Pick n Pay

Unaudited condensed consolidated interim financial statements

For the 26 weeks ended 28 August 2022

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Executing on the Ekuseni strategic plan

KEY FINANCIAL INDICATORS	26 weeks to 28 August 2022 H1 FY23	26 weeks to 29 August 2021 H1 FY22	% change
Group turnover	**R51.3 billion**	R46.0 billion	**11.5**
Gross profit margin	**19.4%**	18.2%	
Trading expenses	**R9.8 billion**	R8.9 billion	**10.6**
Pro forma profit before tax[1]	**R588.0 million**	R481.2 million	**22.2**
Pro forma profit before tax – South Africa[1]	**R456.1 million**	R389.6 million	**17.1**
Profit after tax	**R453.3 million**	R296.8 million	**52.7**
Basic earnings per share (EPS)	**94.34 cents**	61.97 cents	**52.2**
Headline earnings per share (HEPS)	**97.73 cents**	61.28 cents	**59.5**
Pro forma HEPS[1]	**88.76 cents**	70.85 cents	**25.3**
Interim dividend per share	**44.85 cents**	35.80 cents	**25.3**

[1] *H1 FY23 pro forma profit before tax (PBT) and pro forma headline earnings per share (HEPS) exclude R145.2 million (R104.5 million net of tax) business interruption insurance proceeds received and accounted for in H1 FY23, but previously included in FY22 pro forma earnings. In line with normal Group practice, pro forma earnings also exclude all non-cash hyperinflation gains and losses related to the Group's TM business in Zimbabwe. Pro forma HEPS is the Group's dividend driver.*

Result summary

The Group delivered a positive performance in its first trading period under the Ekuseni strategic plan. In addition to taking crucial steps to deliver the plan, the Group increased its turnover by 11.5% year-on -year. This strong turnover growth in part reflects the normalisation of the environment after the July 2021 civil unrest and Covid-19 liquor trading restrictions last year which negatively impacted the base. When excluding these disruptions in the base, we estimate normalised H1 FY23 turnover rose by an encouraging 8.2%.

While turnover normalised during this period, the Group continued to feel the after-effects of the civil unrest in terms of increased insurance and related security costs. Additional expense increases arose from broad inflationary pressures and from investment in implementing our Ekuseni strategic plan. Underlying gross profit margin reflects higher fuel costs, alongside price investment to support our customers. Despite this, the Group reported pro forma profit before tax of R588.0 million (+22.2% year-on year).

The Group's H1 focus was execution of the Ekuseni strategic plan, the key elements of which are:

- **Rejuvenating our Pick n Pay supermarket format** by refining our customer value proposition (CVP) into two differentiated banners, Pick n Pay, and Pick n Pay QualiSave (QualiSave)
- **Doubling-down on the growth of our high performance but under-penetrated formats, Boxer and Pick n Pay Clothing**, via an accelerated store rollout programme, and strong like-for-like turnover growth
- **Building a market-leading online business**, by launching an on-demand Pick n Pay grocery service on the Mr D app, expanding on our existing asap! and scheduled services
- **Improving efficiency** by launching Project Future Phase 2, a three-year modernisation and savings programme

The Group is energised and making progress on all elements of the Ekuseni plan. Key milestones achieved so far this year include launching the QualiSave banner and rolling it out to 93 stores, as well as refurbishing 41 stores to the new Pick n Pay and QualiSave CVPs with strong initial results. Project Future, our cost-saving and modernisation plan, is helping the Group constrain operating costs and deliver greater operating efficiency in an increasingly inflationary environment.

Highlights from the period include:

- The 17 May launch of the Ekuseni strategic plan with ambitious medium-term sales and profit growth targets
- Split of Pick n Pay supermarkets into two tailored banners: QualiSave, serving lower-to-middle-income customers, and Pick n Pay, serving middle-to-upper-income customers
- Launch of an accelerated store refurbishment programme to clearly differentiate the two banners and improve the customer experience
- Average weekly sales growth of 15% achieved for the 41 stores upgraded to the new CVPs
- Market leading SA sales growth of 27.2% from soft-discounter Boxer, with its sales performance disclosed separately for the first time
- Pick n Pay Clothing continued to gain market share with 14.8% sales growth
- Online sales growth of 82.0%, with future growth to be supported by the recent launch of Pick n Pay groceries on the Mr D app, South Africa's leading online food delivery service
- Reaching agreement with our largest labour union, SACCAWU, to introduce multi-skilling, which allows Pick n Pay to schedule employees for different jobs within one day, thereby improving productivity and customer service
- R315 million Project Future savings, enabling Pick n Pay South Africa to restrict like-for-like cost growth to a similar level to its 4.5% like-for-like sales growth (and well below 6.0% Group like-for-like cost growth)

Ekuseni strategic plan execution

Pick n Pay QualiSave launch provides the Group with a portfolio of three grocery banners covering the consumer spectrum

The QualiSave banner was launched on 15 August; achieving the goal of segmenting the Pick n Pay supermarkets format into two tailored banners each serving discrete target markets. QualiSave is designed to deliver lower prices and great quality to lower-to-middle-income customers with a limited range of 8 000 products. Pick n Pay, our banner targeting middle-to-upper-income customers, is being revamped to ensure its customers get best quality at great value, a wide range of 18 000 products, and an improved in-store experience.

Customer response to the new banners has been positive, with weekly sales growth of the stores that have been refurbished to the new CVPs being significantly higher than the remainder of the estate.

The refurbished stores achieved average weekly sales growth of 15% year-on-year since launch. Customer response, as measured by Net Promoter Score (NPS), has also improved. The NPS of the 41 upgraded stores improved by 16.4% year-on-year. Given Pick n Pay's target of improving NPS by 20% over the course of Ekuseni, focus on improving the in-store customer experience will continue.

Taken all together, the Group now has a portfolio of three supermarket banners (Pick n Pay, QualiSave, and Boxer), each optimised to meet their individual target customer needs, and allowing the Group to compete effectively across the full customer spectrum.

New CVP rollout via accelerated store refurbishment programme

The Group has launched an accelerated refurbishment programme for the Pick n Pay and QualiSave banners, to bring the stores in line with the new CVPs. The refurbishment entails a realignment of store layout to implement the optimised product counts and emphasise each banner's power categories, as well as upgraded fixtures and fittings to provide the banners with fresh new looks. A total of 41 Pick n Pay and Pick n Pay QualiSave stores were refurbished to the new CVPs by the end of August, a substantial achievement given the magnitude of the revamps and the fact that the first revamp was only completed in mid-May. The Group is targeting 130 full CVP upgrades by February 2023.

In addition to the full CVP refurbishments, the Group also rebranded the QualiSave store base to the new banner during the period, and upgraded 146 stores with new CVP "starter-packages", which are capex-light upgrades designed to accelerate the look-and-feel of the overall store base toward the new CVPs, while the full CVP upgrade programme is rolled out.

Boxer accelerated store rollout while maintaining robust like-for-like sales

Boxer reported H1 FY23 sales of R15.2 billion, up 26.9% year-on-year. Excluding its nine eSwatini stores, Boxer reported South Africa sales of R15.0 billion (accounting for 30.2% of the Group's South Africa sales). Boxer South Africa year-on-year sales growth was 27.2% (14.2% like-for-like). Boxer's strong like-for-like sales performance was driven by its great value branded and confined label grocery range, its basic commodities focus, and its high-quality butchery, bakery and fresh produce offer.

During the six-month period, Boxer opened 26 new stores, which compares favourably to the 17 and 18 new stores opened in H1 FY21 and H1 FY22 respectively. Boxer is on track to open 61 new stores in FY23, compared to 36 in FY22. The Ekuseni goal is to open 200 new Boxer stores by FY26 and double Boxer sales in the process.

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

Online sales growth for the period was driven by the August 2021 relaunch of the Group's on-demand online offering as Pick n Pay asap!. Taken together with our scheduled delivery service, Pick n Pay achieved 82.0% online sales growth during H1 FY23. To achieve our Ekuseni goal of building a market-leading online grocery business, Pick n Pay has reached a commercial services agreement with the Takealot Group where we have worked in conjunction with Mr D to launch a Pick n Pay food and grocery offer on the Mr D app. After extensive trials, the delivery service went live from a limited number of stores in early October and is on track to expand to 300 stores nationwide by December 2022.

The Group is confident that this new offer will drive significant incremental online growth. Pick n Pay brings to the offer its extensive store network, stock-management system, fresh product offering, and in-store picking experience. Mr D provides strengths in user-interface design, a 2.5 million active customer base, and a delivery fleet of 15 000 scooters. The Group is confident that the combination will be a highly-popular and scalable customer offer.

Clothing store rollout acceleration

Pick n Pay Clothing continued its strong performance in H1 FY23, with 14.8% sales growth, driven by both solid like-for-like sales and new stores. Pick n Pay Clothing operates through an estate of 302 standalone stores, and a presence in selected QualiSave and Pick n Pay supermarkets and hypermarkets. In line with the Ekuseni objective to significantly expand the Group's clothing business, Pick n Pay Clothing opened 28 stand-alone stores in H1 FY23, compared with eight openings in H1 FY22 and 27 in the whole of FY22. Pick n Pay Clothing currently has 67 new store openings confirmed for FY23.

Pick n Pay Clothing is a casualwear-focused, value-oriented clothing format targeting family shoppers. While womenswear has traditionally underpinned the format's success, Pick n Pay Clothing is also gaining solid traction in childrenswear and menswear. During H1 FY23 Pick n Pay Clothing gained market share across all market segments.[1] Locally sourced product accounts for 40% of sales, after a localisation strategy kicked off in 2019.

Project Future

Project Future Phase 2 encompasses a range of projects focused on improving efficiency, increasing flexibility, and reducing costs by R3 billion over the next three years. R315 million of Project Future savings were achieved in H1 FY23 (split between gross profit and trading expenses), enabling Pick n Pay South Africa to restrict like-for-like cost growth to slightly below like-for-like sales growth. Key achievements over the period include:

- Greater efficiency in the Group's supply chain operations, in particular through a more optimised transport network, and greater labour productivity in DCs. Progress on supply chain will be boosted further by the new Eastport DC, which is on-track to open in March 2023. Eastport is set to be 91 000sqm in size, 47% larger than the current Gauteng DC, Longmeadow, which it will replace. We expect Eastport's larger capacity, improved layout, and enhanced systems to drive further supply chain efficiencies
- Better buying and collaboration with suppliers to deliver greater value for customers
- Multi-skilling agreement signed with our main union, SACCAWU, which allows Pick n Pay supermarkets, for the first time, to train staff to be scheduled for more than one task within a single shift. This will help us improve customer service and increase efficiency as we implement multi-skilling across our store base
- Announcing the closure of the Kensington support-office campus in Johannesburg by December 2023

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

Detailed review of financial and operational performance

Turnover

Group turnover growth for the period was 11.5%, with like-for-like growth of 7.4%. Internal selling price inflation for the period was 7.2%, reflecting a sharp uptick over July and August, against the 5.0% reported for the first 18 weeks of the period. To provide context, Statistics SA Food CPI rose from 8.6% in June to 11.3% in August.

The Group's South Africa Segment (96.5% of Group turnover) grew sales by 11.2% to R49.5 billion, with like-for-like sales growth of 7.0%. South African sales growth was predominantly driven by Boxer, with South African sales growth of 27.2% to R15.0 billion. Pick n Pay South Africa (Pick n Pay and QualiSave banners combined) grew sales by 5.4% to R34.5 billion.

	H1 FY23 Rm	H1 FY22 Rm	% change	FY22 Rm
Pick n Pay SA sales	**34 526.6**	32 749.8	5.4%	68 450.4
Boxer SA sales	**14 969.5**	11 765.2	27.2%	26 084.8
SA total sales	**49 496.1**	44 515.0	11.2%	94 535.2
Rest of Africa sales (incl. DSDs*)	**2 382.8**	2 020.9	17.9%	4 438.8
Total segment turnover	**51 878.9**	46 535.9	11.5%	98 974.0
Elimination of RoA DSDs	**(581.9)**	(515.0)	13.0%	(1 101.2)
Group turnover	**51 297.0**	46 020.9	11.5%	97 872.8

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

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

Boxer's market leading 27.2% South Africa sales growth was driven by a strong performance from existing stores (14.2% like-for-like), a ramp-up in new store rollout, and its disrupted base. Boxer was relatively more impacted by the July 2021 civil unrest than Pick n Pay due to the relative skew of its store estate toward KwaZulu-Natal.

Boxer has a total of 394 stores, including 258 supermarkets and 106 liquor stores. Boxer continues to grow well ahead of the market and is tracking in line with its plan to double sales by the end of FY26.

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

The Pick n Pay and QualiSave banners grew combined South Africa sales by 5.4% (like-for-like sales of 4.5%). Pick n Pay South Africa's sales growth was somewhat constrained by the conversion of eight Pick n Pay stores to Boxer stores over the past 12 months (including six in this period), as we optimise our store estate across banners. While we do not separately disclose Pick n Pay and Boxer inflation, Pick n Pay's inflation during the period was lower than Boxer's, given Boxer's higher exposure towards commodities which have experienced the highest inflationary pressures.

In line with Ekuseni, the Group has temporarily prioritised driving improved Pick n Pay supermarket like-for-like sales, vs. new store rollout. Pick n Pay food and grocery stores (excl. clothing and liquor) had 18 new store openings during the period, but a net increase of just four stores, to 838 stores. Including liquor and clothing, Pick n Pay opened 56 new stores to total 1 680.

Pick n Pay's Smart Shopper loyalty programme continues to be a key asset, rewarding customers through loyalty points as well as discounted Smart Prices on promotional items. Smart Shopper has 9.7 million active members, and loyalty participation accounted for 80% of Pick n Pay sales during the period.

Liquor sales recovery off a disrupted base from Covid-19 trading restrictions

Group liquor sales grew 36.2% for the period. The Group lost 55 days of liquor trading in the base period (H1 FY22) due to Covid-19 trading restrictions. The Group opened 17 new liquor stores during H1, to take the total to 646 stores.

Gross profit

Gross profit rose 19.4% to R10.0 billion, with reported gross profit margin increasing to 19.4% from 18.2% last year. The H1 FY22 gross margin was negatively impacted by the July 2021 civil unrest (stock losses and additional distribution costs). If these impacts are stripped out of the H1 FY22 base, underlying H1 FY22 gross profit margin was 20.0%, indicating that the Group's underlying gross profit margin contracted 0.6% year-on-year.

The H1 FY23 underlying gross profit margin contraction was driven by price investment across Pick n Pay and Boxer, as both formats invested in price to support under-pressure consumers, alongside unrecovered higher fuel prices. The Group continued to make gains from improved buying and supply chain efficiencies during this period, but these gains were more than offset by the strategic price investment and increased fuel costs.

Reported gross profit margin – H1 FY22	**18.2%**
Impact of civil unrest (stock losses and additional distribution costs)	**1.8%**
Underlying gross profit margin – H1 FY22	**20.0%**
Better buying and supply chain efficiencies	**1.0%**
Strategic investment in lower prices	**(1.2%)**
Increased trucking fleet fuel costs	**(0.4%)**
Reported gross profit margin – H1 FY23	**19.4%**

Other income

Underlying other income, excluding insurance recoveries from both periods, grew 16.7% year-on-year, from R808.3 million to R943.5 million. Reported other income declined by 30.3% from R1.6 billion to R1.1 billion. One-off factors impacting the reported other income decline are the R753.7 million insurance recoveries included in the H1 FY22 base, as well as R145.2 million insurance recoveries received and accounted for during H1 FY23 (but included in H2 FY22 pro forma earnings and reciprocally excluded from H1 FY23 pro forma earnings).

Franchise fee income – the Group's royalty fee income, earned on franchise point of sale turnover, increased by 4.5% to R215.9 million. This growth reflects recovery off a disrupted base, somewhat offset by the conversion of several franchise supermarkets and liquor stores to company-owned Pick n Pay and Boxer stores over the past 12 months. Strong franchise partners are a key growth driver for the Group, with 20 new franchise stores added over the period.

Commissions and other income – this broad category includes income from value-added services and all other commission and incentive income not directly related to the sale of inventory. Commissions and other income increased 20.7% year-on-year to R656.2 million, reflecting a solid recovery in services disrupted by Covid-19 trading restrictions and civil unrest in the prior period. Financial services income has shown strong growth, driven by point of sale cash withdrawals (where customers enjoy the convenience of using tills as ATMs); TymeBank transaction fees, where we have seen good customer growth; and money transfers. In addition, we have seen good growth in ticketing, travel and Lotto during the period.

Trading expenses

Trading expenses increased by 10.6% year-on-year (6.0% like-for-like) to R9.8 billion. Trading expenses include R83.7 million in restructuring costs, arising from the reorganisation of the Pick n Pay estate into two banners, the rebranding of QualiSave, some technical advisory services, and limited retrenchment costs. Excluding restructuring costs, underlying trading expenses rose 9.7%. The rise in trading expenses follows two prior periods of well contained expense growth (4.8% and 4.1% in H1 FY21 and H1 FY22 respectively). Higher expense growth in this period has been driven by a combination of broad inflationary pressures (particularly rates, electricity, utility and fuel costs), cost pressures arising directly from last year's civil unrest (security and insurance), and costs arising from Ekuseni (accelerated Boxer and Clothing store rollout, and Pick n Pay CVP upgrades).

The combined impact of increased load shedding and sharp fuel price increases has been felt particularly hard. The Group spent R110 million more on energy costs in H1 FY23 than the comparable period, reflecting extra spend on diesel net of electricity cost savings. This includes both increased trucking costs (reflected in gross profit margin) and increased store-level generator costs (recorded in operating expenses). Given that load shedding accelerated in the latter part of the period, the H2 impact is likely to be more severe.

Project Future has enabled the Group to contain expense growth, with both Boxer and Pick n Pay South Africa able to keep like-for-like cost growth at or below like-for-like sales growth.

Employee costs – increased by 6.5% to R4.2 billion over the period (3.0% like-for-like). Group employee cost growth was well contained despite the aggressive Boxer and Clothing store rollout, reflecting tight employee cost control in Pick n Pay South Africa.

Occupancy costs – increased by 12.5% (6.8% like-for-like) to R1.5 billion. Occupancy cost growth was driven by both the accelerated Boxer store rollout and above-inflation increases in rates, security and insurance costs. Elevated occupancy cost growth is directly attributable to the July 2021 riots, which have resulted in additional security costs, and insurance premiums accelerating by 50%.

Operations costs – increased by 12.8% (7.8% like-for-like) to R2.5 billion, largely driven by higher electricity costs and a doubling of utilities costs (increased fuel consumption to drive store generators and a higher fuel price).

Merchandising and administration costs – increased by 16.7% year-on-year to R1.6 billion as the Group increased advertising spend in support of the drive to rejuvenate sales growth.

Net interest

Net interest paid, including implied interest charges under IFRS 16, declined by 0.5% year-on-year to R620 million.

Funding interest – The Group's net funding cost increased from R13.6 million to R39.0 million, reflecting higher net gearing (driven by increased capital expenditure) and higher interest rates over the period (175 basis point repo rate rise between November 2021 and August 2022).

Lease interest – implied net interest charges under IFRS 16 decreased 4.7% year-on-year to R580.8 million. Combined IFRS 16 expenses, including implied interest and depreciation, increased 2.6% year-on-year. This combined charge benefitted from a one-off gain from switching to a new outsourced logistics service provider during the period; excluding this gain, the combined charge would have risen 4.7%.

Rest of Africa segment

The Group's Rest of Africa segment contributed R2.4 billion of segmental sales, up 17.9% year-on-year, and 8.3% in constant currency terms. The Rest of Africa segment delivered pro forma profit before tax of R131.9 million (before the application of hyperinflation accounting) up 44.0% on the R91.6 million achieved in H1 FY22. The underlying PBT growth from the Rest of Africa division was driven by another good performance from Zimbabwe.

H1 FY23 Rest of Africa sales growth reflects the recent strengthening of the Zambian Kwacha against the Rand, after a sharp reversal the previous year, and double-digit sales growth across the franchise operations. Despite this top line performance, overall profitability of the consolidated businesses remained constrained as a result of intense competition and increased operating costs. The performance of the Group's key consolidated African operations are summarised as follows:

- **Franchise operations:** Our 81 Pick n Pay franchise stores in Namibia, eSwatini, Botswana and Lesotho continue to trade well;
- **Zambia corporate stores:** Our 22 Pick n Pay corporate stores recorded like-for-like sales growth that was positive on a local currency basis and more-so in Rand terms. Zambia delivered a much-improved year-on-year trading result, but continues to trade below its potential. Management is working to grow profitability by improving the customer value proposition to drive sales volumes, and improving gross profit margin (better inventory management and reduced wastage).

TM Supermarkets, Zimbabwe

The 67 Supermarkets of our 49% associate-accounted investment delivered yet another resilient performance in a difficult economic environment. The Group's share of TM's earnings, before any non-cash hyperinflation net monetary adjustments, grew 76.1% year-on-year to R99.7 million. The trading result reflects high volume growth, alongside disciplined cost and working capital management. Hyperinflation and local currency weakness both remained significant challenges for the business, resulting in the Group recording a non-cash R61.4 million net monetary loss on the revaluation of assets and liabilities, compared with a R45.8 million loss in the prior year (both excluded from pro forma HEPS, the Group's main dividend driver). Importantly, the Group received a R16.0 million dividend from TM in this period (R20.1 million in H1 FY22).

Investment in TM Supermarkets	28 August 2022 Rm	29 August 2021 Rm
Opening balance – February	106.0	69.7
Share of TM's earnings excluding net monetary adjustments	99.7	56.6
Hyperinflation accounting – net monetary adjustments	(61.4)	(45.8)
Dividend received	(16.0)	(20.1)
Foreign translation recorded in equity	(45.6)	(19.8)
Impairment reversal on fair-value assessment	–	30.2
Closing balance – August	82.7	70.8

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

The Group's pro forma PBT increased by 22.2% year-on-year to R588.0 million, against a prior period highly disrupted by the July 2021 civil unrest and Covid-19 liquor trading restrictions. Group pro forma PBT growth was driven by a 17.1% increase in South African pro forma PBT to R456.1 million, together with 44% growth in Rest of Africa pro forma PBT to R131.9 million.

If one excludes the R83.7 million of restructuring costs incurred in this period, underlying H1 FY23 Group pro forma PBT would be R671.7 million. Excluding the restructuring costs from SA pro forma PBT would give underlying SA pro forma PBT of R539.8 million.

	H1 FY23 Rm	H1 FY22 Rm	% change
Profit before tax and capital items (PBT)	671.8	435.4	54.3
Non-cash hyperinflation net monetary loss	61.4	45.8	
Insurance recoveries	(145.2)	–	
Pro forma PBT	588.0	481.2	22.2
South Africa	456.1	389.6	17.1
Rest of Africa	131.9	91.6	44.0

Capital losses

The Group incurred net capital losses of R17.6 million this period, against a R7.2 million charge in the prior period. Net capital losses include a R22.7 million loss related to the sale, closure or impairment of underperforming stores, and a capital gain of R13.8 million on the recovery of insured assets at replacement value. Net capital losses are added back in the calculation of headline earnings.

Tax

The Group's effective tax rate of 30.7% reflects lower levels of profitability in operations outside of South Africa. The Group expects its tax rate to remain above South Africa's statutory tax rate of 28.0% for the foreseeable future.

Earnings per share

Pro forma headline earnings per share (pro forma HEPS) – excludes the Group's share of non-cash hyperinflation accounting remeasurements in TM Supermarkets, and also excludes R145.2 million (R104.5 million net of tax) business interruption insurance proceeds received and accounted for in H1 FY23, but previously included in FY22 pro forma HEPS. All impairment losses and other capital items are excluded from the calculation of pro forma headline earnings per share. Pro forma HEPS – the Group's primary measure in determining its dividend pay-out ratio – increased by 25.3% year-on-year to 88.76 cents per share.

Headline earnings per share (HEPS) – increased by 59.5% to 97.73 cents per share and includes the Group's share of non-cash hyperinflation accounting remeasurements in TM Supermarkets, as well as R145.2 million (R104.5 million net of tax) business interruption insurance proceeds in H1 FY23. All impairment losses and other capital items are excluded from the calculation of headline earnings per share.

Earnings per share (EPS) – increased by 52.2% to 94.34 cents per share and includes the Group's share of non-cash hyperinflation remeasurements in TM Supermarkets, all items of a capital nature, and R145.2 million (R104.5 million net of tax) business interruption insurance proceeds in H1 FY23.

Detailed review of financial position

Gearing

Group net gearing (excluding leases) rose from R0.4 billion at February 2022, to R1.4 billion at August as the Group increased its capital spend in accordance with Ekuseni, and as working capital released somewhat less cash in H1 than in corresponding periods. The Group has historically managed its funding needs through ZAR-denominated short-term funding, and this remained the case over H1. As the Group gears up to support further Ekuseni investment, the Group intends to rebalance its debt portfolio by incorporating medium- and long-term debt.

Net gearing position	28 August 2022 Rm	29 August 2021 Rm	27 February 2022 Rm
Cash balances	1 333.6	2 170.9	1 425.3
Cash investments	3 920.0	4 750.0	5 000.0
Overnight borrowings	(2 800.0)	(2 550.0)	(2 800.0)
Cash net of overnight borrowings	2 453.6	4 370.9	3 625.3
One to three-month borrowings	(2 259.0)	(1 973.2)	(2 053.1)
Six to 12-month borrowings	(1 634.0)	(1 950.0)	(1 950.0)
Net gearing position at period-end	(1 439.4)	447.7	(377.8)

Working capital

The Group released liquidity from working capital of R184.9 million over the first half of the year as per the cash flow statement. Including invoice financing, working capital released R408.0 million during the period.

Inventory

Inventory at R8.9 billion increased by R1.6 billion or 22.6% year-on-year, with the majority of the increase occurring in H2 FY22 from a R0.9 billion strategic stock buy-in. Inventory is up 7.5% since February 2022. Given still-rising food inflation, the Group has maintained the majority of its strategic investment on a rolling basis. Range optimisation is a key component of the refined Pick n Pay and QualiSave CVP's; we expect this to lead to meaningful inventory benefits over the medium-term. However, given that this range optimisation has only been fully executed in 41 stores to date, the envisaged benefits will take some to reflect in Group inventory as the CVP rollout impacts a more substantial portion of the store estate.

Trade and other receivables

Trade and other receivables (current and non-current) declined 12% year-on-year to R4.4 billion. The reduction is primarily attributable to a high opening balance due to the civil unrest which has subsequently cleared. Gross franchise debt increased 0.9% year-on-year to R3.7 billion, and is down 2.5% over the past six months as franchisee's benefitted from the normalisation of the sales environment. While remaining confident with the overall quality of the debtors' book, the Group raised the provision on franchise debt from 3.6% at August 2021 to 3.9% at August 2022.

Creditors

Trade and other payables declined 1.1% year-on-year to R13.8 billion. Reported payables understates the Group's underlying payables position as suppliers on the Group's invoice financing platform are reported within net debt in terms of IFRS requirements. Including this fast-growing facility (+81% year-on-year to R593 million) gives total year-on-year payables growth of 0.8%. Payables has been negatively impacted by strategic stock investment as this includes more imported product (typically paid up-front), and strategic stock bought on credit is held for longer than normal inventory, meaning an imbalance in the normal working capital cycle. We expect creditors to normalise as strategic stocks are unwound and as range rationalisation benefits kick in, which implies holding more fast-moving lines at the expense of slow-moving lines.

Capital investment

In line with the plan to increase capital investment in its growth initiatives, the Group invested R1.5 billion in capital projects in H1 FY23 (including franchise acquisitions), a 50% year-on-year increase. H1 capex included R480 million in new stores and R535 million on refurbishments (including new CVP rollout).

Capital investment for full year FY23 is expected to be in the range of R4.0 to R4.5 billion, including R0.4 billion on equipment and fittings for the new Eastport DC. Eastport is being developed in conjunction with Fortress REIT. The Group will purchase 60% of the asset from Fortress on completion for R1.2 billion, and enter into a long-term lease for the 40% balance. The projected R1.2 billion acquisition cost of the Group's 60% investment will flow in FY24.

Shareholder distribution

The Board declared an interim dividend of 44.85 cents per share, up 25.3% on last year, in line with the growth in pro forma headline earnings per share. The dividend will be paid on 5 December 2022. Please refer to the dividend declaration included with this announcement for detailed information.

Changes to the board and company secretary during the period under review

Suzanne Ackerman-Berman retired as an executive director on 31 March 2022 and was appointed as a non-executive director from that date. Independent non-executive director Hugh Herman retired at the AGM on 26 July 2022. Debra Muller retired as Company Secretary on 31 July 2022 and was replaced by Penelope Gerber on that date. Post the interim results period under review, James Formby was appointed as an independent non-executive director on 10 October 2022.

Summary and outlook

The first half of FY23 was an intensive period for the Group. It launched the Ekuseni strategic plan on 17 May 2022, and immediately put energy into implementing key elements of the plan. The initial results achieved in a short time have been very encouraging. In addition, the Group has continued to support customers through an increasingly difficult economy, marked by rising inflation, intense load shedding, and other challenges.

The Group is confident that its reorganisation into three grocery banners – Pick n Pay, QualiSave, and Boxer – is the right strategic response to market and economic dynamics, with each banner optimised to serve their target customer needs.

Work to bring this new approach to life has proceeded with pace. QualiSave was launched in August 2022, and is resonating well with its customers. An intensive refurbishment programme to upgrade Pick n Pay and QualiSave stores to give customers their new value propositions was put in motion, and is set to accelerate over the coming year. Boxer and Pick n Pay Clothing store rollouts have been accelerated to give customers more of these highly successful formats. Pick n Pay's new on-demand grocery offer on the Mr D platform was launched from selected stores in early October, and is now being rolled out nationwide. Finally, the Group's Project Future initiatives to drive productivity and efficiency are proceeding apace. The Group is, therefore, well on its way towards rejuvenating Pick n Pay supermarkets and accelerating its growth vectors.

While encouraged by the initial progress, the Group recognises that much work remains to be done in its multi-year Ekuseni transformation plan. The Group made it clear when launching the plan that FY23 would be an investment year, with implementation costs and investment in getting the right prices for consumers. As a result, meaningful earnings growth (relative to the FY22 pro forma headline earnings base) should be expected only from FY24. In addition, external headwinds – including inflationary cost pressures, and unprecedented load shedding – are likely to be challenging in the second half. The Group will work to mitigate these pressures, but cautions that there will inevitably be an additional impact on the full-year result. Group turnover growth for the first four weeks of H2 FY23 was 8.4%.

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

Gareth Ackerman
Chair

Pieter Boone
Chief Executive Officer

17 October 2022

PRO FORMA EARNINGS PERFORMANCE

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

The financial result for the 26 weeks ended 28 August 2022 includes the cash receipt of R145.2 million (R104.5 million net of tax) of insurance proceeds. These insurance recoveries relate directly to the losses suffered by the Group during the prior reporting period as a result of civil unrest, and which were accounted for in the pro forma earnings presented in the 52 weeks ended 27 February 2022. Refer to the 2022 annual Group financial statements at www.picknpayinvestor.co.za for further information. As a result, the Group has presented its earnings performance for the current period on a pro forma basis, excluding the insurance proceeds received.

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

Refer to Appendix 1 for further information.

	26 weeks to 28 August 2022 Rm	Insurance recoveries received* 26 weeks to 28 August 2022 Rm	Pro forma 26 weeks to 28 August 2022 Rm	% of turnover	% change	26 weeks to 29 August 2021 Rm	% of turnover
Turnover	51 297.0	–	51 297.0		11.5	46 020.9	
Cost of merchandise sold	(41 324.0)	–	(41 324.0)			(37 667.7)	
Gross profit	9 973.0	–	9 973.0	19.4	19.4	8 353.2	18.2
Other income	1 088.7	(145.2)	943.5	1.8	(39.6)	1 562.0	3.4
Franchise fee income	215.9	–	215.9	0.4	4.5	206.6	0.4
Operating lease income	71.4	–	71.4	0.1	23.3	57.9	0.1
Commissions and other income	656.2	–	656.2	1.3	20.7	543.8	1.2
Insurance recoveries*	145.2	(145.2)	–	–		753.7	1.6
Trading expenses	(9 808.4)	–	(9 808.4)	19.1	10.6	(8 867.7)	19.3
Employee costs	(4 201.6)	–	(4 201.6)	8.2	6.5	(3 943.9)	8.6
Occupancy	(1 471.0)	–	(1 471.0)	2.9	12.5	(1 307.0)	2.8
Operations	(2 485.6)	–	(2 485.6)	4.8	12.8	(2 202.7)	4.8
Merchandising and administration	(1 650.2)	–	(1 650.2)	3.2	16.7	(1 414.1)	3.1
Trading profit	1 253.3	(145.2)	1 108.1	2.1	5.8	1 047.5	2.3
Net finance costs	(619.8)	–	(619.8)	1.2	(0.5)	(622.9)	1.3
Net funding	(39.0)	–	(39.0)	0.1	186.8	(13.6)	0.0
Leases	(580.8)	–	(580.8)	1.1	(4.7)	(609.3)	1.3
Share of associate's earnings excluding net monetary adjustments*	99.7	–	99.7		76.1	56.6	
Profit before tax, before capital items and before net monetary adjustments*	733.2	(145.2)	588.0	1.1	22.2	481.2	1.0
Share of associate's hyperinflation net monetary adjustments*	(61.4)	–	(61.4)			(45.8)	
Profit before tax before capital items*	671.8	(145.2)	526.6	1.0	20.9	435.4	0.9
Loss on capital items	(17.6)	–	(17.6)			(7.2)	
Profit on sale and insurance recoveries on scrapping of assets	5.1	–	5.1			218.3	
Loss from impairments and scrapping of assets	(22.7)	–	(22.7)			(255.7)	
Impairment reversal on investment in associate	–	–	–			30.2	
Profit before tax	654.2	(145.2)	509.0	1.0	18.9	428.2	0.9
Tax	(200.9)	40.7	(160.2)	0.3	21.9	(131.4)	0.3
Profit for the period	453.3	(104.5)	348.8	0.7	17.5	296.8	0.6

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

	26 weeks to 28 August 2022 Rm	Insurance recoveries received* 26 weeks to 28 August 2022 Rm	Pro forma 26 weeks to 28 August 2022 Rm	% change	26 weeks to 29 August 2021 Rm
South Africa operating segment**					
Sales from customers	49 496.1		49 496.1	11.2	44 515.0
Profit before tax before capital items	601.3	(145.2)	456.1	17.1	389.6
Rest of Africa operating segment**					
Sales from customers	2 382.8		2 382.8	17.9	2 020.9
Profit before tax, before capital items and before net monetary adjustments*	131.9		131.9	44.0	91.6
Earnings per share	Cents		Cents		Cents
Basic earnings per share	94.34		94.34	52.2	61.97
Diluted earnings per share	94.23		94.23	53.0	61.60
Headline earnings per share	97.73		97.73	59.5	61.28
Diluted headline earnings per share	97.62		97.62	60.3	60.91
Pro forma headline earnings per share*	Cents	Cents	Cents		Cents
Pro forma headline earnings per share	97.73	(8.97)	88.76	25.3	70.85
Pro forma diluted headline earnings per share	97.62	(8.96)	88.66	25.9	70.42

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

** *Refer to note 9 for further information on the Group's operating segment performance.*

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

DIVIDEND DECLARATION

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

Notice is hereby given that the directors have declared an interim gross dividend (number 109) of 44.85 cents per share out of income reserves.

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

The tax payable is 8.97 cents per share, resulting in shareholders who are not exempt from dividends tax with a net dividend of 35.88 cents per share.

Dividend dates

The last day of trade in order to participate in the dividend (CUM dividend) will be Tuesday, 29 November 2022.

The shares will trade EX dividend from the commencement of business on Wednesday, 30 November 2022 and the record date will be Friday, 2 December 2022. The dividend will be paid on Monday, 5 December 2022.

Share certificates may not be dematerialised or rematerialised between Wednesday, 30 November 2022 and Friday, 2 December 2022, both dates inclusive.

On behalf of the Board of directors

Penelope Gerber
Company Secretary

17 October 2022

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the period ended

	Note	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
Revenue	2	**52 645.2**	47 832.2	100 902.4
Turnover	2	**51 297.0**	46 020.9	97 872.8
Cost of merchandise sold		**(41 324.0)**	(37 667.7)	(79 476.7)
Gross profit		**9 973.0**	8 353.2	18 396.1
Other income		**1 088.7**	1 562.0	2 505.1
Franchise fee income	2	**215.9**	206.6	428.3
Operating lease income	2	**71.4**	57.9	115.6
Commissions and other income	2	**656.2**	543.8	1 213.0
Insurance recoveries	2	**145.2**	753.7	748.2
Trading expenses		**(9 808.4)**	(8 867.7)	(18 014.7)
Employee costs		**(4 201.6)**	(3 943.9)	(7 836.3)
Occupancy		**(1 471.0)**	(1 307.0)	(2 662.1)
Operations		**(2 485.6)**	(2 202.7)	(4 535.1)
Merchandising and administration		**(1 650.2)**	(1 414.1)	(2 981.2)
Trading profit		**1 253.3**	1 047.5	2 886.5
Finance income	2	**259.5**	249.3	524.5
Finance costs	3	**(879.3)**	(872.2)	(1 674.9)
Share of associate's earnings	7	**38.3**	10.8	71.6
Profit before tax before capital items		**671.8**	435.4	1 807.7
Loss on capital items		**(17.6)**	(7.2)	(46.2)
Profit on sale and insurance recoveries on scrapping of assets		**5.1**	218.3	241.8
Loss from impairments and scrapping of assets		**(22.7)**	(255.7)	(273.6)
Impairment reversal/(loss) on investment in associate	7	**–**	30.2	(14.4)
Profit before tax		**654.2**	428.2	1 761.5
Tax		**(200.9)**	(131.4)	(547.0)
Profit for the period		**453.3**	296.8	1 214.5
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss		**(15.2)**	11.2	25.4
Remeasurement in retirement scheme assets		**(22.1)**	15.6	35.3
Tax on items that will not be reclassified to profit or loss		**6.9**	(4.4)	(9.9)
Items that may be reclassified to profit or loss		**(19.6)**	17.6	16.2
Foreign currency translations		**(29.2)**	9.2	19.0
Movement in cash flow hedge		**9.6**	8.4	(0.2)
Tax on items that may be reclassified to profit or loss		**–**	–	(2.6)
Total comprehensive income for the period		**418.5**	325.6	1 256.1
Earnings per share		**Cents**	Cents	Cents
Basic earnings per share	4	**94.34**	61.97	253.34
Diluted earnings per share	4	**94.23**	61.60	252.43

GROUP STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 28 August 2022 Rm	Unaudited As at 29 August 2021 Rm	Audited As at 27 February 2022 Rm
ASSETS				
Non-current assets				
Intangible assets		**1 143.3**	974.9	987.1
Property, plant and equipment		**7 760.2**	6 741.8	7 150.5
Right-of-use assets		**10 311.2**	10 182.2	9 588.9
Net investment in lease receivables		**1 961.6**	2 110.9	2 069.0
Deferred tax assets		**751.9**	919.7	822.5
Investment in associate	7	**82.7**	70.8	106.0
Loans		**131.4**	79.3	85.9
Retirement scheme assets		**53.7**	100.5	122.0
Investment in insurance cell captive	11	**60.8**	41.0	47.4
Operating lease assets		**8.3**	9.5	7.9
Trade and other receivables	8	**90.6**	138.0	106.5
		22 355.7	21 368.6	21 093.7
Current assets				
Inventory		**8 899.9**	7 261.0	8 277.3
Trade and other receivables	8	**4 326.0**	4 882.2	4 207.6
Cash and cash equivalents		**5 253.6**	6 920.9	6 425.3
Net investment in lease receivables		**337.8**	295.4	319.1
Right-of-return assets		**22.6**	18.8	21.5
Derivative financial instruments	11	**1.9**	0.9	–
		18 841.8	19 379.2	19 250.8
Total assets		**41 197.5**	40 747.8	40 344.5
EQUITY AND LIABILITIES				
Equity				
Share capital	5	**6.0**	6.0	6.0
Treasury shares	6	**(653.8)**	(727.6)	(702.1)
Retained earnings		**4 189.3**	3 939.1	4 717.3
Other reserves		**9.6**	8.4	(8.6)
Foreign currency translation reserve		**(326.1)**	(304.1)	(296.9)
Total equity		**3 225.0**	2 921.8	3 715.7
Non-current liabilities				
Lease liabilities		**14 130.7**	14 573.4	13 656.5
Deferred tax liabilities		**–**	13.2	–
		14 130.7	14 586.6	13 656.5
Current liabilities				
Trade and other payables		**13 806.0**	13 952.6	13 065.2
Lease liabilities		**2 637.0**	2 068.5	2 431.4
Deferred revenue		**511.9**	485.6	385.1
Bank overdraft and overnight borrowings		**2 800.0**	2 550.0	2 800.0
Borrowings		**3 893.0**	3 923.2	4 003.1
Current tax liabilities		**193.9**	259.5	279.8
Derivative financial instruments	11	**–**	–	7.7
		23 841.8	23 239.4	22 972.3
Total equity and liabilities		**41 197.5**	40 747.8	40 344.5
Number of ordinary shares in issue – thousands	5.1	**493 450.3**	493 450.3	493 450.3
Weighted average number of ordinary shares in issue – thousands	4.2	**480 501.2**	478 928.0	479 389.3
Diluted weighted average number of ordinary shares in issue – thousands	4.2	**481 040.3**	481 855.7	481 128.4
Net asset value (property value based on directors' valuation) – cents per share		**742.0**	669.2	827.1

GROUP STATEMENT OF CHANGES IN EQUITY

for the period ended

Unaudited	Share capital Rm	Treasury shares Rm	Retained earnings Rm	Other reserves Rm	Foreign currency translation reserve Rm	Total equity Rm
At 28 February 2021	6.0	(873.4)	4 573.5	(6.6)	(313.3)	3 386.2
Total comprehensive income for the period	–	–	308.0	8.4	9.2	325.6
Profit for the period	–	–	296.8	–	–	296.8
Foreign currency translations	–	–	–	–	9.2	9.2
Movement in cash flow hedge	–	–	–	8.4	–	8.4
Remeasurement in retirement scheme assets	–	–	11.2	–	–	11.2
Other reserve movements	–	–	–	6.6	–	6.6
Transactions with owners	–	145.8	(942.4)	–	–	(796.6)
Dividends paid	–	–	(784.7)	–	–	(784.7)
Share purchases	–	(114.2)	–	–	–	(114.2)
Net effect of settlement of employee share awards	–	260.0	(260.0)	–	–	–
Share-based payments expense	–	–	102.3	–	–	102.3
At 29 August 2021	6.0	(727.6)	3 939.1	8.4	(304.1)	2 921.8
Total comprehensive income for the period	–	–	931.9	(8.6)	7.2	930.5
Profit for the period	–	–	917.7	–	–	917.7
Foreign currency translations	–	–	–	–	7.2	7.2
Movement in cash flow hedge	–	–	–	(8.6)	–	(8.6)
Remeasurement in retirement scheme assets	–	–	14.2	–	–	14.2
Other reserve movements	–	–	–	(8.4)	–	(8.4)
Transactions with owners	–	25.5	(153.7)	–	–	(128.2)
Dividends paid	–	–	(174.9)	–	–	(174.9)
Net effect of settlement of employee share awards	–	25.5	(25.5)	–	–	–
Share-based payments expense	–	–	46.7	–	–	46.7
At 27 February 2022	**6.0**	**(702.1)**	**4 717.3**	**(8.6)**	**(296.9)**	**3 715.7**
Total comprehensive income for the period	**–**	**–**	**438.1**	**9.6**	**(29.2)**	**418.5**
Profit for the period	**–**	**–**	**453.3**	**–**	**–**	**453.3**
Foreign currency translations	**–**	**–**	**–**	**–**	**(29.2)**	**(29.2)**
Movement in cash flow hedge	**–**	**–**	**–**	**9.6**	**–**	**9.6**
Remeasurement in retirement scheme assets	**–**	**–**	**(15.2)**	**–**	**–**	**(15.2)**
Other reserve movements	**–**	**–**	**–**	**8.6**	**–**	**8.6**
Transactions with owners	**–**	**48.3**	**(966.1)**	**–**	**–**	**(917.8)**
Dividends paid	**–**	**–**	**(906.2)**	**–**	**–**	**(906.2)**
Share purchases	**–**	**(90.1)**	**–**	**–**	**–**	**(90.1)**
Net effect of settlement of employee share awards	**–**	**138.4**	**(138.4)**	**–**	**–**	**–**
Share-based payments expense	**–**	**–**	**78.5**	**–**	**–**	**78.5**
At 28 August 2022	**6.0**	**(653.8)**	**4 189.3**	**9.6**	**(326.1)**	**3 225.0**

GROUP STATEMENT OF CASH FLOWS

for the period ended

	Note	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
Cash flows from operating activities				
Trading profit		**1 253.3**	1 047.5	2 886.5
Adjusted for non-cash items		**1 751.4**	1 726.8	3 391.5
Depreciation of property, plant and equipment		**628.5**	615.7	1 216.0
Depreciation of right-of-use assets		**1 060.2**	1 016.1	1 979.9
Amortisation of intangible assets		**65.5**	61.1	123.4
Share-based payment expense		**78.5**	102.3	149.0
Net impact of civil unrest		**–**	(20.7)	–
Lease adjustments		**(37.3)**	(20.5)	(42.4)
Movement in operating lease assets		**(0.4)**	1.5	3.1
Movement in retirement scheme assets		**(3.8)**	(2.2)	(4.0)
Fair value and foreign exchange adjustments		**(39.8)**	(26.5)	(33.5)
Cash generated before movements in working capital		**3 004.7**	2 774.3	6 278.0
Movements in working capital		**184.9**	914.9	(563.6)
Movements in trade and other payables and deferred revenue		**917.6**	1 886.1	898.2
Movements in inventory and right-of-return assets		**(603.8)**	(687.2)	(1 074.2)
Movements in trade and other receivables		**(128.9)**	(284.0)	(387.6)
Cash generated from trading activities		**3 189.6**	3 689.2	5 714.4
Other interest received		**153.1**	143.9	300.1
Other interest paid		**(203.6)**	(157.5)	(341.0)
Interest received on net investment in lease receivables		**96.2**	101.4	203.7
Interest paid on lease liabilities		**(667.0)**	(719.4)	(1 364.4)
Cash generated from operations		**2 568.3**	3 057.6	4 512.8
Dividends received		**16.0**	20.1	20.1
Dividends paid		**(906.2)**	(784.7)	(959.6)
Tax paid		**(209.2)**	(102.0)	(403.9)
Cash generated from operating activities		**1 468.9**	2 191.0	3 169.4
Cash flows from investing activities				
Investment in intangible assets		**(77.2)**	(38.0)	(88.1)
Investment in property, plant and equipment		**(1 242.9)**	(960.6)	(1 990.1)
Purchase of operations	12	**(125.6)**	(13.2)	(55.7)
Proceeds on disposal of intangible assets		**–**	–	4.0
Proceeds on disposal of property, plant and equipment		**12.2**	115.4	135.9
Insurance proceeds on capital items		**–**	–	210.5
Principal net investment in lease receipts		**141.7**	121.7	251.6
Lease incentives received		**49.1**	12.9	52.0
Loans repaid		**35.8**	4.4	14.8
Loans advanced		**(77.9)**	(24.5)	(41.5)
Cash utilised in investing activities		**(1 284.8)**	(781.9)	(1 506.6)
Cash flows from financing activities				
Principal lease liability payments		**(1 163.5)**	(990.0)	(2 059.8)
Borrowings raised		**3 574.4**	2 703.3	6 020.4
Repayment of borrowings		**(3 684.5)**	(2 111.2)	(5 348.5)
Share purchases	6	**(90.1)**	(114.2)	(114.2)
Cash utilised in financing activities		**(1 363.7)**	(512.1)	(1 502.1)
Net (decrease)/increase in cash and cash equivalents		**(1 179.6)**	897.0	160.7
Net cash and cash equivalents at beginning of period		**3 625.3**	3 463.7	3 463.7
Foreign currency translations		**7.9**	10.2	0.9
Net cash and cash equivalents at end of period		**2 453.6**	4 370.9	3 625.3
Consisting of:				
Cash and cash equivalents		**5 253.6**	6 920.9	6 425.3
Bank overdraft and overnight borrowings		**(2 800.0)**	(2 550.0)	(2 800.0)

NOTES TO THE FINANCIAL INFORMATION

1 Basis of preparation and accounting policies

The condensed consolidated interim financial statements for the period ended 28 August 2022 are prepared in accordance with the requirements of the JSE Listings Requirements for abridged reports, and the requirements of the Companies Act, as applicable to summarised financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and the Financial Pronouncements, as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The 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 27 February 2022. Amendments to IFRS 16 regarding the practical expedient allowed for rent concessions received as a result of Covid-19 have been extended to 30 June 2022. The Group has continued to apply this practical expedient. During the current period, the Group recognised rent concessions of R0.4 million (2021: R7.5 million), all of which were recorded in the statement of comprehensive income. 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, Lerena Olivier CA(SA), and have not been audited or reviewed by the Group's external auditors, Ernst & Young Inc.

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
2 Revenue			
2.1 Revenue			
Revenue from contracts with customers	**52 169.1**	46 771.3	99 514.1
Turnover (note 2.2)	**51 297.0**	46 020.9	97 872.8
Franchise fee income	**215.9**	206.6	428.3
Commissions and other income	**656.2**	543.8	1 213.0
Insurance recoveries	**145.2**	753.7	748.2
Operating lease income	**71.4**	57.9	115.6
Finance income	**259.5**	249.3	524.5
Bank balances and investments	**139.4**	124.3	268.9
Trade receivables and other	**25.2**	19.6	50.7
Net investment in lease receivables	**94.9**	105.4	204.9
	52 645.2	47 832.2	100 902.4
2.2 Disaggregation of turnover*			
South Africa operating segment (note 9)	**49 496.1**	44 515.0	94 535.2
Pick n Pay	**34 526.6**	32 749.8	68 450.4
Boxer	**14 969.5**	11 765.2	26 084.8
Rest of Africa operating segment (note 9)	**1 800.9**	1 505.9	3 337.6
Pick n Pay	**1 536.4**	1 265.5	2 839.7
Boxer	**264.5**	240.4	497.9
	51 297.0	46 020.9	97 872.8

* *In order to improve disclosure, and for each period presented, the Group has disaggregated turnover into operating segments and further by brand.*

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
3 Finance costs			
Lease liabilities	**675.7**	714.7	1 333.9
Borrowings and other	**203.6**	157.5	341.0
	879.3	872.2	1 674.9

	Unaudited 26 weeks to 28 August 2022 Cents per share	Unaudited 26 weeks to 29 August 2021 Cents per share	Audited 52 weeks to 27 February 2022 Cents per share
4 Basic, headline and diluted earnings per share			
Basic earnings per share	**94.34**	61.97	253.34
Diluted earnings per share	**94.23**	61.60	252.43
Headline earnings per share	**97.73**	61.28	262.59
Diluted headline earnings per share	**97.62**	60.91	261.65
	Rm	Rm	Rm
4.1 Reconciliation between basic and headline earnings			
Profit for the period – basic earnings for the period	**453.3**	296.8	1 214.5
Adjustments:	**16.3**	(3.3)	44.4
Loss/(profit) on sale of assets	**8.7**	(41.3)	(31.6)
Tax effect of (loss)/profit on sale of assets	**(2.5)**	9.3	3.5
Loss from impairments and scrapping of assets	**22.7**	255.7	273.6
Tax effect of loss from impairments and scrapping of assets	**(2.7)**	(69.4)	(63.9)
Insurance recoveries on scrapping of assets due to civil unrest	**(13.8)**	(177.0)	(210.5)
Tax effect of insurance recoveries on scrapping of assets due to civil unrest	**3.9**	49.6	58.9
Impairment (reversal)/loss on investment in associate	**–**	(30.2)	14.4
Headline earnings for the period	**469.6**	293.5	1 258.9

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

	000's	000's	000's
4.2 Number of ordinary shares			
Number of ordinary shares in issue (note 5.1)	**493 450.3**	493 450.3	493 450.3
Weighted average number of ordinary shares in issue (excluding treasury shares)	**480 501.2**	478 928.0	479 389.3
Diluted weighted average number of ordinary shares in issue	**481 040.3**	481 855.7	481 128.4
Reconciliation of weighted average number of ordinary shares to diluted weighted average number of ordinary shares:			
Weighted average number of ordinary shares in issue (excluding treasury shares)	**480 501.2**	478 928.0	479 389.3
Dilutive effect of share awards	**539.1**	2 927.7	1 739.1
Diluted weighted average number of ordinary shares in issue	**481 040.3**	481 855.7	481 128.4

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

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
5 Share capital			
5.1 Ordinary share capital			
Authorised			
800 000 000 (2021: 800 000 000) ordinary shares of 1.25 cents each	**10.0**	10.0	10.0
Issued			
493 450 321 (2021: 493 450 321) 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 is made up as follows:			
Treasury shares (note 6)	**12 548.1**	13 691.6	13 224.8
Shares held outside the Group	**480 902.2**	479 758.7	480 225.5
Total shares in issue at end of period	**493 450.3**	493 450.3	493 450.3

The Company can issue new shares to settle the Group's obligations under its employee share schemes, but issues in this regard are limited, in aggregate, to 5% of total issued share capital or 24 672 516 (2021: 24 672 516) shares. To date 15 743 000 (2021: 15 743 000) shares have been issued, resulting in 8 929 516 (2021: 8 929 516) shares remaining for this purpose.

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

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

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
5.2 B Share capital			
Authorised			
1 000 000 000 (2021: 1 000 000 000) unlisted, non-convertible, non-participating, no par value B shares	**–**	–	–
Issued			
259 682 869 (2021: 259 682 869) unlisted, non-convertible, non-participating, no par value B shares	**–**	–	–

B shares are stapled to certain ordinary shares and cannot be traded separately from each other. Stapled ordinary shares, together with B shares, are subject to restrictions upon disposal.

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits. Refer to note 5.1.

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
6 Treasury shares			
At beginning of period	**702.1**	873.4	873.4
Shares purchased during the period	**90.1**	114.2	114.2
Settlement of employee share awards	**(138.4)**	(260.0)	(285.5)
At end of period	**653.8**	727.6	702.1
The movement in the number of treasury shares held is as follows:	**000's**	000's	000's
At beginning of period	**13 224.8**	15 268.6	15 268.6
Shares purchased during the period	**1 617.9**	2 200.0	2 200.0
Shares sold during the period pursuant to the take-up of share options by employees	**(1 479.1)**	(215.0)	(681.8)
Shares delivered to participants of restricted share plan	**(815.5)**	(3 562.0)	(3 562.0)
At end of period	**12 548.1**	13 691.6	13 224.8

7 Investment in associate

7.1 Accounting for investment in associate

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

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

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

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

7 Investment in associate (continued)

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

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

Effective 1 June 2020, Zimbabwe implemented a formal market-based foreign exchange trading system to establish formalised trading in ZWL$ with other currencies (referred to as the auction rate). The intention of this auction rate system is expected to bring transparency and efficiency in the trading of foreign currency in the economy.

In line with prior period assessments, management assessed that the closing auction rate of 0.03 ZWL$ (2021: 0.17 ZWL$) to the South African rand is not available for immediate settlement, as shortages of foreign currency results in the official exchange rate not being liquid, and is therefore not an appropriate rate to use when accounting for the Group's investment in associate. An estimated exchange rate of 0.02 ZWL$ (2021: 0.10 ZWL$) to the South African rand was used when translating the result of TM Supermarkets as at 28 August 2022. Inputs considered in this estimate include the official inflation rate, the in-country fuel price, and the exchange rate applicable to dividends received from the Group's investment in associate during the period.

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

	ZWL$: ZAR	USD : ZAR	USD : ZWL$
Closing rates at 28 August 2022			
Exchange rates used by management	0.02	16.81	673.00
Auction rate	0.03	16.81	546.80
Closing rates at 27 February 2022			
Exchange rates used by management	0.08	15.29	186.00
Auction rate	0.12	15.29	124.00
Closing rates at 29 August 2021			
Exchange rates used by management	0.10	14.64	145.00
Auction rate	0.17	14.64	85.90

7.3 Reconciliation of investment in associate	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
At beginning of period	**106.0**	69.7	69.7
Share of associate's earnings	**38.3**	10.8	71.6
Share of associate's earnings before net monetary adjustments	**99.7**	56.6	96.7
Share of associate's hyperinflation net monetary adjustments	**(61.4)**	(45.8)	(25.1)
Foreign currency translations	**(45.6)**	(19.8)	(0.8)
Impairment reversal/(loss)	**–**	30.2	(14.4)
Dividend declared and received	**(16.0)**	(20.1)	(20.1)
At end of period	**82.7**	70.8	106.0

7 Investment in associate (continued)

7.4 Impairment of investment in associate

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

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

Impairment reviews were performed and the Group concluded that the carrying value of its investment in associate was reflective of its recoverable amount.

The recoverable amount of TM Supermarkets was determined based on value-in-use calculations. The calculation discounts future cash flow forecasts at an appropriate pre-tax rate that reflects the specific risks and challenges relating to TM Supermarkets. Management-approved future cash flow forecasts, over a period of five years, were based on past experience and the expected performance of the retail market in Zimbabwe. Cash flows beyond this period were extrapolated by applying a nil growth rate. The pre-tax discount rate applied to cash flow projections was 46.1%.

Management believes that the carrying value of the Group's investment in associate of R82.7 million is reflective of the value of its investment in TM Supermarkets and that any reasonable possible change in key assumptions on which the recoverable amounts are based would not result in significant impairment losses. Refer to note 7.5.

7.5 Sensitivity analysis

The following tables represent the sensitivity analysis performed by management on the significant judgements applied in the accounting of the Group's investment in associate for the 26 weeks ended 28 August 2022.

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

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

	+10% 1.0 ZWL$: 0.023 ZAR	Exchange rate applied by management 1.0 ZWL$: 0.025 ZAR	–10% 1.0 ZWL$: 0.028 ZAR	Auction rate* 1.0 ZWL$: 0.031 ZAR
Impact on statement of comprehensive income				
Share of associate's earnings (Rm)	34.8	**38.3**	42.6	47.1
Impairment reversal/(loss) (Rm)	24.5	**–**	(30.0)	(62.3)
Impact on statement of financial position				
Investment in associate (Rm)	75.2	**82.7**	91.9	101.8

* *Calculated by applying the auction rate of 1 USD to 546.8 ZWL$.*

7 Investment in associate (continued)

7.5 Sensitivity analysis (continued)

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

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

	+10%	As reported	–10%
Impact on statement of comprehensive income			
Impairment (loss)/reversal (Rm)	(19.4)	–	34.1
Impact on statement of financial position			
Investment in associate (Rm)	63.3	**82.7**	116.8

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

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

8 Trade and other receivables

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
Gross trade and other receivables	**4 630.3**	5 215.0	4 521.2
Allowance for impairment losses	**(213.7)**	(194.8)	(207.1)
Net trade and other receivables	**4 416.6**	5 020.2	4 314.1
Disclosed as:			
Non-current	**90.6**	138.0	106.5
Current	**4 326.0**	4 882.2	4 207.6

8.1 Allowance for impairment losses

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
Balance at the beginning of the period	**207.1**	199.7	199.7
Irrecoverable debts written off	**(47.8)**	(49.9)	(82.3)
Additional impairment losses recognised	**56.9**	49.2	92.8
Prior allowances for impairment reversed	**(2.5)**	(4.2)	(3.1)
At end of period	**213.7**	194.8	207.1

Unaudited	South Africa Rm	Rest of Africa Rm	Total operations Rm
9 Operating segments			
26 weeks to 28 August 2022			
Sales from customers	49 496.1	2 382.8	51 878.9
Turnover (note 2)	49 496.1	1 800.9	51 297.0
Direct deliveries*	–	581.9	581.9
Sales from customers disaggregated by brand	49 496.1	2 382.8	51 878.9
Pick n Pay	34 526.6	2 118.3	36 644.9
Boxer	14 969.5	264.5	15 234.0
Revenue	50 821.0	1 824.2	52 645.2
Revenue from contracts with customers (note 2)	50 361.5	1 807.6	52 169.1
Operating lease income (note 2)	70.8	0.6	71.4
Insurance recoveries (note 2)	145.2	–	145.2
Finance income (note 2)	243.5	16.0	259.5
Pro forma profit before tax before capital items and before net monetary adjustments^**	456.1	131.9	588.0
Profit before tax before capital items	601.3	70.5	671.8
Hyperinflation net monetary adjustments	–	61.4	61.4
Insurance recoveries	(145.2)	–	(145.2)
Profit before tax **	590.1	64.1	654.2
Other information			
Statement of comprehensive income			
Depreciation and amortisation	1 718.5	35.7	1 754.2
Finance costs (note 3)	860.0	19.3	879.3
Share of associate's earnings (note 7)	–	38.3	38.3
Profit on sale and insurance recoveries on scrapping of assets	5.1	–	5.1
Loss from impairments and scrapping of assets	16.0	6.7	22.7
Statement of financial position			
Total assets	39 518.4	1 679.1	41 197.5
Total liabilities	36 994.3	978.2	37 972.5
Investment in associate (note 7)	–	82.7	82.7

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

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

^ *Calculated as profit before tax before capital items, excluding the Group's share of hyperinflation net monetary adjustments recognised by the Group's associate attributable to the application of IAS 29 for the current and prior period, and for the current period only, excluding insurance recoveries received of R145.2 million. Refer to note 7 and Appendix 1 for further information.*

Unaudited	South Africa Rm	Rest of Africa Rm	Total operations Rm
9 Operating segments (continued)			
26 weeks to 29 August 2021			
Sales from customers#	44 515.0	2 020.9	46 535.9
Turnover (note 2)	44 515.0	1 505.9	46 020.9
Direct deliveries*	–	515.0	515.0
Sales from customers disaggregated by brand#	44 515.0	2 020.9	46 535.9
Pick n Pay	32 749.8	1 780.5	34 530.3
Boxer	11 765.2	240.4	12 005.6
Revenue#	46 306.2	1 526.0	47 832.2
Revenue from contracts with customers (note 2)	45 259.0	1 512.3	46 771.3
Operating lease income (note 2)	57.3	0.6	57.9
Insurance recoveries (note 2)	753.7	–	753.7
Finance income (note 2)	236.2	13.1	249.3
Pro forma profit before tax before capital items and before net monetary adjustments^**	389.6	91.6	481.2
Profit before tax before capital items	389.6	45.8	435.4
Hyperinflation net monetary adjustments	–	45.8	45.8
Profit before tax **	391.0	37.2	428.2
Other information			
Statement of comprehensive income			
Depreciation and amortisation	1 649.7	43.2	1 692.9
Finance costs (note 3)	856.2	16.0	872.2
Share of associate's earnings (note 7)	–	10.8	10.8
Profit on sale and insurance recoveries on scrapping of assets	216.6	1.7	218.3
Loss from impairments and scrapping of assets	215.2	40.5	255.7
Impairment reversal on investment in associate (note 7)	–	30.2	30.2
Statement of financial position			
Total assets	39 215.5	1 532.3	40 747.8
Total liabilities	36 895.3	930.7	37 826.0
Investment in associate (note 7)	–	70.8	70.8

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

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

^ *Calculated as profit before tax before capital items, excluding the Group's share of hyperinflation net monetary adjustments recognised by the Group's associate attributable to the application of IAS 29 for the current and prior period, and for the current period only, excluding insurance recoveries received of R145.2 million. Refer to note 7 and Appendix 1 for further information.*

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

10 Related party transactions

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

For further information, refer to note 28 of the 2022 audited Group annual financial statements and note 8 of the 2022 audited Company annual financial statements. For disclosures relating to the Group's investment in associate, refer to note 7 of this publication.

11 Financial instruments

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

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
Financial instruments at fair value through profit or loss			
Investment in insurance cell captive – Level 2	**60.8**	41.0	47.4
Derivative financial instruments (designated as hedging instruments)			
Forward exchange contract assets/(liabilities) – Level 2	**1.9**	0.9	(7.7)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, consistent with those disclosed in the 2022 audited Group annual financial statements. These valuation techniques maximise the use of observable market data, where it is available, and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The carrying value of all other financial instruments 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.

12 Purchase of operations

The Group converted ten (2021: four) franchise stores to Pick n Pay and Boxer company owned stores, none of which are individually material to the Group. These acquisitions had no significant impact on the Group's results, but are now delivering stronger store sales growth and improved store profitability. The goodwill arising from these acquisitions represents the value creation that the Group expects to realise in the future.

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
The net assets arising from these acquisitions were as follows:			
Identifiable net assets			
Property, plant and equipment	**19.4**	4.9	27.9
Inventory	**11.3**	6.4	13.8
Total identifiable net assets at fair value	**30.7**	11.3	41.7
Goodwill			
Purchase price of acquisitions at fair value	**170.1**	19.6	69.5
Less: total identifiable net assets at fair value	**(30.7)**	(11.3)	(41.7)
Goodwill acquired	**139.4**	8.3	27.8
Net cash paid in respect of acquisitions			
Purchase price of acquisitions at fair value	**170.1**	19.6	69.5
Less: amounts net settled against trade receivables	**(44.5)**	(6.4)	(13.8)
Net cash paid	**125.6**	13.2	55.7

13 Commitments

	Unaudited 26 weeks to 28 August 2022 Rm	Unaudited 26 weeks to 29 August 2021 Rm	Audited 52 weeks to 27 February 2022 Rm
Authorised capital expenditure			
Contracted for	**926.4**	566.9	1 221.2
Property	**59.4**	5.5	208.3
Furniture, fittings, equipment and vehicles	**803.1**	521.6	1 007.1
Intangible assets	**63.9**	39.8	5.8
Not contracted for	**1 573.6**	933.1	2 778.8
Property	**320.3**	45.9	110.1
Furniture, fittings, equipment and vehicles	**993.2**	826.5	2 418.7
Intangible assets	**260.1**	60.7	250.0
Total commitments	**2 500.0**	1 500.0	4 000.0

The above commitments relate to anticipated capital expenditure for the remainder of the financial year ending 26 February 2023. In addition, the Group is in process of developing Pick n Pay's new Eastport distribution centre in Gauteng – in partnership with Fortress REIT Limited (Fortress). Eastport will replace the Group's Longmeadow distribution centre and is anticipated to open during the 2024 financial year. The Group will purchase 60% of the Eastport asset from Fortress on completion of the development, at a projected value of R1.2 billion, and will enter into a long-term lease for the 40% balance. This long term lease results in an estimated R1.4 billion of future rental payments over a 15 year lease term.

APPENDIX 1

Pro forma information

Certain financial information presented in these unaudited condensed consolidated interim financial statements constitutes pro forma financial information.

1. Pro forma earnings metrics

The pro forma earnings information presented in accordance with the JSE Listing Requirements and the SAICA guide on Pro forma Financial Information, is the responsibility of the Board of directors of the Group and is presented for illustrative purposes only. Because of its nature, the pro forma earnings information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows. The pro forma earnings information is based on the unaudited condensed consolidated interim financial information of the Group for the period ended 28 August 2022 and has been prepared using the accounting policies of the Group which comply with IFRS and are consistent with those applied in the 2022 audited Group annual financial statements. This information has not been reviewed nor reported on by the Group's auditors.

Insurance proceeds received during the period under review

The financial result for the 26 weeks ended 28 August 2022 includes the cash receipt of R145.2 million (R104.5 million net of tax) of insurance proceeds. These insurance recoveries relate directly to the losses suffered by the Group during the prior reporting period as a result of civil unrest, and which was accounted for in the pro forma earnings presented in the 52 weeks ended 27 February 2022.

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

Hyperinflation net monetary adjustments

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

	26 weeks to 28 August 2022 Rm	26 weeks to 29 August 2021 Rm
Share of associate's earnings excluding net monetary adjustments	99.7	56.6
Share of associate's hyperinflation net monetary adjustments	(61.4)	(45.8)
Reported share of associate's earnings	38.3	10.8
Impairment reversal on investment in associate as a result of hyperinflation accounting	–	30.2
	38.3	41.0

Reported profit before tax and reported headline earnings include the impact of hyperinflation accounting attributable to the Group's investment in associate. In management's view, this impact of hyperinflation accounting does not provide stakeholders with an accurate assessment of the Group's comparable year-on-year earnings performance. As a result, the Group has presented its earnings for the current and prior period on a pro forma basis, by excluding the Group's share of associate's hyperinflation net monetary loss of R61.4 million (2021: R45.8 million), with no impact on tax. Refer to note 7 for further information.

Pro forma information (continued)

1. Pro forma earnings metrics (continued)

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

	As reported Rm	Remove impact of IAS 29 Rm	Remove insurance recoveries received during the period Rm	Pro forma Rm
26 weeks to 28 August 2022				
Group				
Other income	1 088.7	–	(145.2)	943.5
Trading profit	1 253.3	–	(145.2)	1 108.1
Profit before tax before capital items	671.8	61.4	(145.2)	588.0
Profit before tax	654.2	–	(145.2)	509.0
Tax expense	200.9	–	(40.7)	160.2
Profit for the period	453.3	–	(104.5)	348.8
Headline earnings (Appendix 3)	469.6	61.4	(104.5)	426.5
South Africa operating segment				
Profit before tax before capital items	601.3	–	(145.2)	456.1
Rest of Africa operating segment				
Profit before tax before capital items	70.5	61.4	–	131.9
	Cents	Cents	Cents	Cents
Headline earnings per share (Appendix 3)	97.73	12.78	(21.75)	88.76
Diluted headline earnings per share (Appendix 3)	97.62	12.77	(21.73)	88.66

	As reported Rm	Remove Impact of IAS 29 Rm	Pro forma Rm
26 weeks to 29 August 2021			
Group			
Profit before tax before capital items	435.4	45.8	481.2
Headline earnings (Appendix 3)	293.5	45.8	339.3
South Africa operating segment			
Profit before tax before capital items	389.6	–	389.6
Rest of Africa operating segment			
Profit before tax before capital items	45.8	45.8	91.6
	Cents	Cents	Cents
Headline earnings per share (Appendix 3)	61.28	9.57	70.85
Diluted headline earnings per share (Appendix 3)	60.91	9.51	70.42

2. Constant currency disclosures

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

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

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

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

The average Zambia kwacha exchange rate to the South African rand for the 26 weeks ended 28 August 2022 is 1.07 (2021: 1.50) and the average Botswana pula exchange rate to the South African rand for the 26 weeks ended 28 August 2022 is 0.76 (2021: 0.75).

The constant currency pro forma information is presented in accordance with JSE Listings Requirements, is the responsibility of the Board of directors of the Group and is presented for illustrative purposes only. Because of its nature, the pro forma financial information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows. This information has not been reviewed nor reported on by the Group's auditors.

26 weeks ended 28 August 2022	Increase in reported currency	Increase in constant currency
Group turnover (%)	11.5	11.0
Rest of Africa sales from customers (%)	17.9	8.3

APPENDIX 2

Additional information

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

1. Like-for-like turnover and expense growth comparisons

Like-for-like turnover and expense growth comparisons remove the impact of store openings, closures; including damaged and looted stores closed due to civil unrest in KwaZulu-Natal and parts of Gauteng (referred to as civil unrest) and conversions, and excludes restructuring costs in the current and previous reporting periods.

2. Turnover analysis excluding the impact of trade disruptions

During the prior period, the Group's South African operations were significantly impacted by trade disruptions arising from civil unrest. At period-end, eight stores remain closed. In addition, prior period sales were also impacted by Government imposed trade restrictions on the sale of liquor (referred to as Covid-19 liquor restrictions). Refer to the result summary for further information.

Estimated lost turnover: Civil unrest

Management estimates that the Group lost approximately R375 million (2021: R930 million) of turnover related to the civil unrest. The loss of sales were as a result of store closures due to damage and looting as well as preventative closures during the prior year, and stores that remained closed during the current year. This estimation is based on approved internal financial budgets per affected store, and supported by turnover trends in the relevant stores. Where it was noted that turnover transferred to existing operating stores, that positive impact was taken into account in the lost turnover assessment, reducing the loss in turnover estimate. Furthermore, these estimations align to methodologies applied in the Group's business interruption (loss of profits) insurance claims.

Estimated lost turnover: Covid-19 liquor restrictions

Management estimates that the Group lost approximately R800 million of turnover during the prior period, as a result of the 55 trading days lost related to Covid-19 liquor trading restrictions. This estimation was based on management's best estimate of the lost turnover during the restricted trading days, net of the increase in liquor sales on unrestricted days. This estimation was based on approved internal financial budgets per affected store and supported by turnover trends in relevant stores.

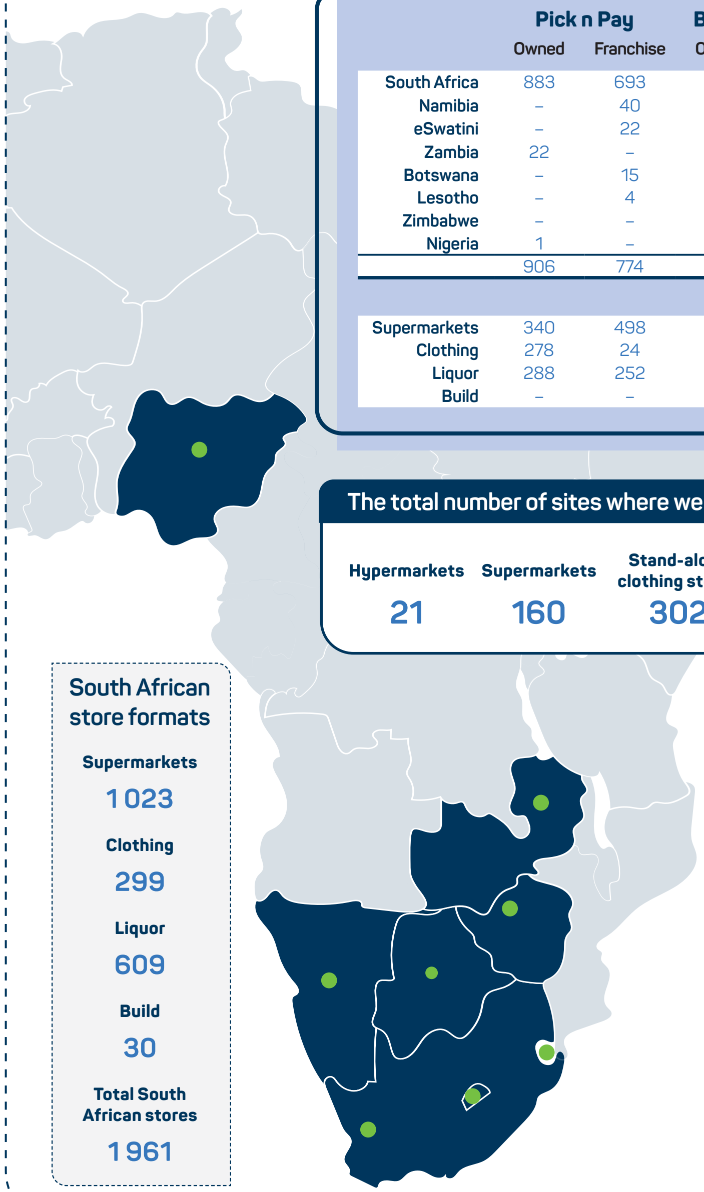
APPENDIX 3

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

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

	% change	26 weeks to 28 August 2022 Cents per share	26 weeks to 29 August 2021 Cents per share	52 weeks to 27 February 2022 Cents per share
Earnings per share				
Basic earnings per share	52.2	**94.34**	61.97	253.34
Diluted earnings per share	53.0	**94.23**	61.60	252.43
Headline earnings per share	59.5	**97.73**	61.28	262.59
Diluted headline earnings per share	60.3	**97.62**	60.91	261.65
Pro forma headline earnings per share				
Pro forma headline earnings per share	25.3	**88.76**	70.85	289.64
Pro forma diluted headline earnings per share	25.9	**88.66**	70.42	288.59
		Rm	Rm	Rm
Reconciliation between basic and headline earnings				
Profit for the period – basic earnings for the period		**453.3**	296.8	1 214.5
Adjustments:		**16.3**	(3.3)	44.4
Loss/(profit) on sale of assets		**8.7**	(41.3)	(31.6)
Tax effect of (loss)/profit on sale of assets		**(2.5)**	9.3	3.5
Loss from impairments and scrapping of assets		**22.7**	255.7	273.6
Tax effect of loss from impairments and scrapping of assets		**(2.7)**	(69.4)	(63.9)
Insurance recoveries on scrapping of assets due to civil unrest		**(13.8)**	(177.0)	(210.5)
Tax effect of insurance recoveries on scrapping of assets due to civil unrest		**3.9**	49.6	58.9
Impairment (reversal)/loss on investment in associate		**–**	(30.2)	14.4
Headline earnings for the period (note 4)		**469.6**	293.5	1 258.9
Adjusted for hyperinflation net monetary adjustment (note 7)		**61.4**	45.8	25.1
Adjusted for insurance proceeds received		**(145.2)**	–	145.2
Adjusted for tax effects of insurance proceeds received		**40.7**	–	(40.7)
Pro forma headline earnings		**426.5**	339.3	1 388.5
The table below presents the Group's share information				
		000's	000's	000's
Number of ordinary shares in issue		**493 450.3**	493 450.3	493 450.3
Weighted average number of ordinary shares in issue (excluding treasury shares)		**480 501.2**	478 928.0	479 389.3
Diluted weighted average number of ordinary shares in issue		**481 040.3**	481 855.7	481 128.4

AN OVERVIEW OF OUR STORE ESTATE



	Pick n Pay Owned	Pick n Pay Franchise	Boxer Owned	TM Associate	Total
South Africa	883	693	385	–	1 961
Namibia	–	40	–	–	40
eSwatini	–	22	9	–	31
Zambia	22	–	–	–	22
Botswana	–	15	–	–	15
Lesotho	–	4	–	–	4
Zimbabwe	–	–	–	67	67
Nigeria	1	–	–	–	1
	906	774	394	67	2 141
Supermarkets	340	498	258	58	1 154
Clothing	278	24	–	–	302
Liquor	288	252	106	9	655
Build	–	–	30	–	30

The total number of sites where we sell clothing

Hypermarkets	Supermarkets	Stand-alone clothing stores	Total clothing sites
21	160	302	483

South African store formats

Supermarkets
1 023

Clothing
299

Liquor
609

Build
30

Total South African stores
1 961

NUMBER OF STORES

COMPANY-OWNED	27 February 2022	Opened	Closed	Converted openings	Converted closures	28 August 2022
Pick n Pay	**876**	**36**	**(10)**	**6**	**(2)**	**906**
Hypermarkets	21	–	–	–	–	21
Supermarkets	317	5	(4)	3	(2)	319
Clothing	256	24	(2)	–	–	278
Liquor	282	7	(4)	3	–	288
Boxer	**368**	**20**	**–**	**6**	**–**	**394**
Supermarkets	243	11	–	4	–	258
Build	28	2	–	–	–	30
Liquor	97	7	–	2	–	106
Total company-owned	**1 244**	**56**	**(10)**	**12**	**(2)**	**1 300**
FRANCHISE						
Pick n Pay						
Supermarkets	282	2	(2)	–	(5)	277
Market	36	1	(3)	–	–	34
Express	178	10	(1)	–	–	187
Clothing	21	4	(1)	–	–	24
Liquor	256	3	(2)	–	(5)	252
Total franchise	**773**	**20**	**(9)**	**–**	**(10)**	**774**
ASSOCIATE						
TM Supermarkets	**64**	**3**	**–**	**–**	**–**	**67**
Total Group stores	**2 081**	**79**	**(19)**	**12**	**(12)**	**2 141**
AFRICAN FOOTPRINT						
– included in total stores above	**171**	**9**	**–**	**–**	**–**	**180**
Pick n Pay company-owned	22	1	–	–	–	23
Boxer company-owned	9	–	–	–	–	9
Pick n Pay franchise	76	5	–	–	–	81
TM Supermarkets – associate	64	3	–	–	–	67
AFRICAN FOOTPRINT						
– by country	**171**	**9**	**–**	**–**	**–**	**180**
Botswana	13	2	–	–	–	15
Lesotho	4	–	–	–	–	4
Namibia	40	–	–	–	–	40
eSwatini	28	3	–	–	–	31
Zambia	21	1	–	–	–	22
Nigeria	1	–	–	–	–	1
Zimbabwe	64	3	–	–	–	67

CORPORATE INFORMATION

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

Board of directors
Executive directors
Pieter Boone (CEO)
Lerena Olivier (CFO)
Jonathan Ackerman

Non-executive
Gareth Ackerman (Chairman)
Suzanne Ackerman-Berman[1]
David Robins

Independent non-executive
Haroon Bhorat
Mariam Cassim
James Formby[2]
David Friedland
Hugh Herman[3]
Aboubakar Jakoet
Audrey Mothupi
Annamarie van der Merwe
Jeff van Rooyen

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Attorneys
Edward Nathan Sonnenbergs

Principal transactional bankers
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First National Bank

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

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Online shopping
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www.picknpay.com

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[1] *Suzanne Ackerman-Berman retired as an executive director on 31 March 2022 and was appointed as a non-executive director on that date.*
[2] *James Formby was appointed as an independent non-executive director on 10 October 2022.*
[3] *Independent non-executive director Hugh Herman retired on 26 July 2022.*
[4] *Penelope Gerber was appointed as Company Secretary on 31 July 2022.*

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