax, from reported earnings in the prior period, being the R250 million cost of severance packages, net of related labour cost savings. The cost of the VSP was fully recovered by the end of the 2018 financial year.

Unaudited	Normalised 26 weeks to 27 August 2017 Rm	Non-recurring items 26 weeks to 27 August 2017 Rm	Restated* 26 weeks to 27 August 2017 Rm
Revenue	39 693.3	–	39 693.3
Turnover	38 755.6	–	38 755.6
Cost of merchandise sold	(31 530.7)	–	(31 530.7)
Gross profit	7 224.9	–	7 224.9
Other income	841.0	–	841.0
Trading expenses	(7 466.8)	200.0	(7 666.8)
Employee costs	(3 267.5)	200.0	(3 467.5)
Occupancy	(1 502.1)	–	(1 502.1)
Operations	(1 578.1)	–	(1 578.1)
Merchandising and administration	(1 119.1)	–	(1 119.1)
Trading profit	599.1	200.0	399.1
Finance income	96.7	–	96.7
Finance costs	(167.3)	–	(167.3)
Share of associate's income	40.0	–	40.0
Profit before tax before capital items	568.5	200.0	368.5
Loss on capital items	(5.7)	–	(5.7)
Loss on sale of property, plant and equipment	(4.3)	–	(4.3)
Impairment loss on property, plant and equipment	(1.4)	–	(1.4)
Profit before tax	562.8	200.0	362.8
Tax	(154.6)	(55.0)	(99.6)
Profit for the period, after tax	408.2	145.0	263.2
Earnings per share	Cents	Cents	Cents
Basic earnings per share	84.77	30.11	54.66
Diluted earnings per share	83.27	29.58	53.69
Headline earnings per share	85.62	30.11	55.51
Diluted headline earnings per share	84.11	29.58	54.53

* *The prior period financial numbers have been restated, in line with the restatements applied in the 52 weeks ended February 2018, and as a result of the adoption of new accounting standards. Refer to note 10 for further information.*

Pro forma information

Certain financial information presented in these unaudited condensed consolidated interim financial results constitutes pro forma financial information. The pro forma financial information is the responsibility of the Board of directors of the Company and is presented for illustrative purposes only. Because of its nature, the pro forma financial information may not fairly present the Group's financial position, changes in equity, result of operations or cash flows. This information has not been reviewed or reported on by the Group's auditors.

Pro forma constant currency disclosures

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

26 August 2018	% increase reported currency	% increase constant currency
Rest of Africa segmental revenue	0.4	3.9
Group turnover	6.4	6.6

Additional information

Like-for-like turnover growth comparisons

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

DIVIDEND DECLARATION

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

Number of shares in issue: 493 450 321

Notice is hereby given that the directors have declared an interim gross dividend (number 101) of 39.10 cents per share out of income reserves.

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

The tax payable is 7.82 cents per share, resulting in shareholders who are not exempt from dividends tax with a net dividend of 31.28 cents per share.

Dividend dates

The last day of trade in order to participate in the dividend (CUM dividend) will be Tuesday, 4 December 2018.

The shares will trade EX dividend from the commencement of business on Wednesday, 5 December 2018 and the record date will be Friday, 7 December 2018. The dividends will be paid on Monday, 10 December 2018.

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 December 2018 and Friday, 7 December 2018, both dates inclusive.

On behalf of the Board of directors

Debra Muller
Company Secretary

15 October 2018

Group statement of comprehensive income

for the period ended

	Notes	Unaudited 26 weeks to 26 August 2018 Rm	Restated* Unaudited 26 weeks to 27 August 2017 Rm	Restated* Unaudited 52 weeks to 25 February 2018 Rm
Revenue	2	**42 293.6**	39 693.3	82 489.6
Turnover	2	**41 244.0**	38 755.6	80 523.5
Cost of merchandise sold		**(33 554.0)**	(31 530.7)	(65 294.6)
Gross profit		**7 690.0**	7 224.9	15 228.9
Other income		**920.7**	841.0	1 782.0
Franchise fee income	2	**196.4**	202.5	400.1
Operating lease income	2	**264.0**	231.0	490.3
Commissions and other income	2	**460.3**	407.5	891.6
Trading expenses		**(7 978.9)**	(7 666.8)	(15 191.0)
Employee costs		**(3 446.7)**	(3 467.5)	(6 688.7)
Occupancy		**(1 614.9)**	(1 502.1)	(3 086.6)
Operations		**(1 751.5)**	(1 578.1)	(3 178.8)
Merchandising and administration		**(1 165.8)**	(1 119.1)	(2 236.9)
Trading profit		**631.8**	399.1	1 819.9
Finance income	2	**128.9**	96.7	184.1
Finance costs		**(186.9)**	(167.3)	(331.2)
Share of associate's income		**77.8**	40.0	116.3
Profit before tax before capital items		**651.6**	368.5	1 789.1
Profit/(loss) on capital items		**18.6**	(5.7)	(21.0)
Profit/(loss) on sale of property, plant and equipment		**18.6**	(4.3)	(10.6)
Impairment loss on property, plant and equipment		**–**	(1.4)	(3.5)
Impairment loss on intangible assets		**–**	–	(6.9)
Profit before tax		**670.2**	362.8	1 768.1
Tax		**(181.2)**	(99.6)	(471.8)
Profit for the period		**489.0**	263.2	1 296.3
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss		**(6.6)**	0.3	(0.4)
Remeasurement in retirement scheme assets		**(9.1)**	0.3	(0.6)
Tax on remeasurement in retirement scheme assets		**2.5**	–	0.2
Items that may be reclassified to profit or loss		**144.5**	4.7	(46.2)
Foreign currency translations		**135.4**	4.7	(46.2)
Movement in cash flow hedge		**9.1**	–	–
Total comprehensive income for the period		**626.9**	268.2	1 249.7
Earnings per share		**Cents**	Cents	Cents
Basic earnings per share	3	**102.98**	54.66	273.64
Diluted earnings per share	3	**101.13**	53.69	268.33
Headline earnings per share	3	**100.18**	55.51	276.98
Diluted headline earnings per share	3	**98.38**	54.53	271.61
Normalised earnings per share				
Basic earnings per share	3	**102.98**	84.77	273.64
Diluted earnings per share	3	**101.13**	83.27	268.33
Headline earnings per share	3	**100.18**	85.62	276.98
Diluted headline earnings per share	3	**98.38**	84.11	271.61

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

Group statement of financial position

	Notes	Unaudited As at 26 August 2018 Rm	Restated* Unaudited As at 27 August 2017 Rm	Restated* Unaudited As at 25 February 2018 Rm
ASSETS				
Non-current assets				
Property, plant and equipment		**5 999.1**	5 802.2	6 054.4
Intangible assets		**1 005.6**	991.3	991.3
Operating lease assets		**239.9**	212.9	227.3
Financial instruments at fair value through profit or loss		**30.3**	18.8	25.7
Investment in associate		**538.1**	333.3	365.6
Loans		**86.4**	89.3	79.3
Retirement scheme assets		**90.7**	96.7	97.6
Deferred tax assets		**233.7**	218.1	194.8
Trade and other receivables		**82.0**	149.5	105.4
		8 305.8	7 912.1	8 141.4
Current assets				
Inventory		**5 642.2**	5 620.0	5 944.1
Right of return asset		**19.2**	19.0	19.6
Trade and other receivables		**3 939.7**	3 406.5	3 529.1
Cash and cash equivalents		**1 209.0**	966.3	1 129.1
Derivative financial instruments		**9.1**	–	–
		10 819.2	10 011.8	10 621.9
Non-current asset held for sale		**–**	212.8	217.2
Total assets		**19 125.0**	18 136.7	18 980.5
EQUITY AND LIABILITIES				
Equity				
Share capital	4	**6.0**	6.0	6.0
Treasury shares	5	**(976.3)**	(839.2)	(863.4)
Retained earnings		**4 682.8**	4 041.3	4 951.7
Foreign currency translation reserve		**64.7**	(19.8)	(70.7)
Total equity		**3 777.2**	3 188.3	4 023.6
Non-current liabilities				
Borrowings		**6.6**	80.9	79.5
Operating lease liabilities		**1 650.4**	1 488.9	1 571.6
Deferred tax liabilities		**16.4**	15.9	13.7
		1 673.4	1 585.7	1 664.8
Current liabilities				
Trade and other payables		**11 871.0**	11 363.4	10 798.6
Refund liability		**21.6**	21.3	22.0
Overnight borrowings		**500.0**	1 800.0	1 800.0
Borrowings		**1 085.5**	47.7	449.3
Current tax liabilities		**196.3**	128.8	213.7
Derivative financial instruments		**–**	1.5	8.5
		13 674.4	13 362.7	13 292.1
Total equity and liabilities		**19 125.0**	18 136.7	18 980.5
Number of ordinary shares in issue – thousands	4	**493 450.3**	488 450.3	488 450.3
Weighted average number of ordinary shares in issue – thousands	3.2	**474 844.0**	478 623.8	473 717.3
Diluted weighted average number of ordinary shares in issue – thousands	3.2	**483 536.0**	487 283.9	483 091.1
Net asset value – cents per share (property value based on directors' valuation)		**913.3**	776.2	966.2

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

Group statement of changes in equity

for the period ended

Unaudited	Note	Share capital Rm	Treasury shares Rm	Retained earnings Rm	Foreign currency translation reserve Rm	Total equity Rm
At 26 February 2017		6.0	(554.3)	4 428.5	(24.5)	3 855.7
Total comprehensive income for the period		–	–	263.5	4.7	268.2
Profit for the period*		–	–	263.2	–	263.2
Remeasurement in retirement scheme assets		–	–	0.3	–	0.3
Foreign currency translations		–	–	–	4.7	4.7
Transactions with owners		–	(284.9)	(650.7)	–	(935.6)
Dividends paid		–	–	(705.5)	–	(705.5)
Share purchases		–	(332.9)	–	–	(332.9)
Net effect of settlement of employee share options		–	48.0	(47.0)	–	1.0
Share-based payments expense		–	–	101.8	–	101.8
At 27 August 2017 restated	10	6.0	(839.2)	4 041.3	(19.8)	3 188.3
Total comprehensive income for the period		–	–	1 032.4	(50.9)	981.5
Profit for the period*		–	–	1 033.1	–	1 033.1
Remeasurement in retirement scheme assets		–	–	(0.7)	–	(0.7)
Foreign currency translations		–	–	–	(50.9)	(50.9)
Transactions with owners		–	(24.2)	(122.0)	–	(146.2)
Dividends paid		–	–	(161.0)	–	(161.0)
Share purchases		–	(90.5)	–	–	(90.5)
Net effect of settlement of employee share options		–	66.3	(65.4)	–	0.9
Share-based payments expense		–	–	104.4	–	104.4
At 25 February 2018 as published		6.0	(863.4)	4 951.7	(70.7)	4 023.6
Adoption of IFRS 9 *Financial Instruments*	10	–	–	(30.2)	–	(30.2)
Total comprehensive income for the period		–	–	491.5	135.4	626.9
Profit for the period		–	–	489.0	–	489.0
Foreign currency translations		–	–	–	135.4	135.4
Movement in cash flow hedge		–	–	9.1	–	9.1
Remeasurement in retirement scheme assets		–	–	(6.6)	–	(6.6)
Transactions with owners		–	(112.9)	(730.2)	–	(843.1)
Dividends paid		–	–	(748.8)	–	(748.8)
Share purchases		–	(190.8)	–	–	(190.8)
Net effect of settlement of employee share options		–	77.9	(77.9)	–	–
Share-based payments expense		–	–	96.5	–	96.5
At 26 August 2018		6.0	(976.3)	4 682.8	64.7	3 777.2

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

Group statement of cash flows

for the period ended

	Unaudited 26 weeks to 26 August 2018 Rm	Restated* Unaudited 26 weeks to 27 August 2017 Rm	Restated* Unaudited 52 weeks to 25 February 2018 Rm
Cash flows from operating activities			
Trading profit	631.8	399.1	1 819.9
Adjusted for non-cash items	745.8	695.5	1 419.7
Depreciation and amortisation	598.4	534.4	1 087.6
Share-based payments expense	96.5	101.8	206.2
Movement in net operating lease liabilities	66.2	75.7	144.0
Movement in retirement scheme assets**	(2.2)	(1.1)	(2.9)
Fair value gain on financial instruments at fair value through profit or loss	(13.1)	(15.3)	(15.2)
Cash generated before movements in working capital	1 377.6	1 094.6	3 239.6
Movements in working capital	945.1	832.6	(119.4)
Movements in trade and other payables and refund liability	1 072.0	894.5	322.3
Movements in inventory and right of return asset	302.3	49.0	(275.7)
Movements in trade and other receivables	(429.2)	(110.9)	(166.0)
Cash generated from trading activities	2 322.7	1 927.2	3 120.2
Interest received	128.9	96.7	184.1
Interest paid	(186.9)	(167.3)	(331.2)
Cash generated from operations	2 264.7	1 856.6	2 973.1
Dividends paid	(748.8)	(705.5)	(866.5)
Tax paid	(223.2)	(58.7)	(320.3)
Cash generated from operating activities	1 292.7	1 092.4	1 786.3
Cash flows from investing activities			
Investment in intangible assets	(102.7)	(39.6)	(101.4)
Investment in property, plant and equipment	(552.3)	(671.5)	(1 445.9)
Improvements in non-current asset held for sale	–	–	(4.4)
Purchase of operations	–	(71.0)	(96.2)
Proceeds on disposal of intangible assets	–	–	0.6
Proceeds on disposal of property, plant and equipment	143.3	26.9	50.7
Proceeds on disposal of non-current asset held for sale	217.2	–	–
Loans (advanced)/repaid	(7.1)	(4.2)	5.8
Cash utilised in investing activities	(301.6)	(759.4)	(1 590.8)
Cash flows from financing activities			
Borrowings raised	2 152.9	22.2	445.3
Repayment of borrowings	(1 589.6)	(26.8)	(50.6)
Share purchases	(190.8)	(332.9)	(423.4)
Proceeds from employees on settlement of share options	–	1.0	1.9
Cash generated from/(utilised in) financing activities	372.5	(336.5)	(26.8)
Net increase/(decrease) in cash and cash equivalents	1 363.6	(3.5)	168.7
Net cash and cash equivalents at beginning of period	(670.9)	(838.1)	(838.1)
Foreign currency translations	16.3	7.9	(1.5)
Net cash and cash equivalents at end of period	709.0	(833.7)	(670.9)
Consisting of:			
Cash and cash equivalents	1 209.0	966.3	1 129.1
Overnight borrowings	(500.0)	(1 800.0)	(1 800.0)

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

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

Notes to the financial information

1 Basis of preparation and accounting policies

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), 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 condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied in the financial statements for the 52 weeks ended 25 February 2018, except where the Group has adopted new standards effective for year-ends starting on or after 1 January 2018. Refer to notes 8 and 10 for further information. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These condensed consolidated interim financial statements have been prepared by the Finance Division under the supervision of the Chief Finance Officer, Bakar Jakoet CA(SA), and have not been audited or reviewed by the Group's external auditors, Ernst & Young Inc.

Normalised basic and headline earnings reported for the prior year, exclude the once-off net cost of the voluntary severance programme (VSP) incurred in the prior year. Refer to note 3 for further detail regarding the VSP. The Group believes that normalised basic and headline earnings are a useful measure of the Group's sustainable and comparable trading performance. However, as this is not a defined term under IFRS, it may not be comparable with similarly titled measures reported by other companies.

2 Revenue

	Unaudited 26 weeks to 26 August 2018 Rm	Restated* Unaudited 26 weeks to 27 August 2017 Rm	Restated* Unaudited 52 weeks to 25 February 2018 Rm
Revenue from contracts with customers	**41 900.7**	39 365.6	81 815.2
Turnover	**41 244.0**	38 755.6	80 523.5
Franchise fee income	**196.4**	202.5	400.1
Commissions and other income	**460.3**	407.5	891.6
Operating lease income	**264.0**	231.0	490.3
Finance income	**128.9**	96.7	184.1
Bank balances and investments	**98.5**	70.3	131.2
Trade and other receivables	**29.1**	25.0	50.4
Staff loans and other	**1.3**	1.4	2.5
Revenue	**42 293.6**	39 693.3	82 489.6

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

Revenue from contracts with customers has been further disaggregated into geographical regions. Refer to note 6 for further information.

Revenue from contracts with customers is recognised at a point in time, except where revenue has been earned through the Group's Smart Shopper loyalty programme, whereby customers are rewarded with Smart Shopper points (reward credits) which are effectively redeemed as cash against future purchases. The Group had deferred revenue of R139.7 million (2017: R125.1 million) which represented the relative standalone selling price of points granted and yet to be redeemed.

3 Basic, headline and diluted earnings per share

	% change	**Unaudited 26 weeks to 26 August 2018 Cents per share**	Restated* Unaudited 26 weeks to 27 August 2017 Cents per share	Unaudited 52 weeks to 25 February 2018 Cents per share
Earnings per share				
Basic earnings per share	88.4	**102.98**	54.66	273.64
Diluted earnings per share	88.4	**101.13**	53.69	268.33
Headline earnings per share	80.5	**100.18**	55.51	276.98
Diluted headline earnings per share	80.4	**98.38**	54.53	271.61
Normalised earnings per share#				
Normalised basic earnings per share	21.5	**102.98**	84.77	273.64
Normalised diluted earnings per share	21.4	**101.13**	83.27	268.33
Normalised headline earnings per share	17.0	**100.18**	85.62	276.98
Normalised diluted headline earnings per share	17.0	**98.38**	84.11	271.61

3.1 Reconciliation between basic and headline earnings

	Rm	Rm	Rm
Profit for the period	**489.0**	263.2	1 296.3
Profit attributable to forfeitable share plan shares	**–**	(1.6)	–
Basic earnings for the period	**489.0**	261.6	1 296.3
Adjustments:	**(13.3)**	4.1	15.8
(Profit)/loss on sale of property, plant and equipment	**(18.6)**	4.3	10.6
Tax effect of profit/(loss) on sale of property, plant and equipment	**5.3**	(1.2)	(3.0)
Impairment loss on property, plant and equipment	**–**	1.4	3.5
Tax effect of impairment loss on property, plant and equipment	**–**	(0.4)	(1.0)
Impairment loss on intangible assets	**–**	–	6.9
Impairment loss on property, plant and equipment of associate	**–**	–	1.2
Tax effect of impairment loss on property, plant and equipment of associate	**–**	–	(0.4)
Profit on sale of property, plant and equipment of associate	**–**	–	(3.1)
Tax effect of profit on sale of property, plant and equipment of associate	**–**	–	1.1
Headline earnings for the period	**475.7**	265.7	1 312.1
Adjusted for once-off impact of VSP:	**–**	144.1	–
Profit before tax – net employee costs	**–**	200.0	–
Tax effect calculated at the Group's effective tax rate	**–**	(55.0)	–
Related profit attributable to forfeitable share plan shares	**–**	(0.9)	–
Normalised headline earnings for the period#	**475.7**	409.8	1 312.1

* *Prior period amounts restated, refer to note 10.*
\# *During the prior period, the Group embarked on a voluntary severance programme (VSP). The full cost of the VSP was recorded in the prior period interim result, offset in part by the related savings during that reporting period. The cost of the VSP was fully recovered by the end of the 2018 financial year through resulting savings in employee costs. Normalised basic and headline earnings are calculated by excluding the once-off net cost of the VSP. The once-off impact as presented is the same for both basic and headline earnings.*

3 Basic, headline and diluted earnings per share (continued)

3.2 Number of ordinary shares

	Unaudited 26 weeks to 26 August 2018 000's	Unaudited 26 weeks to 27 August 2017 000's	Unaudited 52 weeks to 25 February 2018 000's
Number of ordinary shares in issue (note 4.1)	**493 450.3**	488 450.3	488 450.3
Weighted average number of ordinary shares in issue (excluding treasury shares)	**474 844.0**	478 623.8	473 717.3
Diluted weighted average number of ordinary shares in issue	**483 536.0**	487 283.9	483 091.1
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)	**474 844.0**	478 623.8	473 717.3
Dilutive effect of share options	**8 692.0**	8 660.1	9 373.8
Diluted weighted average number of ordinary shares in issue	**483 536.0**	487 283.9	483 091.1

The outstanding forfeitable shares, granted in terms of the employee share scheme, that have not met the performance hurdles, had no dilutive impact on the weighted average number of shares for the current and prior period.

4 Share capital

4.1 Ordinary share capital

	Unaudited 26 weeks to 26 August 2018 Rm	Unaudited 26 weeks to 27 August 2017 Rm	Unaudited 52 weeks to 25 February 2018 Rm
Authorised			
800 000 000 (2017: 800 000 000) ordinary shares of 1.25 cents each	**10.0**	10.0	10.0
Issued			
493 450 321 (2017: 488 450 321) ordinary shares of 1.25 cents each	**6.0**	6.0	6.0
	000's	000's	000's
The number of shares in issue at end of period is made up as follows:			
Treasury shares held as hedge against share incentive scheme obligations (note 5)	**12 815.0**	10 819.3	6 654.9
Treasury shares allocated under the forfeitable share plan (note 5)	**5 469.0**	2 881.0	6 853.5
Shares held outside the Group	**475 166.3**	474 750.0	474 941.9
Total shares in issue at end of period	**493 450.3**	488 450.3	488 450.3

The Company can issue new shares to settle the Group's obligations under its employee share schemes, but issues in this regard are limited to, in aggregate, 5% of total issued share capital or 24 672 516 (2017: 24 422 516) shares. During the 26 weeks ended 26 August 2018, 5 000 000 shares were issued to subsidiary companies within the Group as hedge against obligations under its employee share schemes. To date, 15 743 000 (2017: 10 743 000) shares have been issued, resulting in 8 929 516 (2017: 13 679 516) 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 4.2.

4 Share capital (continued)

4.2 B share capital

	Unaudited 26 weeks to 26 August 2018 Rm	Unaudited 26 weeks to 27 August 2017 Rm	Unaudited 52 weeks to 25 February 2018 Rm
Authorised			
1 000 000 000 (2017: 1 000 000 000) unlisted, non-convertible, non-participating, no par value B shares	**–**	–	–
Issued			
259 682 869 (2017: 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 4.1.

5 Treasury shares

	Unaudited 26 weeks to 26 August 2018 Rm	Unaudited 26 weeks to 27 August 2017 Rm	Unaudited 52 weeks to 25 February 2018 Rm
At beginning of period	**863.4**	554.3	554.3
Shares purchased during the period	**190.8**	332.9	423.4
Shares issued to subsidiary companies within the Group	**–**	–	–
Take-up of share options by employees	**(77.9)**	(48.0)	(114.3)
Shares delivered to participants of forfeitable share plan	**–**	–	–
At end of period	**976.3**	839.2	863.4
	000's	000's	000's
The movement in the number of treasury shares is as follows:			
At beginning of period	**13 508.4**	15 868.3	15 868.3
Shares purchased during the period	**2 512.2**	5 429.4	6 809.4
Shares issued to subsidiary companies within the Group	**5 000.0**	–	–
Shares sold during the period pursuant to the take-up of share options by employees	**(1 655.6)**	(1 232.4)	(2 784.8)
Shares delivered to participants of forfeitable share plan	**(1 081.0)**	(6 365.0)	(6 384.5)
At end of period	**18 284.0**	13 700.3	13 508.4
Comprising:			
As hedge against share incentive scheme obligations	**12 815.0**	10 819.3	6 654.9
Shares allocated under forfeitable share plan	**5 469.0**	2 881.0	6 853.5

6 Operating segments

Unaudited	South Africa Rm	Rest of Africa Rm	Total operations Rm
26 weeks to 26 August 2018			
Total segment revenue	40 405.0	2 311.3	42 716.3
Revenue from contracts with customers (note 2)	40 021.0	1 879.7	41 900.7
Operating lease income (note 2)	259.4	4.6	264.0
Finance income (note 2)	124.6	4.3	128.9
Direct deliveries*	–	422.7	422.7
Segment external turnover	39 370.3	1 873.7	41 244.0
Profit before tax**	534.1	136.1	670.2
Other information			
Statement of comprehensive income			
Finance costs	185.5	1.4	186.9
Depreciation and amortisation	576.3	22.1	598.4
Share of associate's income	–	77.8	77.8
Statement of financial position			
Total assets	16 945.4	2 179.6	19 125.0
Total liabilities	14 690.3	657.5	15 347.8
Investment in associate	–	538.1	538.1
Additions to non-current assets	636.4	18.6	655.0
26 weeks to 27 August 2017#			
Total segment revenue	37 800.6	2 303.3	40 103.9
Revenue from contracts with customers (note 2)	37 480.9	1 884.7	39 365.6
Operating lease income (note 2)	226.0	5.0	231.0
Finance income (note 2)	93.7	3.0	96.7
Direct deliveries*	–	410.6	410.6
Segment external turnover	36 883.1	1 872.5	38 755.6
Profit before tax**	236.0	126.8	362.8
Other information			
Statement of comprehensive income			
Finance costs	167.3	–	167.3
Depreciation and amortisation	512.5	21.9	534.4
Impairment loss on property, plant and equipment	1.4	–	1.4
Share of associate's income	–	40.0	40.0
Statement of financial position			
Total assets	16 299.5	1 837.2	18 136.7
Total liabilities	14 480.3	468.1	14 948.4
Investment in associate	–	333.3	333.3
Additions to non-current assets	755.2	22.9	778.1

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

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

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

7 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 inter-group transactions and related balances are eliminated on consolidation.

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

8 Financial instruments

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

	Unaudited 26 weeks to 26 August 2018 Rm	Unaudited 26 weeks to 27 August 2017 Rm	Unaudited 52 weeks to 25 February 2018 Rm
Derivative financial instruments			
Forward exchange contract assets/(liabilities) – level 2	9.1	(1.5)	(8.5)
Financial instruments at fair value through profit or loss			
Investment in Guardrisk Insurance Company Limited – level 2	30.3	18.8	25.7

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

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

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

In accordance with IFRS 9 *Financial Instruments*, as a new accounting policy, the Group now applies hedge accounting on its forward exchange contracts. The forward exchange contracts are classified as cash flow hedges, utilised as hedge against the imports of goods for resale denominated in currencies other than South African rand.

9 Commitments

	Unaudited 26 weeks to 26 August 2018 Rm	Unaudited 26 weeks to 27 August 2017 Rm	Unaudited 52 weeks to 25 February 2018 Rm
Authorised capital expenditure			
Contracted for	960.1	752.4	231.0
Property	7.6	8.3	69.8
Furniture, fittings, equipment and vehicles	879.9	712.0	67.8
Intangible assets	72.6	32.1	93.4
Not contracted for	99.9	62.6	1 469.0
Property	–	–	20.0
Furniture, fittings, equipment and vehicles	88.3	60.7	1 417.2
Intangible assets	11.6	1.9	31.8
Total commitments	1 060.0	815.0	1 700.0

10 Adoption of new accounting standards and prior period restatements

10.1 Adoption of new accounting standards

The following new accounting standards have been applied in the 2019 financial year:

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* (replacing IAS 39 *Financial Instruments: Recognition and Measurement*) is applicable to the Group for the 2019 annual financial period, with first application in this interim result announcement of 26 August 2018.

The objective of IFRS 9 is to establish principles for the classification and measurement of financial assets and liabilities, hedging and the introduction of the expected credit loss (ECL) model for the measurement of impairment allowances for financial assets.

The key impact of IFRS 9 for the Group relates to the application of the ECL model in the measurement of the impairment allowance of our trade and other receivables (through the application of the simplified approach). In terms of IAS 39, trade and other receivables were impaired when there was objective evidence of default. IFRS 9 dictates that the impairment is based on the lifetime expected credit losses on trade and other receivables. In general, the ECL model is expected to result in a higher impairment allowance than the historical incurred loss model, as provision rates must now reflect all possible future losses based on past experience as well as future economic factors.

The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to trade and other receivables and the economic environment.

The Group has implemented the standard prospectively. Comparative information has not been restated and the cumulative impact of the initial application has been recognised in opening retained earnings on 26 February 2018. The impact for the Group is an additional impairment allowance of R42.0 million against opening retained earnings, R30.2 million net of tax.

The application of IFRS 9 had no material impact on the reported earnings or financial position for the interim result period under review.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* (replacing IAS 18 *Revenue*) is applicable to the Group for the 2019 annual financial period, with first application in this interim result announcement of 26 August 2018.

IFRS 15 relates to the measurement, classification and disclosure of revenue from contracts with customers and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised as the Group satisfies performance obligations and transfers control of goods or services to its customers as opposed to the use of the risks and rewards criteria under IAS 18.

The measurement of revenue is determined based on the amount to which the Group expects to be entitled, allocated to each specific performance obligation. Depending on whether certain criteria are met, revenue is recognised either over time or at a point in time, as or when control of the goods or services is transferred to the customer. The Group has applied IFRS 15 using the full retrospective method of adoption.

IFRS 15 *Revenue from Contracts with Customers* *(continued)*

The key impact of IFRS 15 for the Group relates to the following:

- The IFRS 15 principles dictate that revenue is recognised as and when the control over goods and services are transferred to customers. This impacted the Group's assessment of whether it is the agent or the principal when recognising revenue from certain value-added services. In certain instances, revenue previously recognised on a gross basis as turnover and cost of merchandise sold is now required to be recognised on a net basis in other income.
- IFRS 15 requires that all discounts, rebates or loyalty payments to customers should be deducted from revenue, unless it is directly funded by suppliers. All Group discounts were reviewed and, where applicable, adjusted against revenue if not directly funded by suppliers.

Relevant prior period financial information have been restated and reclassified, with no impact on the Group's previously reported earnings and headline earnings. Refer to note 10.3 for more information.

10.2 Prior period restatements

In line with restatements made during the 2018 financial period, the following restatements have been applied in the Group's South Africa operating segment for the 26 weeks ended 27 August 2017:

Recognition and measurement

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

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

In line with the corrections made during the 2018 financial period, the Group aligned its inventory valuation at 27 August 2017, net of the related tax impact, to reflect all relevant rebates in line with the movement of inventory. Relevant comparative figures in this result have been restated, including necessary restatements in the statement of comprehensive income, statement of financial position and statement of cash flows.

Correction of presentation

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

Comparative figures have been restated, with no impact on total comprehensive income.

The aggregate of these restatements are set out in note 10.3.

10 Adoption of new accounting standards and prior period restatements (continued)

10.3 Impact of adoption of IFRS 15 and prior period restatements

10.3.1 Adoption of IFRS 15 and prior period restatements impact on the statement of comprehensive income for the 26 weeks ended 27 August 2017

Unaudited	Restated 26 weeks to 27 August 2017 Rm	Adoption of IFRS 15 Rm	Restatement recognition and measurement Rm	As previously published 26 weeks to 27 August 2017 Rm
Revenue	39 693.3	(504.7)	198.9	39 999.1
Turnover	38 755.6	(515.5)	–	39 271.1
Cost of merchandise sold	(31 530.7)	504.7	264.7	(32 300.1)
Gross profit	7 224.9	(10.8)	264.7	6 971.0
Other income	841.0	10.8	198.9	631.3
Merchandising and administration	(1 119.1)	–	(506.0)	(613.1)
Trading profit	399.1	–	(42.4)	441.5
Profit before tax	362.8	–	(42.4)	405.2
Tax	(99.6)	–	11.8	(111.4)
Profit for the period	263.2	–	(30.6)	293.8
	Cents	Cents	Cents	Cents
Earnings per share				
Basic earnings per share	54.66	–	(6.37)	61.03
Diluted earnings per share	53.69	–	(6.25)	59.94
Headline earnings per share	55.51	–	(6.37)	61.88
Diluted headline earnings per share	54.53	–	(6.25)	60.78
Normalised earnings per share*				
Basic earnings per share	84.77	–	(6.37)	91.14
Diluted earnings per share	83.27	–	(6.25)	89.52
Headline earnings per share	85.62	–	(6.37)	91.99
Diluted headline earnings per share	84.11	–	(6.25)	90.36

* *During the prior period, the Group embarked on a voluntary severance programme (VSP). The full cost of the VSP was recorded in the prior period interim result, offset only in part by the related savings during that reporting period. The cost of the VSP was fully recovered by the end of the 2018 financial year through resulting savings in employee costs. Normalised basic and headline earnings are calculated by excluding the once-off net cost of the VSP. The once-off impact as presented is the same for both basic and headline earnings. Refer to note 3.*

10 Adoption of new accounting standards and prior period restatements (continued)

10.3 Impact of adoption of IFRS 15 and prior period restatements (continued)

10.3.2 Adoption of IFRS 15 and prior period restatements impact on the statement of financial position as at 27 August 2017

Unaudited	Restated As at 27 August 2017 Rm	Adoption of IFRS 15 Rm	Restatement recognition and measurement Rm	Correction of presentation Rm	As previously published As at 27 August 2017 Rm
Non-current trade and other receivables	149.5	–	–	149.5	–
Inventory	5 620.0	(19.0)	(353.0)	–	5 992.0
Right of return asset	19.0	19.0	–	–	–
Current trade and other receivables	3 406.5	–	–	(149.5)	3 556.0
Retained earnings	4 041.3	–	(254.2)	–	4 295.5
Trade and other payables	11 363.4	(21.3)	–	–	11 384.7
Refund liability	21.3	21.3	–	–	–
Current tax liabilities	128.8	–	(98.8)	–	227.6

10.3.3 Adoption of IFRS 15 and prior period restatements impact on the statement of cash flows for the 26 weeks ended 27 August 2017

Unaudited	Restated 26 weeks to 27 August 2017 Rm	Restatement recognition and measurement Rm	As previously published 26 weeks to 27 August 2017 Rm
Trading profit	399.1	(42.4)	441.5
Movements in inventory	49.0	42.4	6.6
Net movement in cash and cash equivalents	(3.5)	–	(3.5)

10 Adoption of new accounting standards and prior period restatements (continued)

10.3 Impact of adoption of IFRS 15 and prior period restatements (continued)

10.3.4 Adoption of IFRS 15 impact on the statement of comprehensive income for the 52 weeks ended 25 February 2018

Unaudited	Restated 52 weeks to 25 February 2018 Rm	Adoption of IFRS 15 Rm	As previously published 52 weeks to 25 February 2018 Rm
Revenue	82 489.6	(1 015.2)	83 504.8
Turnover	80 523.5	(1 036.6)	81 560.1
Cost of merchandise sold	(65 294.6)	1 015.2	(66 309.8)
Gross profit	15 228.9	(21.4)	15 250.3
Other income	1 782.0	21.4	1 760.6
Profit for the period	1 296.3	–	1 296.3

10.3.5 Adoption of IFRS 15 impact on the statement of financial position as at 25 February 2018

Unaudited	Restated As at 25 February 2018 Rm	Adoption of IFRS 15 Rm	As previously published As at 25 February 2018 Rm
Inventory	5 944.1	(19.6)	5 963.7
Right of return asset	19.6	19.6	–
Trade and other payables	10 798.6	(22.0)	10 820.6
Refund liability	22.0	22.0	–

Number of stores

	25 February 2018	Opened	Closed	Converted openings	Converted closures	26 August 2018
COMPANY-OWNED						
Pick n Pay	**722**	**21**	**(6)**	**2**	**(7)**	**732**
Hypermarkets	20	–	–	–	–	20
Supermarkets	244	4	–	1	(4)	245
Local	38	–	(1)	–	–	37
Clothing	183	15	(5)	–	–	193
Liquor	235	2	–	1	(3)	235
Pharmacy	2	–	–	–	–	2
Boxer	**246**	**11**	**(1)**	**1**	**–**	**257**
Superstores	152	5	–	1	–	158
Build	31	1	–	–	–	32
Liquor	43	5	–	–	–	48
Punch	20	–	(1)	–	–	19
Total company-owned	**968**	**32**	**(7)**	**3**	**(7)**	**989**
FRANCHISE						
Pick n Pay						
Supermarkets	299	4	(3)	4	(2)	302
Family	281	4	(2)	3	(1)	285
Mini-markets	17	–	(1)	1	–	17
Daily	1	–	–	–	(1)	–
Spaza	14	1	–	–	–	15
Express	119	14	–	–	–	133
Clothing	17	1	(1)	–	–	17
Liquor	211	8	(2)	3	(1)	219
Total franchise	**660**	**28**	**(6)**	**7**	**(3)**	**686**
Total Group stores	**1 628**	**60**	**(13)**	**10**	**(10)**	**1 675**
TM Supermarkets	57	–	–	–	–	57
Total with TM Supermarkets	**1 685**	**60**	**(13)**	**10**	**(10)**	**1 732**
AFRICAN FOOTPRINT						
– included in total stores above	**144**	**2**	**(2)**	**–**	**–**	**144**
Pick n Pay company-owned	17	2	–	–	–	19
Boxer company-owned	7	–	–	–	–	7
Pick n Pay franchise	63	–	(2)	–	–	61
TM Supermarkets – associate	57	–	–	–	–	57
AFRICAN FOOTPRINT						
– by country	**144**	**2**	**(2)**	**–**	**–**	**144**
Botswana	12	–	–	–	–	12
Lesotho	3	–	–	–	–	3
Namibia	38	–	(2)	–	–	36
Swaziland	17	–	–	–	–	17
Zambia	17	2	–	–	–	19
Zimbabwe	57	–	–	–	–	57

Corporate information

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

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

Non-executive
Gareth Ackerman (Chairman)
David Robins

Independent non-executive
David Friedland
Hugh Herman
Alex Mathole
Audrey Mothupi
Jeff van Rooyen
Lorato Phalatse (resigned during August 2018)

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