Pick n Pay Stores Limited and its subsidiaries

Directors' responsibility for the Company and Group annual financial statements

The directors are responsible for the preparation and fair presentation of the Company and Group annual financial statements of Pick n Pay Stores Limited, comprising the directors' report, the statements of comprehensive income, the statements of financial position at 28 February 2011, the changes in equity and cash flows for the year then ended, a summary of significant accounting policies and the notes to the financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the Company's and Group's ability to continue as a going concern and have no reason to believe that the businesses will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of annual financial statements

The Company and Group annual financial statements of Pick n Pay Stores Limited, as identified above, were approved by the Board of directors on 29 April 2011 and signed on their behalf by:

Gareth Ackerman
Chairman

Nick Badminton
Chief Executive Officer

Bakar Jakoet
Chief Finance Officer

Company Secretary's certificate

In terms of section 268G (d) of the Companies Act No. 61 of 1973, as amended, I certify that Pick n Pay Stores Limited has lodged with the Registrar of Companies all such returns as are required by the Companies Act, and that all such returns are true, correct and up to date.

D. Muller

Debra Muller
Company Secretary

29 April 2011

Independent auditor's report

for the year ended 28 February 2011

To the members of Pick n Pay Stores Limited

We have audited the Company and Group annual financial statements of Pick n Pay Stores Limited, which comprise the statements of financial position at 28 February 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 49 to 99.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Pick n Pay Stores Limited at 28 February 2011 and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

Per **Patrick Farrand**
Chartered Accountant (SA)
Registered Auditor
Director

29 April 2011

MSC House
Mediterranean Street
Cape Town
8001

Directors' report

for the year ended 28 February 2011

Nature of business

The Company, which is domiciled and incorporated in the Republic of South Africa and listed on the JSE Limited, the recognised securities exchange in South Africa, is an investment holding company. The Group comprises trading subsidiaries that retail food, clothing, general merchandise, pharmaceuticals and liquor throughout southern Africa and in New South Wales, Australia, both on an owned and franchise basis. Subsidiary companies also on occasion acquire and develop strategic retail and distribution sites.

General review

The Group statement of comprehensive income is presented on page 51 and reflects the Group's operational results.

The Group's headline earnings from continuing operations and dividends for the year are as follows:

Per share – cents	2011	% decrease	2010
Headline earnings	**189.35**	18.3	231.71
Dividends*	**142.50**	18.3	174.50

*The dividend per share presented is the interim dividend paid in the current year and the final dividend declared after year-end, but in respect of current year profit.

Audit committee

We draw your attention to the Audit committee report on pages 38 and 39 where we set out the responsibilities of the committee and how it has discharged these responsibilities during the year.

Dividends paid and declared

A cash dividend (number 84) of 134.75 cents per share was paid to shareholders on 14 June 2010.

A cash dividend (number 85) of 37.00 cents per share was paid to shareholders on 13 December 2010.

For further details refer to note 7 on page 73.

The directors have declared a cash dividend (number 86) of 105.50 cents per share. The last day of trade in order to participate in the dividend (CUM dividend) will be Friday, 3 June 2011. Shares will trade EX dividend from the commencement of business on Monday, 6 June 2011 and the record date is Friday, 10 June 2011. The dividend will be paid on Monday, 13 June 2011. Share certificates may not be dematerialised or rematerialised between Monday, 6 June 2011 and Friday, 10 June 2011, both dates inclusive.

As dividend number 86 was declared on 15 April 2011 it will only be accounted for in the 2012 financial year. The declaration of this dividend will result in a charge for secondary tax on companies of R50.6 million, which will be accounted for in the 2012 financial year.

Share capital

The issued ordinary share capital remained unchanged during the year at 480 397 321 shares.

At year-end, the Pick n Pay Employee Share Purchase Trust held 3 411 620 (2010: 6 780 488) shares in the Company and 9 103 871 (2010: 10 077 639) shares in Pick n Pay Holdings Limited and a subsidiary company held 1 817 003 (2010: 1 784 303) shares in Pick n Pay Holdings Limited, all of which are accounted for as treasury shares. These shares are held to meet obligations of options granted.

Going concern

These annual financial statements have been prepared on the going-concern basis.

The Board has performed a formal review of the Group's ability to continue trading as a going concern in the foreseeable future and, based on this review, consider that the presentation of the financial statements on this basis is appropriate.

Legal proceedings

In July 2010, subject to approval by the Australian competition regulator, the Australian Competition and Consumer Commission (ACCC), we accepted an offer from Metcash Trading Limited (Metcash) to acquire our Australian operation, Franklins. The ACCC reviewed the proposed transaction under its informal merger clearance process and opposed the sale to Metcash on the basis that it is likely to have the effect of substantially lessening competition in the Australian market. Following the ACCC's decision, the parties announced that they proposed to proceed with the transaction and this led the ACCC to commence legal proceedings in the Federal Court of Australia in December 2010, seeking to prevent the parties from completing the transaction. We and Metcash agreed with the ACCC to an expedited hearing, which commenced in mid-March 2011. The judgement of the Court is expected before 30 June 2011. If the Federal Court of Australia prevents the acquisition by Metcash, we remain committed to the sale of Franklins and anticipate selling the Franklins stores, either individually or in groups, under a competitive tender process.

There are no other pending or threatened legal or arbitration proceedings which have had or may have a material effect on the financial position of the Company or the Group.

Special resolutions

On 18 June 2010 the Company's shareholders approved the following special resolution:

General authority to repurchase Company shares

It was resolved that the Company or any of its subsidiaries may, in accordance with sections 85 and 89 of the Companies Act, acquire issued shares of the Company or its holding company, upon such terms and conditions and in such amounts as the directors of the Company may determine from time to time. Acquisition of such shares is subject to the Articles of Association of the Company, the provisions of the Companies Act and the Listings Requirements of the JSE Limited (JSE), and provided further that acquisitions by the Company and its subsidiaries of shares in the Company may not, in the aggregate, exceed in any one financial year 5% of the Company's issued share capital.

Subsidiary companies' special resolutions

100% held subsidiary company, Pick n Pay Franchise Financing (Pty) Limited passed a special resolution to sell its business to a fellow 100% held subsidiary company, Pick n Pay Retailers (Pty) Limited.

Directors and Secretary

In terms of the Company's Articles of Association the directors listed on page 119 retire by rotation and they offer themselves for re-election. Information pertaining to the directors and the Company Secretary appear on pages 14 to 15.

Holding company

The holding company is Pick n Pay Holdings Limited.

Directors' interest in shares

	2011 %	2010 %
Beneficial	**1.4**	1.1
Non-beneficial	**27.6**	27.6
Total	**29.0**	28.7

The directors' interest in shares is their effective direct shareholding in the Company (excluding treasury shares) and their effective indirect shareholding through Pick n Pay Holdings Limited (excluding treasury shares).

Subsidiary companies

Details of subsidiary companies are presented in note 21 on page 83.

Borrowings

The Group's overall level of debt (including bank overdrafts and overnight bank borrowings) increased from R1 082.3 million to R1 939.7 million during the year, due to an increased requirement to fund working capital and the Group's capital expenditure programme.

Subsequent events

There have been no facts or circumstances of a material nature that have arisen between the financial year-end and the date of this report.

Statements of comprehensive income

for the year ended 28 February 2011

	Notes	GROUP 2011 Rm	GROUP 2010* Rm	COMPANY 2011 Rm	COMPANY 2010 Rm
Continuing operations					
Revenue	1	**52 216.7**	49 323.8	**810.4**	1 811.2
Turnover		**51 945.8**	49 068.6	**—**	—
Cost of merchandise sold		**(42 859.6)**	(40 245.0)	**—**	—
Gross profit		**9 086.2**	8 823.6	**—**	—
Other trading income	1	**231.4**	186.5	**—**	—
Trading expenses		**(7 899.9)**	(7 371.4)	**(1.1)**	(1.9)
Employee costs	2	**(4 319.8)**	(4 123.6)	**—**	—
Occupancy		**(1 114.7)**	(1 004.8)	**—**	—
Operations		**(1 642.8)**	(1 393.2)	**—**	—
Merchandising and administration		**(822.6)**	(849.8)	**(1.1)**	(1.9)
Trading profit/(loss)		**1 417.7**	1 638.7	**(1.1)**	(1.9)
Interest received	1	**39.5**	68.7	**—**	0.3
Interest paid	2	**(111.0)**	(86.3)	**—**	—
Gain on recognition of investment in associate	11	**7.5**	—	**—**	—
Share of associate's income	11	**2.4**	—	**—**	—
Profit on sale of property		**—**	190.9	**—**	—
Operating profit/(loss)	2	**1 356.1**	1 812.0	**(1.1)**	(1.6)
Dividends received	1	**—**	—	**810.4**	1 810.9
Profit before tax		**1 356.1**	1 812.0	**809.3**	1 809.3
Tax	5.1	**(447.8)**	(531.9)	**(0.1)**	(0.1)
Profit for the year from continuing operations		**908.3**	1 280.1	**809.2**	1 809.2
Loss from discontinued operations	18	**(123.4)**	(91.2)	**—**	—
Profit for the year		**784.9**	1 188.9	**809.2**	1 809.2
Other comprehensive income					
Exchange rate differences on translating foreign operations		**50.1**	73.8	**—**	—
Net loss on hedge of net investment in foreign operation	29.3	**(52.2)**	—	**—**	—
Retirement benefit actuarial loss		**(12.5)**	(34.3)	**—**	—
Total comprehensive income for the year		**770.3**	1 228.4	**809.2**	1 809.2
Earnings/(losses) per share – cents					
Basic	6	**164.99**	251.25		
Continuing operations		**190.92**	270.53		
Discontinued operations		**(25.93)**	(19.28)		
Diluted	6	**162.20**	247.40		
Continuing operations		**187.68**	266.38		
Discontinued operations		**(25.48)**	(18.98)		

*Restated – refer note 18.1.

Statements of financial position

as at February 2011

	Notes	GROUP 2011 Rm	GROUP 2010 Rm	COMPANY 2011 Rm	COMPANY 2010 Rm
Assets					
Non-current assets					
Intangible assets	8	**404.5**	1 126.7	**—**	—
Interest in subsidiaries	21	**—**	—	**136.7**	159.2
Property, equipment and vehicles	9	**3 401.8**	3 415.5	**—**	—
Operating lease asset	24.1	**37.7**	33.5	**—**	—
Participation in export partnerships	13	**48.2**	50.6	**—**	—
Deferred tax asset	14	**85.8**	98.1	**—**	—
Investment in associate	11	**9.9**	—	**—**	—
Loans	12	**90.2**	124.7	**—**	—
Investments	10	**0.2**	0.2	**0.2**	0.2
		4 078.3	4 849.3	**136.9**	159.4
Current assets					
Assets held for sale – discontinued operations	18.1	**2 120.1**	—	**—**	—
Inventory	15	**3 162.7**	3 326.2	**—**	—
Trade and other receivables	16	**1 739.2**	1 968.0	**3.2**	—
Cash and cash equivalents	17	**—**	1 055.3	**—**	—
		7 022.0	6 349.5	**3.2**	—
Total assets		**11 100.3**	11 198.8	**140.1**	159.4
Equity and liabilities					
Capital and reserves					
Share capital	19.1	**6.0**	6.0	**6.0**	6.0
Share premium	19.2	**—**	—	**—**	—
Treasury shares	20.1	**(172.0)**	(261.2)	**—**	—
Accumulated profits		**1 977.5**	2 050.4	**132.1**	147.9
Foreign currency translation reserve		**347.3**	349.4	**—**	—
Total shareholders' equity		**2 158.8**	2 144.6	**138.1**	153.9
Non-current liabilities					
Long-term debt	22.1	**626.9**	670.8	**—**	—
Retirement scheme obligations	23.4	**27.1**	24.7	**—**	—
Operating lease liability	24.2	**729.3**	695.9	**—**	—
		1 383.3	1 391.4	**—**	—
Current liabilities					
Liabilities held for sale – discontinued operations	18.1	**826.6**	—	**—**	—
Cash and cash equivalents	17	**547.4**	—	**—**	—
Short-term debt	22.2	**50.2**	38.7	**—**	—
Tax	5.4	**96.2**	230.5	**—**	—
Trade and other payables	25	**6 037.8**	7 393.6	**2.0**	5.5
		7 558.2	7 662.8	**2.0**	5.5
Total equity and liabilities		**11 100.3**	11 198.8	**140.1**	159.4

Statements of changes in equity

for the year ended 28 February 2011

	Notes	Share capital Rm	Share premium Rm	Treasury shares Rm	Accumu-lated profits Rm	Foreign currency trans-lation reserve Rm	Total Rm
GROUP							
At 1 March 2009		6.3	121.7	(743.6)	2 035.5	275.6	1 695.5
Total comprehensive income for the year		—	—	—	1 154.6	73.8	1 228.4
Profit for the year					1 188.9		1 188.9
Retirement benefit actuarial loss					(34.3)		(34.3)
Foreign currency translation differences						73.8	73.8
Transactions with owners		(0.3)	(121.7)	482.4	(1 139.7)	—	(779.3)
Dividends paid	7				(814.6)		(814.6)
Share repurchases	20.1			(80.1)			(80.1)
Net effect of settlement of employee share options	20.1			92.6	(40.5)		52.1
Cancellation of treasury shares	19.3	(0.3)	(121.7)	469.9	(350.6)		(2.7)
Share options expense	4.3				66.0		66.0
At 28 February 2010		**6.0**	**—**	**(261.2)**	**2 050.4**	**349.4**	**2 144.6**
Total comprehensive income for the year		**—**	**—**	**—**	**772.4**	**(2.1)**	**770.3**
Profit for the year					**784.9**		**784.9**
Retirement benefit actuarial loss					**(12.5)**		**(12.5)**
Net loss on hedge of net investment in foreign operation						**(52.2)**	**(52.2)**
Foreign currency translation differences						**50.1**	**50.1**
Transactions with owners		**—**	**—**	**89.2**	**(845.3)**	**—**	**(756.1)**
Dividends paid	7				**(808.0)**		**(808.0)**
Share repurchases	20.1			**(90.2)**			**(90.2)**
Net effect of settlement of employee share options	20.1			**179.4**	**(111.1)**		**68.3**
Share options expense	4.3				**73.8**		**73.8**
At 28 February 2011		**6.0**	**—**	**(172.0)**	**1 977.5**	**347.3**	**2 158.8**
COMPANY							
At 1 March 2009		6.3	121.7	—	134.5	—	262.5
Total comprehensive income for the year		—	—	—	1 809.2	—	1 809.2
Profit for the year					1 809.2		1 809.2
Transactions with owners		(0.3)	(121.7)	—	(1 795.8)	—	(1 917.8)
Dividends paid	7				(880.7)		(880.7)
Cancellation of treasury shares	19.3	(0.3)	(121.7)		(915.1)		(1 037.1)
At 28 February 2010		**6.0**	**—**	**—**	**147.9**	**—**	**153.9**
Total comprehensive income for the year		**—**	**—**	**—**	**809.2**		**809.2**
Profit for the year					**809.2**		**809.2**
Transactions with owners		**—**	**—**	**—**	**(825.0)**	**—**	**(825.0)**
Dividends paid	7				**(825.0)**		**(825.0)**
At 28 February 2011		**6.0**	**—**	**—**	**132.1**	**—**	**138.1**

Cash flow statements

for the year ended 28 February 2011

	Notes	GROUP 2011 Rm	GROUP 2010* Rm	COMPANY 2011 Rm	COMPANY 2010 Rm
Cash flows from operating activities					
Trading profit/(loss)		**1 417.7**	1 638.7	**(1.1)**	(1.9)
Depreciation and amortisation	2	**733.3**	632.6	**—**	—
Share options expense	4.3	**73.8**	65.2	**—**	—
Net operating lease obligations		**29.3**	36.5	**—**	—
Cash generated/(utilised) before movements in working capital		**2 254.1**	2 373.0	**(1.1)**	(1.9)
Movements in working capital		**(844.8)**	(58.1)	**(6.7)**	3.6
(Decrease)/increase in trade and other payables		**(678.1)**	245.2	**(3.5)**	3.6
Increase in inventory		**(349.1)**	(129.9)	**—**	—
Decrease/(increase) in trade and other receivables		**182.4**	(173.4)	**(3.2)**	—
Amounts received from a subsidiary company	21.2	**—**	—	**22.5**	103.1
Cash generated by trading activities		**1 409.3**	2 314.9	**14.7**	104.8
Interest received	1	**39.5**	68.7	**—**	0.3
Interest paid	2	**(111.0)**	(86.3)	**—**	—
Cash generated by operations		**1 337.8**	2 297.3	**14.7**	105.1
Dividends received	1	**—**	—	**810.4**	1 810.9
Dividends paid	7	**(808.0)**	(814.6)	**(825.0)**	(880.7)
Tax (paid)/received	5.4	**(526.3)**	(457.5)	**(0.1)**	1.8
Net cash from operating activities – continuing operations		**3.5**	1 025.2	**—**	1 037.1
Net cash from/(utilised in) operating activities – discontinued operations	18	**13.9**	(62.9)	**—**	—
Total net cash from operating activities		**17.4**	962.3	**—**	1 037.1
Cash flows from investing activities					
Investment in property, equipment and vehicles to expand operations		**(487.5)**	(314.7)	**—**	—
Intangible asset additions	8.2	**(61.2)**	(49.9)		
Property additions	9	**(225.4)**	(116.9)		
Equipment and vehicle additions	9	**(200.9)**	(147.9)		
Investment in property, equipment and vehicles to maintain operations		**(758.2)**	(704.7)	**—**	—
Intangible asset additions	8.2	**(21.3)**	—		
Property additions	9	**(63.8)**	(6.4)		
Aircraft additions	9	**—**	(0.7)		
Equipment and vehicle additions	9	**(673.1)**	(697.6)		
Proceeds on disposal of property		**21.9**	209.4	**—**	—
Loans repaid		**34.5**	3.9	**—**	—
Net cash utilised in investing activities – continuing operations		**(1 189.3)**	(806.1)	**—**	—
Net cash utilised in investing activities – discontinued operations	18	**(151.4)**	(117.2)	**—**	—
Total net cash utilised in investing activities		**(1 340.7)**	(923.3)	**—**	—
Cash flows from financing activities					
Debt (repaid)/raised		**(32.5)**	1.0	**—**	—
Share repurchases	20.1, 19.3	**(90.2)**	(80.1)	**—**	(1 037.1)
Proceeds from employees on settlement of share options		**25.1**	36.4	**—**	—
Net cash utilised in financing activities – continuing operations		**(97.6)**	(42.7)	**—**	(1 037.1)
Net cash from/(utilised in) financing activities – discontinued operations	18	**10.0**	(9.9)	**—**	—
Total net cash utilised in financing activities		**(87.6)**	(52.6)	**—**	(1 037.1)
Net decrease in cash and cash equivalents		**(1 410.9)**	(13.6)	**—**	
Cash and cash equivalents at 1 March		**1 055.3**	1 072.8	**—**	—
Effect of exchange rate fluctuations on cash and cash equivalents		**(76.2)**	(3.9)	**—**	—
Cash and cash equivalents at 28 February		**(431.8)**	1 055.3	**—**	—
Continuing operations	17	**(547.4)**			
Discontinued operations	18.1	**115.6**			

*Restated – refer note 18.1.

Accounting policies

Pick n Pay Stores Limited is domiciled in South Africa. The consolidated financial statements of the Company for the year ended 28 February 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its associate, TM Supermarkets (Pvt) Limited.

The financial statements were approved by the directors and authorised for issue on 29 April 2011.

These consolidated financial statements are presented in South African rands, which is the Company's functional currency. All financial information has been rounded to the nearest million, unless otherwise stated.

They are prepared on the historical-cost basis except for:

> assets held for sale measured at fair value less disposal costs.

> derivative financial instruments at fair value through profit and loss.

> defined benefit obligations are measured at the present value of the future benefit to employees, net of the fair value of fund assets.

All accounting policies have been applied consistently by all Group companies.

Non-current assets and asset disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Statement of compliance with International Financial Reporting Standards (IFRS)

The consolidated and separate financial statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB), as well as the AC500 Standards as issued by the Accounting Practices Board and the Companies Act of South Africa.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Estimates, and associated assumptions, are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities. Actual results may differ from these estimates. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 4 – measurement of share–based payments

Note 8.1 – measurement of the recoverable amounts of cash-generating units containing goodwill

Note 8.2 – estimates of useful lives and residual values of software development (intangible assets)

Note 9 – estimates of useful lives and residual values of property, equipment, vehicles and aircraft

Note 11 – the recommencement of equity accounting our foreign associate in Zimbabwe

Note 14 – the recognition of deferred tax assets

Note 16 – the estimation of the impairment allowance for trade receivables

Note 18 – the classification of InterFrank Group Holdings Pty Limited and Score Supermarkets Operating Limited as discontinued operations

Note 22 – classification of finance leases

Note 23.4 – measurement of defined benefit obligations

Note 24 – classification of operating leases

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

Basis of consolidation

Investment in subsidiaries

The Group financial statements include the financial statements of the Company and the entities that it controls. Control is achieved where the Company has the power directly or indirectly to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements of the Group, from the date that control commences until the date that control ceases.

As the Company controls the Pick n Pay Employee Share Purchase Trust (share trust), this entity has been consolidated into the Group financial statements.

The Company carries its investments in subsidiaries at cost less impairment losses.

Accounting policies continued

Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of the associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its investment in an associate, the Group's carrying amount of that interest (including any long-term loans considered as part of the net investment) is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Intangible assets

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill is measured as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Goodwill is stated at cost less any accumulated impairment losses. For the purposes of annual impairment testing, goodwill is allocated to the Group's subsidiaries (cash-generating units) which represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The underlying key assumptions of the tests of impairment include, but are not limited to, profit and cash forecasts discounted at an appropriate rate. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Negative goodwill arising on an acquisition is charged directly to the statement of comprehensive income.

In respect of acquisitions prior to 1 March 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under SA GAAP.

Development costs

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in the statement of comprehensive income when incurred.

Intangible assets acquired and subsequent expenditure

Intangible assets that are acquired by the Group are stated at cost (including any related borrowing costs) less accumulated amortisation and impairment losses.

Where payments are made for the acquisition of trademarks or brand names, the amounts are capitalised and amortised over their anticipated useful lives. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. No valuation is made of internally developed and maintained trademarks or brand names. Expenditure incurred to maintain trademarks or brand names are expensed in full in the statement of comprehensive income.

Amortisation

Amortisation is based on the cost of an asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The current estimated useful life of SAP software development costs is seven years.

Intangible assets with an indefinite useful life and intangible assets not yet brought into use are systematically tested for impairment at each reporting date.

Property, equipment and vehicles

Property (comprising land and buildings) owned by the Group is classified as owner-occupied property and is shown at cost less accumulated depreciation and impairment losses.

Equipment (comprising furniture, fittings and computer equipment), vehicles and aircraft are stated at cost less accumulated depreciation and impairment losses.

The cost of property, equipment, vehicles and aircraft includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalised to the cost of the asset. These were previously expensed (refer to the accounting policy on borrowing costs).

The Group recognises in the carrying amount of property, equipment, vehicles and aircraft the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

Depreciation is recognised as an expense in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, equipment, vehicles and aircraft. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Where significant components of an item of property, equipment, vehicles and aircraft have different useful lives, they are accounted for as separate assets.

The estimated useful lives for the current and comparative years are as follows:

Buildings	40 years
Major property components	10 to 20 years
Furniture and fittings	5 to 10 years
Computer equipment	2 to 7 years
Vehicles	4 to 5 years
Aircraft and major components	7 to 20 years

Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. If the expected residual value of an asset is equal to or greater than its carrying value, depreciation on that asset is ceased. Depreciation is resumed when the expected residual value falls below the asset's carrying value.

Gains and losses on disposal of an item of property, equipment, vehicles and aircraft are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognised directly in the statement of comprehensive income.

Assets held for sale

Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the statement of comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Leases

Finance leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the Group as lessee.

Assets acquired in terms of finance leases are capitalised at the lower of the fair value of the leased assets and the present value of the minimum lease payments at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance lease assets are carried at the initial recognised amount less accumulated depreciation and impairment losses.

Finance lease assets are depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Service contracts dependent on specific underlying assets

Where the Group enters into a contract that depends on the use of a specific asset and that contract conveys the right to control the use of the specific asset, the arrangement is treated as a lease.

Recognition criteria in terms of IAS 17: Leases are applied to determine whether the arrangement should be treated as a finance lease or an operating lease.

Inventory

Inventory comprises merchandise for resale and consumables. Inventory is measured at the lower of cost and net realisable value. Cost is calculated on the weighted-average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition, including distribution costs, and is stated net of relevant purchase incentives. The cost of merchandise sold includes shrinkage and normal levels of waste.

Obsolete, redundant and slow-moving items are identified on a regular basis and are written down to their estimated net realisable values. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of discounts is recognised as a finance cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Guarantees

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These financial guarantees are classified as insurance contracts as defined in IFRS 4: Insurance Contracts. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the reporting date. Where the effect of discounting is material, the liability is discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Group performs liability adequacy tests on financial guarantee contract liabilities to ensure that the carrying amount of the liabilities is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Group discounts all the expected contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, investments, trade receivables, loans, participation in export partnerships, trade and other payables and interest-bearing debt.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument.

These financial instruments are initially recognised at fair value. For instruments not recognised at fair value through the statement of comprehensive income, any directly attributable transaction costs are included.

Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

The subsequent measurement of financial instruments is stated below:

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost. Cash and cash equivalents comprise cash on hand and amounts held on deposit at financial institutions. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Investments

Listed investments are valued at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business at the reporting date. Other investments are shown at fair value. Gains and losses are recognised directly in equity in the revaluation reserve.

Trade receivables and loans

Trade receivables and loans are measured at amortised cost, using the effective interest method, less impairment losses.

Participation in export partnerships

Participation in export partnerships is a financial asset that is best classified as receivables originated by the Group and was initially measured at the fair value of the consideration given. Subsequent to initial measurement, the participation in export partnerships is measured at amortised cost using the effective interest method. All gains and losses on subsequent measurement are recognised in the statement of comprehensive income.

Trade and other payables

Trade and other payables are recognised at amortised cost.

Debt

Debt is carried at amortised cost. The interest expense recognised in the statement of comprehensive income is calculated using the effective interest method.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes in fair value are recognised in profit or loss.

Hedge of a net investment in foreign operations

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Group's functional currency (Rands), regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Impairment of assets

Financial assets

The carrying amounts of assets not carried at fair value through profit and loss are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. All individually significant loans not specifically impaired and the remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is transferred to profit or loss. The amount of the cumulative loss that is recognised in the statement of comprehensive is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised.

Non-financial assets

The carrying amounts of non-financial assets other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (or groups of units) and then to reduce the carrying value of the other assets in the unit (or groups of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss for a financial asset is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity through other comprehensive income.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss for a non-financial asset is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Treasury shares

Shares in the Company held by Group entities are classified as treasury shares. These shares are treated as a deduction from the weighted average number of shares in issue and the cost price of the shares is deducted from equity in the statement of changes in equity. The Pick n Pay Holdings Limited shares held by Group entities have been treated as treasury shares. Dividends received on treasury shares are eliminated on consolidation.

When treasury shares are sold or reissued, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from accumulated profits.

Upon settlement (take-up) of share options by employees, the difference between the proceeds received from the employees and the purchase price of the shares is accounted for directly in accumulated profits.

Turnover

Turnover comprises retail sales to consumers and wholesale sales to franchisees through the Group's supply arrangements. All turnover is stated exclusive of value added tax.

Trading profit

Trading profit is net income and expenditure from trading operations, excluding interest received, interest paid and any profits or losses on the sale of investments, property and stores.

Operating profit

Operating profit is trading profit, including interest received, interest paid and any profits or losses on the sale of investments, property and stores.

Revenue recognition

Turnover

Revenue from the sale of goods is measured at the fair value of consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Interest income

Interest income is recognised as it accrues in profit or loss, using the effective interest method, by reference to the principal amounts outstanding and at the interest rate applicable.

Dividend income

Dividend income from investments is recognised when the right to receive payment is established.

Incentive income

Incentive income and franchise fee income is recognised when the purchase/sale which gives rise to the income takes place.

Lease income

Income from operating leases in respect of property is recognised on a straight-line basis over the term of the lease.

Borrowing costs

Borrowing costs relating to the acquisition, construction or production of qualifying assets, for which the commencement date for capitalisation is on or after 1 March 2009, are capitalised to the cost of the asset.

General borrowing costs are capitalised by calculating the weighted average expenditure on the qualifying asset and applying a weighted average borrowing rate to the expenditure. Specific borrowing costs are capitalised according to the borrowing costs incurred on the specific borrowing provided the borrowing facility is utilised specifically for the qualifying asset less any investment income on the temporary investment of these funds. All other borrowing costs incurred are recognised as an expense in the statement of comprehensive income and are accrued on an effective interest basis by reference to the principal amounts outstanding and at the interest rate applicable.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment of tax payable for previous years.

Deferred tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that neither affects accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is charged to the statement of comprehensive income, except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination. The effect on deferred tax of any changes in tax rates is recognised in the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the

Accounting policies continued

extent that it is no longer probable that the related tax benefit will be realised.

Secondary tax on companies

Secondary tax on companies (STC) on net dividends paid is recognised as a tax charge in the year it is incurred. To the extent that it is probable that STC credits will be utilised, a deferred tax asset is raised.

Foreign currency transactions

Transactions in foreign currency

Transactions denominated in foreign currencies are translated to the functional currency of the Company and to the respective functional currencies of the Group entities at the rates of exchange ruling on the dates of the transactions. Gains and losses arising from such transactions are recognised in the statement of comprehensive income on settlement date or reporting date, whichever is the earlier.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the rates of exchange ruling at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated at the monthly weighted average rate of exchange for the year. Profits and losses arising on the translation of assets and liabilities of foreign entities are recognised in other comprehensive income and presented within equity and shown separately in a foreign currency translation reserve.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Employee benefits

The cost of all short-term employee benefits is recognised as an expense during the year in which the employee renders the related service.

Liabilities for employee entitlements to wages, salaries, annual and sick leave represent the amount which the Group has a present obligation to pay as a result of employee services provided to the reporting date to the extent that such obligation can be reliably estimated.

The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

Share-based payment transactions

The share ownership programme allows Group employees to acquire shares in Pick n Pay Holdings Limited and Pick n Pay Stores Limited.

The fair value of options granted after 7 November 2002 is recognised as an employee expense with a corresponding increase in equity. This treatment is consistently applied throughout the Group for both Pick n Pay Stores Limited and Pick n Pay Holdings Limited shares. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an actuarial binomial option pricing model, taking into account the terms and conditions upon which the options are granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due to share prices not achieving the threshold for vesting.

A vested share option is "taken up" when the Group delivers the share to the employee on receipt of payment of the grant (strike) price.

Retirement benefits

The Group operates several retirement schemes comprising a number of defined-contribution funds (one of which has a defined-benefit element), the assets of which are held in separate trustee-administered funds.

The retirement schemes are largely non-contributory and are funded by payments from the relevant Group companies.

Defined-contribution plans

A defined-contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate legal entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined-contribution retirement plans are recognised as an expense in the statement of comprehensive income when they are due.

Where the Group is responsible for providing retirement benefits to employees with a retirement scheme outside the Group, contributions are made on behalf of the employee and the cost is accounted for in the year in which the payment is made.

Defined-benefit plans

A defined-benefit plan is a post-employment benefit plan which is not a defined-contribution plan.

The Group's net obligation in respect of the defined benefit is calculated separately by estimating the amount of future benefit that qualifying employees have earned in respect of their service to date; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The calculation is performed by an actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statement of comprehensive income on a straight-line basis over the average period until the benefits become vested.

To the extent that the benefits vest immediately, the expense is recognised immediately in the statement of comprehensive income.

Actuarial gains and losses are recognised in other comprehensive income as incurred.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Capitalisation share awards and cash dividends

The full value of capitalisation share awards and cash dividends are recorded as a deduction from accumulated profits in the statement of changes in equity. Upon allotment of shares in terms of a capitalisation share award, the share election amounts are transferred to the share capital account and share premium account. Cash dividends and the related STC charge are accounted for in the year of declaration.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

Segmental reporting

The Group discloses segment financial information which is being used internally by the entity's Chief Operating Decision Maker (CODM) in order to assess performance and allocate resources.

Operating segments are individual components of an entity that engage in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the entity's CODM and for which discrete financial information is available.

Operating segments which display similar economic characteristics are aggregated for reporting purposes.

Notes to the annual financial statements

for the year ended 28 February 2011

		GROUP		COMPANY	
		2011 Rm	2010* Rm	**2011 Rm**	2010 Rm
1.	**Revenue – continuing operations**				
	Revenue comprises:				
	Turnover	**51 945.8**	49 068.6	**—**	—
	Interest received (note 2)	**39.5**	68.7	**—**	0.3
	Dividends received	**—**	—	**810.4**	1 810.9
	Other trading income	**231.4**	186.5	**—**	—
	Franchise fee income	**203.6**	161.9		
	Property lease income	**27.8**	24.6		
		52 216.7	49 323.8	**810.4**	1 811.2
2.	**Operating profit/(loss) – continuing operations**				
	Operating profit/(loss) is stated after taking into account the following expenses/(income):				
	Auditors' remuneration	**5.0**	5.2	**0.1**	—
	Audit	**4.8**	4.5	**0.1**	
	Other	**0.2**	0.7	**—**	
	Amortisation of intangible assets (note 8.2)	**67.5**	66.1		
	Depreciation (note 9)	**665.8**	566.5		
	Land and buildings – owned	**29.6**	24.5		
	Furniture and fittings, computer equipment and vehicles – owned	**619.6**	513.4		
	Equipment and vehicle – leased	**10.8**	22.5		
	Aircraft – owned	**5.8**	6.1		
	Employee costs (note 2.1)	**4 319.8**	4 123.6		
	Interest received	**(39.5)**	(68.7)	**—**	(0.3)
	Bank balances and investments	**(31.2)**	(54.2)		
	Debtors	**(1.2)**	(0.9)		
	Tax overpayments	**(2.9)**	(10.4)		(0.3)
	Staff loans	**(4.2)**	(3.2)		
	Interest paid	**111.0**	86.3		
	Finance leases	**13.9**	18.7		
	Overdrafts	**51.6**	12.6		
	Loans	**43.2**	55.0		
	Other	**2.3**	—		
	Inventory – movement in provision for impairment	**(0.1)**	(17.1)		
	Operating lease charges	**913.5**	844.0		
	Property – minimum lease payments	**884.4**	817.8		
	– turnover clause payments	**29.1**	26.2		
	Leases contained within service agreements	**137.3**	116.5		
2.1	**Employee costs – continuing operations**				
	Employee costs comprise:				
	Directors' remuneration (note 3.1)	**18.2**	13.8		
	Share-based payments expense (note 4.3)	**73.8**	65.2		
	Salaries and wages	**3 704.3**	3 517.2		
	Contributions to defined contribution plans (note 23.5)	**250.1**	218.3		
	Net expense recognised on defined benefit plan (note 23.4)	**12.8**	20.6		
	Leave pay	**2.2**	14.2		
	Performance bonuses	**25.4**	34.5		
	Staff benefits and training	**233.0**	239.8		
		4 319.8	4 123.6		

*Restated – refer note 18.1.

3. Directors' remuneration and interest in shares

3.1 Directors' remuneration

Directors' remuneration, as paid by a subsidiary company, is detailed below:

	Fees for board meetings R'000	Fees for committee and other work R'000	Remuneration R'000	Retirement and medical contributions R'000	Performance bonus* R'000	Fringe and other benefits R'000	Cash total R'000	IFRS 2: expense relating to share options granted R'000
2011								
Non-executive directors								
Gareth Ackerman**	**3 000.0**	**—**					**3 000.0**	**—**
Hugh Herman**	**280.0**	**336.5**					**616.5**	**—**
Alex Mathole***	**70.0**	**—**					**70.0**	**—**
Constance Nkosi‡	**280.0**	**79.5**					**359.5**	**—**
Lorato Phalatse***	**70.0**	**—**					**70.0**	**—**
David Robins	**280.0**	**—**					**280.0**	**—**
Ben van der Ross	**280.0**	**155.0**					**435.0**	**—**
Richard van Rensburg	**280.0**	**445.0**					**725.0**	**—**
Jeff van Rooyen	**280.0**	**235.0**					**515.0**	**—**
	4 820.0	**1 251.0**	**—**	**—**	**—**	**—**	**6 071.0**	**—**
Executive directors								
Jonathan Ackerman	**1.5**		**1 509.0**	**264.1**	**—**	**192.6**	**1 967.2**	**1 059.7**
Suzanne Ackerman-Berman	**1.5**		**1 443.0**	**244.0**	**—**	**142.5**	**1 831.0**	**1 239.8**
Nick Badminton	**1.5**		**3 543.0**	**549.8**	**—**	**311.1**	**4 405.4**	**4 123.0**
Dennis Cope^	**1.5**		**1 930.2**	**328.8**	**—**	**1 699.0**	**3 959.5**	**277.9**
	6.0	**—**	**8 425.2**	**1 386.7**	**—**	**2 345.2**	**12 163.1**	**6 700.4**
Total remuneration	**4 826.0**	**1 251.0**	**8 425.2**	**1 386.7**	**—**	**2 345.2**	**18 234.1**	**6 700.4**
2010								
Non-executive directors								
Gareth Ackerman**	265.0	320.0					585.0	
Hugh Herman**	265.0	267.0					532.0	
Constance Nkosi	265.0	75.0					340.0	
David Robins	265.0						265.0	
Ben van der Ross	265.0	143.0					408.0	
Richard van Rensburg	265.0	88.0					353.0	
Jeff van Rooyen	265.0	220.0					485.0	
	1 855.0	1 113.0	—	—	—	—	2 968.0	—
Executive directors								
Raymond Ackerman**†	1.5		2 835.0	33.6	—	188.4	3 058.5	—
Wendy Ackerman**†	1.5		648.0	—	55.0	93.9	798.4	—
Nick Badminton	1.5		3 309.0	558.9	298.9	300.0	4 468.3	3 691.7
Dennis Cope	1.5		1 788.0	347.1	161.7	207.3	2 505.6	585.3
	6.0	—	8 580.0	939.6	515.6	789.6	10 830.8	4 277.0
Total remuneration	1 861.0	1 113.0	8 580.0	939.6	515.6	789.6	13 798.8	4 277.0
Alternate directors								
Jonathan Ackerman#			993.0	181.0	131.9	123.1	1 429.0	234.9
Suzanne Ackerman-Berman#			905.5	165.0	120.2	90.1	1 280.8	473.0
	—	—	1 898.5	346.0	252.1	213.2	2 709.8	707.9

* The performance bonus relates to the amount provided for in the current financial year.
** Also directors of Pick n Pay Holdings Limited.
*** Appointed 1 November 2010.
† Retired from Pick n Pay Stores Limited board effective 1 March 2010.
‡ Retired from Pick n Pay Stores Limited board effective 31 December 2010.
\# Remuneration disclosed from appointment as alternate directors on 30 June 2009. Appointed full directors on 1 March 2010.
^ Fringe and other benefits include a retirement gratuity of R1.5 million.

Notes to the annual financial statements continued

for the year ended 28 February 2011

3. Directors' remuneration and interest in shares *(continued)*

3.2 Share options in the Company held by directors

1997 Share Option Scheme

	Year granted	Option grant (strike) price R	Balance held at 1 March 2010	Granted during the year	Taken up in year at grant price	Forfeited during the year	Balance held at 28 February 2011	Value of options exercised* R'000	Available for take-up
Jonathan Ackerman	2003	12.00	25 000		(25 000)		—	703.2	—
	2004	16.00	21 875		(21 875)		—	527.8	—
	2005	20.70	19 324		(12 883)		**6 441**	353.8	—
	2005	22.30	150 000**				**150 000**		June 2011
	2006	28.00	10 000				**10 000**		Now
	2006	28.00	4 286				**4 286**		Now
	2007	31.15	5 778				**5 778**		Now
	2007	31.15	4 334				**4 334**		Now
	2007	31.15	4 334				**4 334**		April 2011
	2008	26.56	3 765				**3 765**		Now
	2008	26.56	2 824				**2 824**		May 2011
	2008	26.56	2 825				**2 825**		May 2012
	2008	26.14	25 000				**25 000**		August 2015
	2008	26.14	25 000				**25 000**		August 2016
	2008	26.14	25 000				**25 000**		August 2017
	2008	26.14	25 000				**25 000**		August 2018
	2009	28.20	3 547				**3 547**		April 2011
	2009	28.20	2 660				**2 660**		April 2012
	2009	28.20	2 660				**2 660**		April 2013
	2010	42.27		624			**624**		April 2012
	2010	42.27		468			**468**		April 2013
	2010	42.27		468			**468**		April 2014
	2010	41.23		400 000**			**400 000**		May 2014
			363 212	401 560	(59 758)	—	**705 014**	1 584.8	
Suzanne Ackerman-Berman	2004	16.00	3 750		(3 750)		—	97.4	—
	2004	21.00	40 000		(40 000)		—	838.4	—
	2004	21.00	10 000				**10 000**		Nov 2011
	2005	20.70	7 245		(7 245)		—	154.0	—
	2005	22.30	100 000**		(100 000)		—	2 116.0	—
	2006	28.00	4 062		(4 062)		—	56.7	—
	2006	28.00	1 742		(1 742)		—	24.3	—
	2006	31.15	80 000		(80 000)		—	864.8	—
	2006	31.15	60 000				**60 000**		April 2012
	2006	31.15	60 000				**60 000**		April 2014
	2007	31.15	3 210		(3 210)		—	34.7	—
	2007	31.15	2 408		(2 408)		—	26.0	—
	2007	31.15	2 408				**2 408**		April 2011
	2008	26.56	3 012		(3 012)		—	46.4	—
	2008	26.56	2 259				**2 259**		May 2011
	2008	26.56	2 260				**2 260**		May 2012
	2008	26.14	25 000				**25 000**		August 2015
	2008	26.14	25 000				**25 000**		August 2016
	2008	26.14	25 000				**25 000**		August 2017
	2008	26.14	25 000				**25 000**		August 2018
	2009	28.20	3 547				**3 547**		April 2011
	2009	28.20	2 660				**2 660**		April 2012
	2009	28.20	2 660				**2 660**		April 2013
	2010	42.27		569			**569**		April 2012
	2010	42.27		426			**426**		April 2013
	2010	42.27		426			**426**		April 2014
	2010	41.23		400 000**			**400 000**		May 2014
			491 223	401 421	(245 429)	—	**647 215**	4 258.7	

*The value of options exercised is equal to the market value of the shares on the date taken up less the purchase price of those options.

**The exercising of these options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option.

3. Directors' remuneration and interest in shares *(continued)*

3.2 Share options in the Company held by directors *(continued)*

1997 Share Option Scheme *(continued)*

	Year granted	Option grant (strike) price R	Balance held at 1 March 2010	Granted during the year	Taken up in year at grant price	Forfeited during the year	**Balance held at 28 February 2011**	Value of options exercised* R'000	Available for take-up
Nick Badminton	2002	10.00	200 000				**200 000**		Now
	2004	16.00	75 000				**75 000**		Now
	2005	20.70	120 773				**120 773**		Now
	2005	22.30	500 000**		(500 000)		**—**	10 580.0	—
	2006	28.00	56 250				**56 250**		Now
	2006	28.00	24 107				**24 107**		Now
	2007	29.95	200 000				**200 000**		Now
	2007	29.95	150 000				**150 000**		January 2012
	2007	29.95	150 000				**150 000**		January 2014
	2007	29.95	500 000**				**500 000**		January 2012
	2007	31.15	32 103				**32 103**		Now
	2007	31.15	24 077				**24 077**		Now
	2007	31.15	24 077				**24 077**		April 2011
	2008	26.56	4 519				**4 519**		Now
	2008	26.56	3 389				**3 389**		May 2011
	2008	26.56	3 388				**3 388**		May 2012
	2008	26.84	250 000				**250 000**		October 2011
	2008	26.84	250 000				**250 000**		October 2013
	2008	26.84	250 000				**250 000**		October 2015
	2009	28.20	21 280				**21 280**		April 2011
	2009	28.20	15 960				**15 960**		April 2012
	2009	28.20	15 960				**15 960**		April 2013
	2010	42.27		1 413			**1 413**		April 2012
	2010	42.27		1 061			**1 061**		April 2013
	2010	42.27		1 061			**1 061**		April 2014
	2010	41.23		700 000**			**700 000**		May 2014
			2 870 883	703 535	(500 000)	—	**3 074 418**	10 580.0	
Dennis Cope	2003	12.00	100 000		(100 000)		**—**	2 996.0	—
	2005	20.70	48 309				**48 309**		Now
	2005	22.30	250 000**		(250 000)		**—**	5 290.0	—
	2006	28.00	22 500				**22 500**		Now
	2006	28.00	9 643				**9 643**		Now
	2007	31.15	12 841				**12 841**		Now
	2007	31.15	9 631				**9 631**		Now
	2007	31.15	9 631				**9 631**		April 2011
	2008	26.56	6 025				**6 025**		Now
	2008	26.56	4 519				**4 519**		May 2011
	2008	26.56	4 518				**4 518**		May 2012
	2009	28.20	11 349				**11 349**		April 2011
	2009	28.20	8 512				**8 512**		April 2012
	2009	28.20	8 512				**8 512**		April 2013
	2010	42.27		764			**764**		April 2012
	2010	42.27		574			**574**		April 2013
	2010	42.27		574			**574**		April 2014
			505 990	1 912	(350 000)	—	**157 902**	8 286.0	

*The value of options exercised is equal to the market value of the shares on the date taken up less the purchase price of those options.
**The exercising of these options is subject to specific performance criteria relating to the growth of the Company's share price over the term of the option.

For directors' share options in Pick n Pay Holdings Limited refer note 2.3 on page 109.

Notes to the annual financial statements continued

for the year ended 28 February 2011

3. Directors' remuneration and interest in shares *(continued)*

3.3 Directors' interest in shares – all held beneficially

	How held*	Balance held at 1 March 2010	Additions during the year	Average purchase price per share R	Disposals during the year	Average selling price per share R	**Balance held at 28 February 2011**
Gareth Ackerman	– direct	43					**43**
Jonathan Ackerman	– direct	43					**43**
	– indirect	389 204	59 758	15.34	(448 962)	46.20	**—**
Suzanne Ackerman-Berman	– direct	2 500					**2 500**
	– indirect	121 449	198 112	26.40	(314 910)	45.78	**4 651**
Nick Badminton	– direct	528 408	240 154	22.30	(138 562)	43.70	**630 000**
	– indirect	350 000					**350 000**
Dennis Cope	– direct	40 696			(696)	43.91	**40 000**
	– indirect	978 480	220 077	17.62	(198 557)	43.91	**1 000 000**
David Robins	– direct	117 108			(43 000)	46.82	**74 108**
	– indirect	333 604					**333 604**

Except for the indirect interest in the shares of the Company through Pick n Pay Holdings Limited, no other directors have either a beneficial or non-beneficial interest in the shares of the Company.

All share options granted prior to 11 June 2008 can either be "gross-settled" or "net-settled" at the instance of the employee (please refer note 4). The total share options taken up during the year per note 3.2 may therefore not correspond to share additions during the year where "net-settled".

*Direct interests represent a holding in the director's personal capacity and indirect interests represent a holding by a family trust of which the director is a trustee.

4. Share-based payments

The Group operates the 1997 Employee Share Option Scheme ("the Scheme") in order to facilitate broad-based employee share ownership and to foster trust and loyalty amongst employees. The Scheme incentivises key management and staff by providing them with an opportunity to acquire shares in the Group thereby aligning their interests with shareholders and at the same time encouraging employee retention.

The Scheme is administered by the Employee Share Purchase Trust and its Board of Trustees. All options are granted in accordance with the rules of the Scheme, which have been approved by the shareholders and the JSE Limited.

All options are granted at a 5% discount to the volume-weighted average market price (VWAP) for the 20 trading days preceding the option grant date.

Following the AGM on 11 June 2008, the Share Trust implemented the "net-settling" of share options. All share options granted after 11 June 2008 will, at the time of exercise by the employee, be automatically net-settled by the Company. This means that at the time of the exercise of an option, the employee will only receive so many shares (at current value) as represents the gain in the value of the option. For all options granted prior to 11 June 2008, the employee can choose whether to net-settle the options, or whether to pay the purchase price in full to take up the total allotment of shares.

All vested share options have to be exercised, paid for (or net-settled) and taken up within 10 years of the grant date. The directors are authorised to utilise up to 13.3% of the issued share capital for the Scheme.

The Scheme grants the following options to employees:

Service Share Options – are granted to all permanent employees who have been with the Group for five years and further options are granted every five years thereafter.

Service share options may be taken up immediately on granting.

Status Share Options – are granted to employees who attain floor manager status and further options are granted at each promotion to higher levels of management.

Status share options may be taken up in three tranches as follows:
40% after 3 years
30% after 5 years
30% after 7 years

Further share allocations are also made for the retention of key executives, with longer vesting dates of up to 10 years.

Executive Share Options – are granted to senior executives. These three to five-year options may only be taken up when prescribed performance conditions linked to the growth of the Company's share price are met. If the conditions are not met, these options are automatically forfeited. Should further performance hurdles be achieved, discounted grant prices may apply.

		GROUP	
		2011 Number of options 000's	2010 Number of options 000's
4.	**Share-based payments** *(continued)*		
4.1	**Outstanding share options**		
	Movement in the total number of share options is as follows:		
	At 1 March	**48 371.7**	44 789.7
	New options granted*	**17 425.6**	8 366.8
	Options taken up**	**(8 763.1)**	(3 336.0)
	Options forfeited	**(3 885.4)**	(1 448.8)
	At 28 February	**53 148.8**	48 371.7

Outstanding options may be taken up during the following financial years:

Year	**Average grant price**		
2012	R23.87	**12 759.5**	
2013	R32.38	**5 849.8**	
2014	R29.90	**4 481.9**	
2015	R39.73	**18 230.1**	
2016 and thereafter	R30.02	**11 827.5**	
		53 148.8	

	2011	2010
Percentage of issued shares	**11.1%**	10.1%
Options available for granting under current authorisation	**10 744.0**	15 521.1
*Average grant price of options granted during the year	**R41.14**	R34.89
**Average grant price of options taken up during the year	**R21.84**	R17.47

For the movement in the number of Pick n Pay Holdings Limited (PIKWIK) share options granted, please refer to note 7 on page 112 of the Pick n Pay Holdings Limited financial statements.

For details of share options held by directors refer to note 3.2.

	2011 Number of shares 000's	2010 Number of shares 000's
The Employee Share Purchase Trust, which administers the 1997 Employee Share Option Scheme, holds the following number of ordinary shares:		
As a hedge against share options granted or to be granted by that Scheme, reflected as treasury shares	**3 411.6**	6 780.5
On behalf of share purchase scheme participants	**145.6**	159.6
	3 557.2	6 940.1

4. Share-based payments *(continued)*

4.2 Fair value

The Group accounts for its share option expense in accordance with IFRS 2: Share-based Payments, which requires the fair value of share options granted to employees to be valued at the grant date and expensed through the statement of comprehensive income over the vesting period of the option.

The fair value of each option grant in Pick n Pay Stores Limited (PIK) and Pick n Pay Holdings Limited (PWK) has been estimated on the grant date using an actuarial binomial option-pricing model. The assumptions used in determining the fair value of the options granted in each financial year are as follows:

Financial year of grant	Options granted	Number of options granted 000's	Expected life of options years	Share price at grant date	Grant price	Expected volatility[a]	Expected dividend yield[b]	Risk-free rate[c]
2003	PIK	617.6	4 – 8	R12.15 – R13.90	R11.00 – R12.50	39.74 – 39.78	3.32 – 3.70	9.88 – 10.52
2004	PWK	862.4	1 – 8	R5.43 – R5.85	R5.10 – R5.25	19.34 – 41.65	3.24 – 5.66	9.67 – 10.96
2004	PIK	5 232.3	2 – 8	R11.67 – R16.35	R10.50 – R14.85	30.66 – 39.78	3.79 – 3.86	8.70 – 10.62
2005	PIK	4 381.5	2 – 8	R17.16 – R23.10	R16.00 – R21.00	28.48 – 39.33	3.76 – 4.32	7.58 – 9.95
2006	PIK	12 969.7	2 – 8	R23.25 – R31.00	R21.00 – R27.90	22.61 – 35.94	3.80 – 4.23	7.15 – 8.01
2007	PWK	860.8	1	R14.84	R13.25	18.94	3.98	8.37
2007	PIK	5 866.5	2 – 7	R25.80 – R34.10	R25.00 – R29.75	22.35 – 35.60	3.65 – 4.34	6.97 – 8.70
2008	PWK	708.8	1	R14.84	R13.25	19.41	3.98	8.37
2008	PIK	7 201.7	2 – 8	R32.15 – R38.22	R29.75 – R33.95	23.00 – 39.78	3.61 – 3.70	7.40 – 8.86
2009	PWK	787.0	1	R12.90	R11.33	20.56	4.31	9.94
2009	PIK	15 969.8	2 – 10	R26.00 – R38.05	R24.15 – R33.95	22.78 – 42.29	3.10 – 4.35	7.16 – 13.46
2010	PWK	655.8	1	R13.10	R12.20	30.81	5.07	6.52
2010	PIK	8 366.8	2 – 7	R29.50 – R41.60	R28.20 – R39.19	25.40 – 27.37	4.39 – 4.82	7.27 – 9.19
2011	**PWK**	**1 893.0**	**1**	**R16.00**	**R16.91**	**21.91**	**5.51**	**7.13**
2011	**PIK**	**17 425.6**	**2 – 7**	**R38.00 – R49.41**	**R40.00 – R46.10**	**24.44 – 27.36**	**4.41 – 4.82**	**6.67 – 9.05**

[a] The expected volatility is determined based on the rolling historical volatility over the expected option term that prevailed at the grant date.
[b] The expected dividend yield is the best estimate of the forward-looking dividend yield over the expected life of the option. This has been estimated by reference to the historical average dividend yield during the period preceding the grant, equal to the vesting period of the grant.
[c] The risk-free rate is the yield on zero-coupon South African Government bonds of a term consistent with the estimated option term.

	GROUP 2011 Rm	GROUP 2010 Rm
4.3 Share-based payment expense		
Total expensed to date – 1 March	**238.3**	172.3
Share options expense for the year	**73.8**	66.0
Continuing operations	**73.8**	65.2
Discontinued operations	**—**	0.8
Total expensed to date – 28 February	**312.1**	238.3
At 28 February, the share options expense to be recognised in future financial years, in respect of all options granted since 2003, is:		
Within 1 year	**78.8**	55.5
Within 2 to 5 years	**150.1**	102.7
After 5 years	**7.7**	13.9
Total expense still to be recognised	**236.6**	172.1
Total financial impact of share-based payments	**548.7**	410.4

		GROUP		COMPANY	
		2011 Rm	2010* Rm	**2011 Rm**	2010 Rm
5.	**Tax**				
5.1	**Tax recognised in statement of comprehensive income**				
	South African normal tax				
	– current year	**359.5**	440.5	**0.1**	0.1
	– prior year overprovision	**(1.4)**	(1.7)		
	Deferred tax (note 14)				
	– current year	**10.4**	10.2		
	Secondary tax on companies				
	– current year	**79.3**	82.9		
	Total tax charge	**447.8**	531.9	**0.1**	0.1
5.2	**Tax recognised directly in equity**				
	Tax effect of share incentive transactions recorded directly in equity	**(43.1)**	(15.1)		
	Tax effect of forward exchange contract realised directly in equity	**(2.3)**	—		
	Total recognised directly in equity	**(45.4)**	(15.1)	**—**	—
		%	%	**%**	%
5.3	**Statutory tax rate reconciliation**				
	Statutory tax rate	**28.0**	28.0	**28.0**	28.0
	Exempt income	**(1.6)**	(3.8)	**(28.0)**	(28.0)
	Secondary tax on companies	**5.8**	4.5		
	Non-deductible share options expense	**1.5**	1.0		
	Other non-deductible expenditure	**1.0**	0.8		
	Net prior year under provisions	**0.2**	1.1		
	Other	**(1.9)**	(2.2)		
	Effective tax rate	**33.0**	29.4	**—**	—
		Rm	Rm	**Rm**	Rm
5.4	**Tax paid comprises:**				
	Owing to/(due from) – 1 March	**230.5**	181.4	**—**	(1.9)
	Movement through statement of comprehensive income				
	Current tax charge – continuing operations	**358.1**	438.8	**0.1**	0.1
	Current tax charge – discontinued operations (note 18.2)	**—**	1.5		
	Secondary tax on companies	**79.3**	82.9		
	Movement through equity	**(45.4)**	(15.1)		
	Owing – 28 February	**(96.2)**	(230.5)	**—**	—
	Total tax paid/(received)	**526.3**	459.0	**0.1**	(1.8)
	Comprising:				
	Continuing operations	**526.3**	457.5	**0.1**	(1.8)
	Discontinued operations	**—**	1.5	**—**	—

*Restated – refer note 18.1.

		GROUP 2011 Cents per share	GROUP 2010* Cents per share
6.	**Basic, headline and diluted earnings/(losses) per share**		
	Basic (note 6.1)	**164.99**	251.25
	Continuing operations	**190.92**	270.53
	Discontinued operations	**(25.93)**	(19.28)
	Headline (note 6.1)	**164.90**	213.90
	Continuing operations	**189.35**	231.71
	Discontinued operations	**(24.45)**	(17.81)
	Diluted basic (note 6.2)	**162.20**	247.40
	Continuing operations	**187.68**	266.38
	Discontinued operations	**(25.48)**	(18.98)
	Diluted headline (note 6.2)	**162.10**	210.62
	Continuing operations	**186.14**	228.16
	Discontinued operations	**(24.04)**	(17.54)
6.1	**Basic and headline earnings per share**	**Rm**	Rm
	The calculation of basic earnings (profit for the year) per share and headline earnings per share is based on:		
	Basic earnings (profit for the year)	**784.9**	1 188.9
	Headline earnings	**784.4**	1 012.1
	and:	**Number of shares 000's**	Number of shares 000's
	The weighted average number of ordinary shares in issue during the year	**475 770.3**	473 199.8
	Reconciliation between basic and headline earnings:	**Rm**	Rm
	Basic earnings (profit for the year)	**784.9**	1 188.9
	Adjustments:	**(0.5)**	(184.0)
	Loss on sale of equipment and vehicles – discontinued operations	**7.0**	6.9
	Profit on sale of property	**—**	(190.9)
	Gain on recognition of investment in associate	**(7.5)**	—
	Tax effect of adjustments	**—**	7.2
	Headline earnings	**784.4**	1 012.1
		Number of shares 000's	Number of shares 000's
	Movement in the weighted average number of ordinary shares in issue comprises:		
	At 1 March	**473 199.8**	471 728.2
	Effect of current year share repurchases by the share trust	**(885.3)**	(896.8)
	Effect of share sales on the take-up of share options	**3 038.8**	1 313.8
	Prior year net share sales/repurchases now fully weighted	**417.0**	1 054.6
	At 28 February	**475 770.3**	473 199.8

*Restated – refer note 18.1.

	GROUP 2011 Rm	GROUP 2010* Rm
6. Basic, headline and diluted earnings/(losses) per share *(continued)*		
6.2 Diluted basic and headline earnings per share		
The calculation of diluted basic earnings per share and diluted headline earnings per share is based on:		
Diluted basic earnings	**784.9**	1 188.9
Diluted headline earnings	**784.4**	1 012.1
and:	**Number of shares 000's**	Number of shares 000's
The diluted weighted average number of ordinary shares in issue during the year	**483 980.6**	480 572.8
No reconciliation between basic and diluted earnings is presented as there are no dilutive effects on earnings.		
Reconciliation of the weighted average number of ordinary shares in issue for diluted earnings per share:		
Weighted average number of ordinary shares in issue (note 6.1)	**475 770.3**	473 199.8
Dilutive effect of share options	**8 210.3**	7 373.0
Weighted average number of ordinary shares in issue for purposes of calculating diluted earnings per share	**483 980.6**	480 572.8
Refer to note 19 for the number of shares in issue.		

*Restated – refer note 18.1.

	GROUP AND COMPANY 2011 Cents per share	GROUP AND COMPANY 2010 Cents per share
7. Dividends		
Number 84 – declared 20 April 2010 – paid 14 June 2010	**134.75**	134.25
Number 85 – declared 19 October 2010 – paid 13 December 2010	**37.00**	39.75
Total dividends for the year – Company	**171.75**	174.00
	Rm	Rm
Total value of dividends paid by the Company	**825.0**	880.7
Dividends paid to Group entities	**(17.0)**	(66.1)
Total dividends paid outside the Group	**808.0**	814.6

		GROUP 2011 Rm	GROUP 2010 Rm
8.	**Intangible assets**		
8.1	**Goodwill**		
	At 1 March	**837.5**	791.8
	Additions	**15.1**	
	Continuing operations	**5.2**	—
	Discontinued operations	**9.9**	—
	Foreign currency translation effect	**34.6**	45.7
	Transferred to assets held for sale – Franklins (note 18.1)	**(744.8)**	—
	Carrying value at 28 February	**142.4**	837.5
	Comprising:		
	Boxer group	**142.4**	137.1
	Franklins group	**—**	700.4

In accordance with the Group's accounting policies, an impairment test of goodwill has been performed. The cash-generating units to which goodwill has been allocated have been identified as subsidiaries.

The recoverable amount for Boxer was based on the value in use.

The results of a detailed five-year cash flow forecast, together with a terminal cash flow estimate, discounted at appropriate market rates after tax, did not identify any impairment in goodwill.

Franklins is held for sale and is disclosed as a discontinued operation. The Franklins' goodwill has been transferred to assets held for sale. The goodwill is considered fully recoverable through the sale of the business. For further information please refer to note 18.1.

		GROUP 2011 Rm	GROUP 2010 Rm
8.2	**Software development**		
	Cost		
	At 1 March	**462.7**	407.5
	Additions	**79.1**	51.5
	Continuing operations	**77.3**	49.9
	Discontinued operations	**1.8**	1.6
	Foreign currency translation effect	**4.0**	3.7
	Transferred to assets held for sale – Franklins (note 18.1)	**(88.2)**	—
	At 28 February	**457.6**	462.7
	Accumulated amortisation		
	At 1 March	**173.5**	105.7
	Amortisation charge for the year	**73.3**	66.8
	Continuing operations	**67.5**	66.1
	Discontinued operations	**5.8**	0.7
	Foreign currency translation	**2.3**	1.0
	Transferred to assets held for sale – Franklins (note 18.1)	**(53.6)**	—
	At 28 February	**195.5**	173.5
	Carrying value at 28 February	**262.1**	289.2
	Total intangible assets	**404.5**	1 126.7

	GROUP			
	Land and buildings Rm	Furniture, fittings, computer equipment and vehicles Rm	Aircraft Rm	Total Rm
9. Property, equipment and vehicles				
2011				
Cost				
At 1 March 2010	**1 075.9**	**4 957.1**	**71.1**	**6 104.1**
Additions	**289.2**	**1 006.6**	**—**	**1 295.8**
Continuing operations	**289.2**	**874.0**	**—**	**1 163.2**
Discontinued operations	**—**	**132.6**	**—**	**132.6**
Borrowing costs capitalised^	**6.8**	**—**	**—**	**6.8**
Foreign currency translation	**4.7**	**63.2**	**—**	**67.9**
Disposals	**—**	**(35.4)**	**—**	**(35.4)**
Transferred to assets held for sale (note 18.1)	**(99.9)**	**(1 067.5)**	**—**	**(1 167.4)**
At 28 February 2011	**1 276.7**	**4 924.0**	**71.1**	**6 271.8**
Accumulated depreciation				
At 1 March 2010	**98.1**	**2 555.2**	**35.3**	**2 688.6**
Depreciation charge for the year	**29.6**	**653.2**	**5.8**	**688.6**
Continuing operations	**29.6**	**630.4**	**5.8**	**665.8**
Discontinued operations	**—**	**22.8**	**—**	**22.8**
Foreign currency translation	**—**	**38.5**	**—**	**38.5**
Disposals	**—**	**(6.5)**	**—**	**(6.5)**
Transferred to assets held for sale (note 18.1)	**—**	**(539.2)**	**—**	**(539.2)**
At 28 February 2011	**127.7**	**2 701.2**	**41.1**	**2 870.0**
Carrying value at 28 February 2011	**1 149.0**	**2 222.8**	**30.0**	**3 401.8**
Owned	**1 149.0**	**2 114.0**	**30.0**	**3 293.0**
Leased*	**—**	**108.8**	**—**	**108.8**
Directors' valuation of property at 28 February 2011 (continuing operations)	**1 425.7**			
2010				
Cost				
At 1 March 2009	963.5	4 334.1	70.4	5 368.0
Additions	146.2	992.4	0.7	1 139.3
Continuing operations	123.3	845.5	0.7	969.5
Discontinued operations	22.9	146.9	—	169.8
Borrowing costs capitalised^	2.7	—	—	2.7
Foreign currency translation	6.1	56.8	—	62.9
Disposals	(42.6)	(426.2)	—	(468.8)
At 28 February 2010	1 075.9	4 957.1	71.1	6 104.1
Accumulated depreciation				
At 1 March 2009	99.6	2 302.2	29.2	2 431.0
Depreciation charge for the year	24.5	642.9	6.1	673.5
Continuing operations	24.5	535.9	6.1	566.5
Discontinued operations	—	107.0	—	107.0
Foreign currency translation	—	28.8	—	28.8
Disposals	(26.0)	(418.7)	—	(444.7)
At 28 February 2010	98.1	2 555.2	35.3	2 688.6
Carrying value at 28 February 2010	977.8	2 401.9	35.8	3 415.5
Owned	977.8	2 279.8	35.8	3 293.4
Leased*	—	122.1	—	122.1
Directors' valuation of property at 28 February 2010	1 303.5			

Property with a carrying value of R671.3 million (directors' valuation – R983.2 million) is provided as security for long-term borrowings (refer to note 22).

A register of all properties containing statutory information is available for inspection at the registered office of the Company.

*Leased vehicles secure lease liabilities disclosed in note 22.

^Borrowing costs are capitalised on qualifying assets. The weighted average expenditure incurred on qualifying assets was R153.7 million (2010: R106.7 million) and the weighted average borrowing rate was 7.09% at 28 February 2011 (2010: 9.3%).

		GROUP AND COMPANY	
		2011 Rm	2010 Rm
10.	**Investments**		
	Unlisted shares at fair value		
	Business Partners Limited	**0.2**	0.2
	Total investments at 28 February	**0.2**	0.2
	Directors' valuation of unlisted investments	**2.5**	2.5

			GROUP	
			2011	2010
11.	**Investment in associate**	**Country**	**Ownership**	Ownership
	The Group has the following investment in an associate:			
	TM Supermarkets (Pvt) Limited	Zimbabwe	**25%**	25%
			Rm	Rm
	At 1 March		**—**	—
	Gain on recognition of investment		**7.5**	—
	Current share of profit		**2.4**	—
	At 28 February		**9.9**	—
	Comprising:			
	Gain on recognition of investment		**7.5**	—
	Share of post-acquisition profits		**2.4**	—
	Summary of financial information of TM Supermarkets (Pvt) Limited – now presented in US dollars		**100%**	100%
			US$m	US$m
	Assets		**44.8**	24.5
	Liabilities		**38.4**	20.6
	Equity – non-distributable reserves		**9.0**	9.2
	– distributable reserves		**(2.4)**	(5.3)
	Turnover		**225.6**	148.4
	Profit/(loss) for the year		**1.7**	(4.6)

In prior years the Group's investment in TM Supermarkets (Pvt) Limited was impaired to nil due to the uncertain economic, political and social climate in Zimbabwe and our inability to remit dividends from that country. In the 2010 financial year the coalition government was in its infancy and therefore the reversal of impairments previously recorded was not considered appropriate.

In the current financial year, given the improving economic conditions in Zimbabwe, we believe it is now appropriate to recommence the equity accounting for TM Supermarkets. As the figures previously recorded are historic and based on information prior to the dollarisation, we believe it is more appropriate to restart equity accounting on a basis consistent with that applied in the dollarised financial statements. As a result, a new cost has been recorded at the fair value of Pick n Pay's investment in TM Supermarkets. Equity accounting has been applied to this new cost from the beginning of the current year. Prior year cost and impairment reserves have been written off.

		GROUP	
		2011 Rm	2010 Rm
12.	**Loans**		
	The following loans have been advanced by subsidiary companies:		
	Employees		
	Executive directors		
	At 1 March	**0.8**	0.8
	Advanced	**—**	—
	Repaid	**(0.3)**	—
	At 28 February	**0.5**	0.8
	Other employees	**86.9**	120.7
	Amounts owing to participants of the share purchase scheme	**(0.8)**	(0.4)
	Total employee loans	**86.6**	121.1
	Trading loan	**4.0**	4.0
	Holding company loan	**(0.4)**	(0.4)
	Total loans at 28 February	**90.2**	124.7

Loans to directors and employees are secured, bear interest at varying rates subject to a maximum rate of 8% (2010: 8%) per annum and have varying repayment terms. Loans to employees from the Employee Share Purchase Trust are payable within 10 years from the date of advance.

The trading loan is secured, bears interest at the prime bank rate and is repayable after one year.

13. Participation in export partnerships

A subsidiary company participated in various export partnerships, whose business was the purchase and export sale of marine containers. The partnerships bought and sold such containers in terms of long-term suspensive purchase and credit sale agreements respectively, with repayment terms usually over a 10 to 15-year period.

The last trade took place in the 1999 financial year. The current balance disclosed in respect of participation in export partnerships is the remaining long-term debtor.

	2011 Rm	2010 Rm
At 28 February	**48.2**	50.6

The participation in export partnerships is measured at amortised cost using the effective interest method. Amortised cost is the cost of the original participation less subsequent principal repayments received, plus the cumulative amortisation of the difference between the initial amount, and the maturity amount less any write down for impairment or uncollectability.

For fair value purposes, any impairment in the amounts due to the Group by virtue of its participation in export partnerships would result in a corresponding reduction in the carrying value of the related deferred tax liability. Consequently, such impairment would have no impact on the statement of comprehensive income of the Group.

		GROUP 2011 Rm	GROUP 2010 Rm	COMPANY 2011 Rm	COMPANY 2010 Rm
14.	**Deferred tax asset**				
	The movement in deferred tax is as follows:				
	At 1 March	**98.1**	99.8	**—**	—
	Recognised in the statement of comprehensive income (note 5.1)	**(10.4)**	(10.2)	**—**	—
	Participation in export partnerships	**2.7**	7.9		
	Property, equipment and vehicles	**(22.0)**	(50.9)		
	Operating leases	**8.5**	7.6		
	Retirement benefits	**(4.2)**	(8.8)		
	Prepayments	**(0.2)**	(0.1)		
	Allowance for impairment losses	**7.1**	20.7		
	Income and expense accruals	**(2.3)**	13.4		
	Recognised in equity				
	Tax effect of foreign currency translations	**(3.4)**	(4.9)		
	Tax effect of actuarial losses	**4.8**	13.4		
	Tax effect of forward exchange contract unrealised loss	**18.0**	—		
	At 28 February	**107.1**	98.1	**—**	—
	Comprising:				
	Participation in export partnerships	**(48.9)**	(51.6)		
	Property, equipment and vehicles	**(121.1)**	(99.1)		
	Operating leases	**172.9**	164.4		
	Retirement benefits and actuarial losses	**7.5**	6.9		
	Prepayments	**(4.5)**	(4.3)		
	Allowance for impairment losses	**38.5**	31.4		
	Income and expense accruals	**79.8**	82.1		
	Foreign currency translation	**(35.1)**	(31.7)		
	Forward exchange contract unrealised loss	**18.0**	—		
	Total deferred tax asset	**107.1**	98.1	**—**	—
	Transferred to assets held for sale (note 18.1)	**(21.3)**	—		
		85.8	98.1	**—**	—
	In respect of Score Supermarkets Operating Limited Group and InterFrank Group Holdings Pty Limited (Franklins) in Australia, there are approximately R204.9 million and R509.4 million, respectively, of estimated tax losses available for set-off against future taxable income, for which no deferred tax assets have been raised.				
15.	**Inventory**				
	Inventory comprises:				
	Merchandise for resale	**3 143.8**	3 298.6		
	Consumables	**18.9**	27.6		
	At 28 February	**3 162.7**	3 326.2	**—**	—
16.	**Trade and other receivables**				
	Trade and other receivables comprise:				
	Trade receivables	**1 832.6**	1 978.1	**3.2**	—
	Allowance for impairment losses (note 29.1)	**(183.2)**	(149.5)	**—**	—
		1 649.4	1 828.6	**3.2**	—
	Outstanding deposits	**87.2**	90.2	**—**	—
	Prepayments	**2.6**	49.2	**—**	—
	At 28 February	**1 739.2**	1 968.0	**3.2**	—

	GROUP 2011 Rm	2010 Rm
17. Cash and cash equivalents		
Cash and cash equivalents comprise:		
Cash balances	**715.2**	1 428.1
Bank overdraft	**(362.6)**	(372.8)
Overnight bank borrowings	**(900.0)**	—
At 28 February	**(547.4)**	1 055.3

The bank overdraft is secured by an unlimited suretyship given by the Company and certain subsidiary companies. Interest is earned on a daily basis on the net cash and cash equivalents balance through the Group's cash management system with the bank.

Overnight bank borrowings are unsecured, carry a variable interest rate of 5.8% and can be recalled at any time.

18. Discontinued operations

18.1 InterFrank Group Holdings Pty Limited (Franklins)

In July 2010, subject to approval by the Australian competition regulator, the Australian Competition and Consumer Commission (ACCC), we accepted an offer from Metcash Trading Limited (Metcash) to acquire our Australian operation, Franklins, for AUD215 million. The ACCC reviewed the proposed transaction under its informal merger clearance process and opposed the sale to Metcash on the basis that it believes the sale is likely to lead to substantial lessening of competition in the market for the wholesale supply of groceries to independent retailers in New South Wales.

Following the ACCC's decision, the parties announced that they proposed to proceed with the transaction and this led the ACCC to commence legal proceedings in the Federal Court of Australia in December 2010, seeking to prevent the parties from completing the transaction. We and Metcash agreed with the ACCC to an expedited hearing, which commenced in mid-March 2011. We believe the ACCC's assessment of the likely competitive effects of the transaction is flawed and together with Metcash, have vigorously defended the proceedings. The judgement of the Court is expected before 30 June 2011.

Should the Federal Court of Australia prevent the acquisition by Metcash, we remain committed to the sale of Franklins and anticipate selling the Franklins stores, either individually or in groups, under a competitive tender process.

Franklins has been presented as a discontinued operation at 28 February 2011 and the comparative information has been restated accordingly.

	GROUP 2011 Rm	2010* Rm
The salient financial information of the discontinued operation is as follows:		
Statement of comprehensive income		
Revenue	**5 617.4**	5 673.3
Turnover	**5 613.0**	5 666.0
Trading expenses	**1 281.6**	1 319.8
Loss on sale of equipment and vehicles	**(7.0)**	(5.6)
Trading (loss)/profit for the year	**(123.2)**	14.4
Interest received	**4.4**	7.3
(Loss)/profit for the year after tax	**(123.4)**	16.3
Statement of financial position		
Non-current assets	**1 428.9**	1 246.3
Equipment and vehicles (note 9)	**528.3**	396.8
Goodwill (note 8)	**744.8**	700.3
Software development (note 8)	**34.6**	36.9
Land and buildings (note 9)	**99.9**	92.2
Deferred tax asset (note 14)	**21.3**	20.1
Current assets	**691.2**	809.2
Trade and other receivables	**45.4**	48.9
Inventory	**530.2**	512.7
Cash and cash equivalents	**115.6**	247.6
Total assets (2011 – held for sale)	**2 120.1**	2 055.5
Equity		
Capital and reserves	**1 293.5**	1 080.3
Current liabilities (2011 – held for sale)		
Trade and other payables	**826.6**	975.2
Total equity and liabilities	**2 120.1**	2 055.5

*In 2010, references to discontinued operations include both Franklins (18.1) and Score (18.2) and relevant amounts need to be added together to agree to disclosures within the financial statements.

		GROUP 2011 Rm	2010* Rm
18.	**Discontinued operations** *(continued)*		
18.1	**InterFrank Group Holdings Pty Limited (Franklins)** *(continued)*		
	Cash flow statement		
	Net cash from operating activities	**13.9**	149.8
	Net cash utilised in investing activities	**(151.4)**	(174.0)
	Net cash from/(utilised in) financing activities	**10.0**	(9.9)

Goodwill of R744.8 million is considered fully recoverable through the sale of the business to Metcash. The selling price of AUD215 million exceeds the current fair value of Franklins' net assets.

The Group remains confident that the Court will allow the sale to Metcash to proceed. However, should the transaction be blocked, the Group will find alternative buyers for its Franklins Stores.

18.2 Score Supermarkets Operating Limited

The Group closed the store operations of its subsidiary, Score Supermarkets Operating Limited. The closure was complete at 28 February 2010.

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

	2011 Rm	2010* Rm
Statement of comprehensive income		
Revenue	—	580.9
Turnover	—	579.8
Trading expenses	—	(238.1)
Loss on sale of equipment and vehicles	—	(1.3)
Trading loss for the year	—	(107.1)
Interest received	—	1.1
Tax	—	(1.5)
Loss for the year after tax	—	(107.5)
Loss from operations	—	(104.5)
Losses recognised on the remeasurement of the carrying value of assets	—	(3.0)
Statement of financial position		
Non-current assets		
Operating lease asset	—	14.5
Current assets		
Trade and other receivables	—	15.7
Total assets	—	30.2
Equity		
Capital and reserves	—	(119.8)
Non-current liabilities		
Operating lease liability	—	45.9
Current liabilities	—	104.1
Bank overdraft	—	46.9
Trade and other payables	—	57.9
Tax	—	(0.7)
Total equity and liabilities	—	30.2
Cash flow statement		
Net cash utilised in operating activities	—	(212.7)
Net cash from investing activities	—	56.8
Net cash from financing activities	—	—

*In 2010, references to discontinued operations include both Franklins (18.1) and Score (18.2) and relevant amounts need to be added together to agree to disclosures within the financial statements.

	GROUP AND COMPANY 2011 Rm	2010 Rm
19. Share capital and share premium		
19.1 Share capital		
Authorised		
800 000 000 ordinary shares of 1.25 cents each	**10.0**	10.0
Issued		
The movement in issued share capital during the year is as follows:		
At 1 March: 480 397 321 (2010: 506 133 882) ordinary shares of 1.25 cents each	**6.0**	6.3
25 736 561 ordinary shares repurchased and cancelled (note 19.3)	**—**	(0.3)
At 28 February: 480 397 321 ordinary shares of 1.25 cents each	**6.0**	6.0
	Number of shares 000's	Number of shares 000's
The number of shares in issue at 28 February is made up as follows:		
Treasury shares held in the share trust (note 20.2)	**3 411.6**	6 780.5
Shares held outside the Group	**476 985.7**	473 616.8
Total shares in issue at 28 February	**480 397.3**	480 397.3

Under a general authority 24 million of the unissued shares remain under the control of the directors until the next annual general meeting.

In addition to the general authority above, 63.9 million unissued shares (13.3% of issued shares) remain under the control of the directors to implement the terms and provisions of the Pick n Pay 1997 Share Option Scheme.

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.
Refer to note 4.1 for details of share options granted by the Group.
For directors' interests in shares, refer to note 3.3.

	Rm	Rm
19.2 Share premium		
The movement in the share premium during the year is as follows:		
At 1 March	**—**	121.7
Share cancellation (note 19.3)	**—**	(121.7)
At 28 February	**—**	—

19.3 Share repurchase and cancellation

On 25 February 2010, the Company repurchased 25 736 561 ordinary shares from a subsidiary company for a total consideration of R1 037.1 million. In accordance with section 85 of the Companies Act these shares were cancelled. The cancellation was accounted for by a reduction in the nominal value of shares in issue (R0.3 million), utilisation of the share premium account (R121.7 million), and a reduction of the Company's total equity. As these shares were treasury shares already held by the Group, the only effect the transaction had on Group equity was a Securities Transfer Tax charge of R2.7 million.

		GROUP	
		2011 Rm	2010 Rm
20.	**Treasury shares**		
20.1	**Treasury shares comprise Pick n Pay Stores Limited and Pick n Pay Holdings Limited shares held by subsidiary companies and the share trust.**		
	At 1 March	**261.2**	743.6
	Share repurchases	**90.2**	80.1
	Take-up of share options by employees	**(179.4)**	(92.6)
	Shares repurchased and cancelled by the Company	**—**	(469.9)
	At 28 February	**172.0**	261.2
	Comprises:		
	Pick n Pay Stores Limited shares	**94.3**	198.4
	Pick n Pay Holdings Limited shares	**77.7**	62.8
		Number of shares 000's	Number of shares 000's
20.2	**The movement in the number of treasury shares held is as follows:**		
	Pick n Pay Stores Limited		
	At 1 March	**6 780.5**	33 351.2
	Shares purchased during the year	**1 770.5**	1 793.6
	Shares sold during the year pursuant to the take-up of share options by employees	**(5 139.4)**	(2 627.7)
	Shares repurchased and cancelled by the Company	**—**	(25 736.6)
	At 28 February	**3 411.6**	6 780.5
	Comprises:		
	Shares held by share trust	**3 411.6**	6 780.5
	Average purchase price of shares purchased during the year	**R44.57**	R37.74
	Average purchase price of shares held at year-end	**R27.64**	R29.26
		Number of shares 000's	Number of shares 000's
	Pick n Pay Holdings Limited		
	At 1 March	**11 861.9**	12 126.7
	Shares purchased during the year	**1 620.9**	852.4
	Shares sold during the year pursuant to the take-up of share options by employees	**(2 562.0)**	(1 117.2)
	At 28 February	**10 920.8**	11 861.9
	Comprises:		
	Shares held by share trust	**9 103.8**	10 077.6
	Shares held by a subsidiary company	**1 817.0**	1 784.3
	Average purchase price of shares purchased during the year	**R18.63**	R15.84
	Average purchase price of shares held at year-end	**R7.11**	R5.29

		COMPANY 2011 Rm	2010 Rm
21.	**Interest in subsidiaries**		
21.1	**Investment in subsidiaries**		
	Shares at cost		
	Trading	**37.5**	37.5
	Guardrisk Insurance Company Limited "A122 ordinary shares"		
	Pick n Pay Garages (Pty) Limited		
	Pick n Pay Retailers (Pty) Limited		
	Pick n Pay Franchise Financing (Pty) Limited		
	The Pick n Pay Employee Share Purchase Trust		
	Raymond Ackerman Holdings Limited		
	Property owning	**0.5**	0.5
	Pick n Pay (Newton Park) (Pty) Limited		
	Pick n Pay Wholesalers (Pty) Limited		
	Pick n Pay Wholesalers (Transvaal) (Pty) Limited		
	Dormant companies	**0.3**	0.3
	Total investment in subsidiaries	**38.3**	38.3
21.2	**Amount owing by a subsidiary company**		
	At 1 March	**120.9**	224.0
	Amounts received during the year	**(22.5)**	(103.1)
	At 28 February	**98.4**	120.9
	The loan is unsecured, bears interest at rates determined from time to time and is repayable on 13 months' notice.		
	Total interest in subsidiaries	**136.7**	159.2
	Investments held by other Group subsidiaries:		
	Pick n Pay (Gabriel Road) (Pty) Limited		
	Pick n Pay Namibia (Pty) Limited (registered in Namibia)		
	Pick n Pay Zambia (Pty) Limited (registered in Zambia)		
	Boxer Holdings (Pty) Limited		
	Boxer Superstores (Pty) Limited		
	Boxer Fresh Meats (Pty) Limited		
	Mfolozi Properties (Pty) Limited		
	KwaZulu Cash & Carry (Pty) Limited		
	InterFrank Group Holdings Pty Limited (registered in Australia)		
	Franklins Pty Limited (registered in Australia)		
	Franklins Supermarkets Pty Limited (registered in Australia)		
	Fresco Supermarket Holdings Pty Limited (registered in Australia)		
	Score Supermarkets Operating Limited		
	Score Supermarkets (Trading) (Pty) Limited		
	Score Supermarkets (Botswana) (Pty) Limited (registered in Botswana)		
	Score Supermarkets (Southern Africa) (Pty) Limited (registered in Botswana)		
	Score Supermarkets (Swaziland) Limited (registered in Swaziland)		
	All companies are 100% held and incorporated in South Africa except where indicated. A comprehensive list of Group subsidiaries is available on request at the registered office of the Company.		
	The attributable earnings of subsidiaries, excluding intercompany dividends	**899.5**	1 298.0
	The attributable losses of subsidiaries	**(123.4)**	(107.5)

		GROUP	
		2011 Rm	2010 Rm
22.	**Debt**		
22.1	**Long-term debt**		
	Finance leases	**106.1**	133.1
	Secured loans in respect of leased vehicles with a carrying value of R108.8 million (2010: R122.1 million) (note 9) held under finance lease agreements bearing interest at prime bank rate less 2% and payable monthly in arrears over a 4-year period. At the end of the lease period the Group has the option to refinance the lease or settle the lease and take ownership of the asset. Lease agreements do not contain any escalation or penalty clauses.		
	Other debt	**571.0**	576.4
	Secured loan in respect of property with a book value of R75.7 million (2010: R79.1 million) (note 9) bearing interest at a fixed rate of 11.4% and payable monthly in arrears over a 15-year period, ending on 28 October 2018.	**71.0**	76.4
	Secured loan raised to fund property development. The loan is secured by property with a book value of R595.6 million (2010: R557.3 million) (note 9) bearing interest at a fixed rate of 8.8%. Interest is payable six months in arrears. The capital is repayable on 29 June 2012.	**250.0**	250.0
	Unsecured loan raised to fund property development. The loan bears interest at a fixed rate of 9.6%. Interest is payable six months in arrears. The capital is repayable on 1 June 2012.	**250.0**	250.0
	Total debt at 28 February	**677.1**	709.5
	***Less:* Short-term debt (repayable within one year)**	**(50.2)**	(38.7)
	Long-term debt (repayable after one year)	**626.9**	670.8
	At 28 February, finance lease rentals are payable as follows:		
	Within 1 year		
	Capital repayments	**44.0**	33.2
	Interest	**6.6**	12.0
	Cash flows	**50.6**	45.2
	Within 2 to 5 years		
	Capital repayments	**62.1**	99.9
	Interest	**4.4**	14.9
	Cash flows	**66.5**	114.8
	Total cash flows	**117.1**	160.0
	Comprising:		
	Capital	**106.1**	133.1
	Interest	**11.0**	26.9

23. Retirement benefits

The Group has four retirement schemes, covering:

Score Supermarkets Trading (Pty) Limited

Boxer Superstores (Pty) Limited

InterFrank Group Holdings Pty Limited

Pick n Pay Retailers (Pty) Limited

23.1 Score Supermarkets Trading (Pty) Limited

Score Supermarkets has its own defined-contribution provident funds, one for Botswana employees and the South African fund for all other employees. Employees who are union members have the choice to join the SACCAWU National Provident Fund.

Membership of Score provident funds	108
Membership of SACCAWU National Provident Fund	nil

The Score provident funds are administered by Alexander Forbes Consultants and Actuaries, who also provide consulting and actuarial services. All the Score South African fund assets are managed by Investment Solutions and the Botswana assets by Investec Asset Management (Botswana).

All funds are defined-contribution funds.

All Score stores have been sold or converted into Pick n Pay franchise stores and members of the Score fund have been transferred into the appropriate fund of their new employer. The only members remaining on the fund are pensioners.

23.2 Boxer Superstores (Pty) Limited

Employees of Boxer are members of their own provident funds.

A	Name of fund	Boxer Superstores (Pty) Limited Provident Fund
	Number of members	4 434
	Administrator	Old Mutual

This is the main Boxer retirement plan and is a defined-contribution contributory provident fund. There are eight Trustees and two alternate Trustees. Members elect half the Trustees, with the Company appointing the other half. Trustee meetings are held quarterly. Benefits from the fund include Group Life and Disability cover. On 23 June 2009, the Fund was advised that it had fulfilled all the requirements of section 15B (9) of the Pension Funds Act of 1956, with regard to the apportionment of its surplus as at 30 June 2009.

B	Name of fund	SACCAWU National Provident Fund
	Number of members	965
	Administrator	Old Mutual

This is a defined-contribution contributory provident fund. Union members may elect to join this fund on commencement of employment at Boxer. The Company does not play any role in the running or administration of this fund, or the election of Trustees.

C	Name of fund	Personal Provident Fund
	Number of members	59
	Administrator	Momentum Administration Services

This is a defined-contribution contributory provident fund for senior management of the Company. This is an umbrella fund with independently appointed Trustees. An internal advisory committee made up of two members elected and two Company-appointed participants deal with matters pertaining to the Boxer members.

23.3 InterFrank Group Holdings Pty Limited (Franklins)

In terms of Australian legislation employers are required to contribute 9% of employees' gross salaries to a superannuation fund of each employee's choice. If employees do not specify a superannuation fund of choice, contributions must be made on behalf of the employee to a fund selected by the Company. Franklins provides its employees with a choice of two funds:

A The InterFrank Superannuation Fund

This fund is for all corporate, head office and other non-retail employees. It is underwritten by AMP Life Limited as part of their Custom Super Plan. Approximately 213 employees are members of this Scheme.

B The Retail Industry Superannuation Fund

This fund is for all employees covered by the Enterprise Bargaining Agreement. Approximately 3 790 employees are members of this fund.

Both funds are defined-contribution and non-contributory.

Seven employees have opted for their contributions to be made by Franklins on their behalf to complying superannuation funds of their choice.

Franklins has no other liability as regards retirement funding and there is no medical aid nor post-retirement medical aid liability. Medical aid is taken care of by the Federal Government Medicare Scheme and personal compulsory top-up arrangements.

23. Retirement benefits *(continued)*

23.4 Pick n Pay Retailers (Pty) Limited (Pick n Pay)

The Pick n Pay Retirement Scheme comprises two separate funds, the Pick n Pay Non-contributory Provident Fund and the Pick n Pay Paid-up Pension Fund.

The Pick n Pay Retirement Scheme is defined-contribution in nature. However, certain members were guaranteed that should their defined-contribution benefit be less than their previous defined-benefit guarantee (under the previous Pick n Pay Retirement Fund) they would retain the former. Due to this guarantee, and the fact that the pensioners are also paid by this scheme, the scheme's liabilities may be broken down between those which are defined-contribution in nature and those which are defined-benefit and for which the employer has an obligation to make additional contributions to ensure this element of the scheme is fully funded.

Pick n Pay contributes a total of 17.35% of salary towards the defined-contribution benefits offered to the members of the scheme. Out of this, 13.63% is allocated towards retirement savings and the balance, 3.72%, is allocated towards the reinsurance of death benefits, disability benefits and fund expenses. A further 0.86% of salary is contributed towards funding the guarantees outlined above.

There are 15 964 members of the Pick n Pay Retirement Scheme and 1 204 pensioners.

Retirement defined-benefit

Executive members of the previous Pick n Pay Retirement Fund are guaranteed that the capital value of their benefit at normal retirement date will not be less than that which they enjoyed under that fund. A defined-benefit obligation arises in this regard.

Post-retirement medical benefits

Members who joined the Pick n Pay Medical Scheme prior to 1 January 1997 will receive an additional pension on retirement to assist with post-retirement medical scheme contributions. Some of the members have already retired and are in receipt of a post-retirement medical pension. The full obligation for both active members and retirees is provided for in the financial statements. There is no subsidy for members who joined the Pick n Pay Medical Scheme after 1 January 1997.

Benefit fund

There was a separate fund to pay any disability benefit sanctioned by the trustees. The fund has been reinsured on a 100% profit share basis and hence the employer is required to make additional contributions to ensure this fund is fully funded at all times. This benefit fund has been fully insured by a third party.

Advisors

The Pick n Pay Retirement Scheme is administered by NMG Consultants and Actuaries Administrators. The consultants and actuaries are NMG Consultants and Actuaries. The investment advisor is Fifth Quadrant Actuaries and Consultants.

SACCAWU National Provident Fund

The SACCAWU Fund is administered by Old Mutual and is currently under curatorship. Employees, who are union members, have a choice of joining this fund instead of the Pick n Pay Retirement Scheme when they commence employment. There are 19 963 employees who have elected to join this fund.

	Pensioners' defined-benefit guarantee Rm	Retirement defined-benefit guarantee Rm	Post-retirement medical guarantee Rm	Benefit fund Rm	GROUP Total obligation 2011 Rm	Total obligation 2010 Rm
23. Retirement benefits *(continued)*						
23.4 Pick n Pay Retailers (Pty) Limited (PIck n Pay) *(continued)*						
Defined-benefit obligations						
The amount recognised in the statement of financial position is as follows:						
Present value of funded obligations	353.8	549.6	93.0	—	**996.4**	973.3
Fair value of assets	(353.8)	(535.4)	(80.1)	—	**(969.3)**	(948.6)
Funded position	—	14.2	12.9	—	**27.1**	24.7
Amounts recognised in the statement of comprehensive income are as follows:						
Current service cost	—	22.5	1.8	—	**24.3**	41.8
Interest on the obligation	28.6	47.3	6.7	—	**82.6**	113.8
Expected return on the plan assets	(33.6)	(52.9)	(7.7)	0.1	**(94.1)**	(135.0)
Total included in employee costs	(5.0)	16.9	0.8	0.1	**12.8**	20.6
Cumulative unrecognised gains/(losses):						
Unrecognised gain – 1 March	—	—	—	—	**—**	36.7
Actuarial loss – obligation	(19.2)	(20.1)	(15.0)	—	**(54.3)**	(50.6)
Actuarial gain/(loss) – assets	14.2	18.9	3.7	0.1	**36.9**	(33.8)
Actuarial gain/(loss) recognised	5.0	1.2	11.3	(0.1)	**17.4**	47.7
Net cumulative unrecognised gain – 28 February	—	—	—	—	**—**	—
Movement in the liability recognised on the statement of financial position is as follows:						
Net liability – 1 March	—	22.9	—	1.8	**24.7**	8.2
Total included in employee costs in statement of comprehensive income	(5.0)	16.9	0.8	0.1	**12.8**	20.6
Amount recognised in other comprehensive income	5.0	1.2	11.3	(0.1)	**17.4**	47.7
Contributions	—	(26.8)	0.8	(1.8)	**(27.8)**	(51.8)
Net liability – 28 February	—	14.2	12.9	—	**27.1**	24.7

	Pensioners' defined-benefit guarantee Rm	Retirement defined-benefit guarantee Rm	Post-retirement medical guarantee Rm	Benefit fund Rm	GROUP **Total obligation 2011 Rm**	Total obligation 2010 Rm
23. Retirement benefits *(continued)*						
23.4 Pick n Pay Retailers (Pty) Limited (Pick n Pay) *(continued)*						
Movement in the fund's obligations and plan assets recognised on the statement of financial position is as follows:						
Change in liability						
Liability – 1 March	330.6	566.2	76.5	—	**973.3**	975.5
Service cost	—	22.5	1.8	—	**24.3**	41.8
Interest cost	28.6	47.3	6.7	—	**82.6**	113.8
Actuarial gain	19.2	20.1	15.0	—	**54.3**	50.6
Benefits paid	(24.6)	(106.5)	(7.0)	—	**(138.1)**	(208.4)
Liability – 28 February	353.8	549.6	93.0	—	**996.4**	973.3
Change in plan assets						
Plan assets – 1 March	330.6	543.3	76.5	(1.8)	**948.6**	1 004.0
Expected return	33.6	52.9	7.7	(0.1)	**94.1**	135.0
Actuarial gain/(loss)	14.2	18.9	3.7	0.1	**36.9**	(33.8)
Contributions by employer	—	26.8	(0.8)	1.8	**27.8**	51.8
Benefits paid	(24.6)	(106.5)	(7.0)	—	**(138.1)**	(208.4)
Plan assets – 28 February	353.8	535.4	80.1	—	**969.3**	948.6
	%	%	%	%	**%**	%
Actuarial return on plan assets	13.9	13.3	14.4	0.4	**13.6**	0.6
Asset mix						
Equity	25.2	65.1	65.1	n/a	**50.6**	65.9
Fixed interest	72.4	28.6	28.6	n/a	**44.6**	28.2
Property	2.4	6.3	6.3	n/a	**4.8**	5.9
	100.0	100.0	100.0	n/a	**100.0**	100.0

The principal actuarial assumptions at the last valuation date are:	**1 November 2010 % per annum**	1 November 2009 % per annum
Discount rate	**9.00**	9.00
Future salary increases	**6.51**	6.27
Future pension increases	**5.00**	5.00
Annual increase in healthcare costs	**8.00**	9.00
Expected rate of return*	**10.00**	10.50

At 28 February 2011, if the discount rate had been 1% higher or 1% lower (with all other variables held constant), the impact on the financial statements would have been as follows:

	8% Rm	As reported 9% Rm	10% Rm
Statement of comprehensive income			
Expense included in employee costs	17.2	12.8	8.8
Statement of financial position			
Obligation at 28 February 2011	30.7	27.1	23.8

*The expected rate of return on plan assets was determined by assuming that the fixed-interest assets would earn a return equal to the discount rate of 9.00%, with a further 1.00% risk premium applied to the equities and property, giving a weighted average return of 10.00% based on the current asset allocation.

	GROUP Defined-contribution benefits 2011 Rm	Defined-contribution benefits 2010 Rm
23. Retirement benefits *(continued)*		
23.5 Current contributions		
Current contributions	**308.0**	281.1
Continuing operations	**250.1**	218.3
Discontinued operations	**57.9**	62.8

24. Operating leases

The Group has entered into various operating lease agreements in respect of premises. Leases on premises are contracted for periods of between 10 and 20 years with renewal options for a further 10 to 20 years. Rentals comprise minimum monthly payments and additional payments based on turnover levels. Turnover rentals, where applicable, average 1.5% of turnover. Rental escalations vary but average 6.5% per annum.

In terms of IAS 17, operating leases with fixed rental escalations are charged to the statement of comprehensive income on a straight-line basis. This results in the raising of a liability for future lease expenses and an asset for future lease income on the statement of financial position. This liability and asset is reversed during the latter part of each lease term when the actual cash flow exceeds the statement of comprehensive income amounts.

	GROUP 2011 Rm	2010 Rm
24.1 Operating lease asset		
At 1 March	**33.5**	19.3
Accrual for future lease income	**4.2**	14.2
At 28 February	**37.7**	33.5
At 28 February future minimum rentals receivable from non-cancellable sublease contracts amount to:		
Cash flow due in 2012	**132.3**	139.8
Creation of lease asset	**6.5**	13.2
Income in statement of comprehensive income	**138.8**	153.0
Cash flow due in 2013 – 2016	**437.3**	423.6
Creation/(reversal) of lease asset	**3.8**	(14.1)
Income in statement of comprehensive income	**441.1**	409.5
Cash flow due after 2016	**360.0**	153.9
Reversal of lease asset	**(48.0)**	(32.6)
Income in statement of comprehensive income	**312.0**	121.3
Total operating lease income receivable	**891.9**	683.8
Comprising:		
Total future cash flows	**929.6**	717.3
Operating lease asset	**(37.7)**	(33.5)
24.2 Operating lease liability		
At 1 March	**695.9**	658.5
Accrual for future lease expenditure	**33.4**	37.4
At 28 February	**729.3**	695.9
At 28 February future non-cancellable minimum lease rentals are payable during the following financial years:		
Cash flow due in 2012	**872.3**	790.7
Creation of lease liability	**50.9**	30.0
Statement of comprehensive income expense	**923.2**	820.7
Cash flow due in 2013 – 2016	**3 234.2**	2 966.3
Reversal of lease liability	**(132.8)**	(120.3)
Statement of comprehensive income expense	**3 101.4**	2 846.0
Cash flow due after 2016	**3 626.0**	3 238.8
Reversal of lease liability	**(647.4)**	(605.6)
Statement of comprehensive income expense	**2 978.6**	2 633.2
Total operating lease commitments	**7 003.2**	6 299.9
Comprising:		
Total future cash flows	**7 732.5**	6 995.8
Operating lease liability	**(729.3)**	(695.9)

		GROUP		COMPANY	
		2011 Rm	2010 Rm	2011 Rm	2010 Rm
25.	**Trade and other payables**				
	Trade and other payables comprise:				
	Leave pay obligations	173.3	279.7	—	—
	Trade and other payables	5 765.2	7 055.5	2.0	5.5
	VAT	41.9	57.3	—	—
	Non-derivative trade and other payables	5 980.4	7 392.5	2.0	5.5
	Fair value of outstanding forward exchange contracts	57.4	1.1	—	—
	At 28 February	6 037.8	7 393.6	2.0	5.5
26.	**Commitments**				
	All capital expenditure will be funded from internal cash flow, and through non-specific debt raised from various financial institutions.				
	Authorised capital expenditure				
	Contracted for				
	Property	427.6	178.0	—	—
	Equipment and vehicles	232.7	138.0	—	—
	Intangible assets	40.0	51.2	—	—
	Not contracted for				
	Property	—	44.0	—	—
	Equipment and vehicles	1 737.5	1 058.6	—	—
	Intangible assets	—	1.5	—	—
	Total commitments	2 437.8	1 471.3	—	—

27. Segmental report

Group

Operating segments are identified based on financial information regularly reviewed by the Pick n Pay Stores Limited Board (identified as the Chief Operating Decision Maker of the Group for IFRS 8 reporting purposes) for performance assessments and resource allocations.

The Group has 5 operating segments, as described below, with no individual customer accounting for more than 10% of turnover.

Pick n Pay – all retail operations, retailing food, clothing, general merchandise, pharmaceuticals and liquor under the Pick n Pay brand throughout southern Africa.

Boxer – all retail operations, retailing food, general merchandise and liquor in southern Africa under the Boxer brand.

Franklins – our retail operation retailing food and general merchandise in New South Wales, Australia.

Score – all retail operations, retailing goods and services under the Score brand. Score Supermarkets has been closed down and the results of which are disclosed as a discontinued operation.

Pick n Pay Insurance Cell Captive – the insurance cell captive provides insurance services, from insurance cover to claims maintenance for Group entities.

The South African operating segments are mainly retail operations (with the exclusion of the insurance cell captive) which are reviewed independently of each other by the CODM of the Group, due to the individual operations being operated through separate subsidiary companies under the management and guidance of the Group Executive. The Australian retail business operates in a completely different market from other Group operations and thus faces different risks and economic conditions while serving a different customer base.

As the Pick n Pay and Boxer operating segments have demonstrated similar economic characteristics they have been aggregated in terms of IFRS 8.

Information regarding the operations of each reportable segment is presented on page 91. Performance is measured based on the segment profit before tax, as management believes that such information is most relevant in evaluating the results of the segments against each other and other entities that operate within the retail industry.

	Pick n Pay and Boxer Rm	Insurance Rm	Unallocated head office costs and revenues Rm	Total continuing operations Rm	Discontinued operations Franklins Rm	Score Rm	Total operations Rm
27. Segmental report *(continued)*							
2011							
External revenue	**52 214.0**	**2.7**	—	**52 216.7**	**5 617.4**	—	**57 834.1**
Inter-segment revenue	**(12.9)**	**12.9**	—	—	—	—	—
External turnover	**51 945.8**	—	—	**51 945.8**	**5 613.0**	—	**57 558.8**
– Australian dollars (millions)				—	**827.2**		
Interest income	**36.8**	**2.7**	—	**39.5**	**4.4**	—	**43.9**
Interest expense	**111.0**	—	—	**111.0**	**4.5**	—	**115.5**
Depreciation and amortisation	**733.3**	—	—	**733.3**	**28.6**	—	**761.9**
Profit/(loss) before tax*	**1 340.6**	**15.5**	—	**1 356.1**	**(123.4)**	—	**1 232.7**
– Australian dollars (millions)				—	**(18.1)****		
Total assets	**8 922.2**	**58.0**	—	**8 980.2**	**2 120.1**	—	**11 100.3**
Total liabilities	**8 071.8**	**43.1**	—	**8 114.9**	**826.6**	—	**8 941.5**
2010							
External revenue	49 320.6	3.2	—	49 323.8	5 673.3	580.9	55 578.0
Inter-segment revenue	(14.4)	14.4	—	—	—	—	—
External turnover	49 068.6	—	—	49 068.6	5 666.0	579.8	55 314.4
– Australian dollars (millions)				—	861.1		
Interest income	65.5	3.2	—	68.7	7.3	1.1	77.1
Interest expense	86.3	—	—	86.3	5.4	—	91.7
Depreciation and amortisation	632.6	—	—	632.6	102.0	5.0	739.6
Profit/(loss) before tax*	1 603.2	17.9	190.9	1 812.0	16.3	(106.0)	1 722.3
– Australian dollars (millions)				—	2.5		
Total assets	9 009.5	47.7	—	9 057.2	2 055.5	86.1	11 198.8
Total liabilities	7 885.3	43.7	—	7 929.0	975.2	150.0	9 054.2

*Franklins includes a net loss on sale of assets of R7.0 million (2010: R5.6 million).
**Excluding depreciation of AUD10.5 million.

28. Related party transactions

Transactions between Group subsidiaries

During the year, in the ordinary course of business, certain companies within the Group entered into transactions with each other. These intra-group transactions have been eliminated on consolidation.

Directors

Two directors of the Company hold positions in related entities where they may have significant influence over the financial or operating policies of those entities. The following are considered to be such entities:

Director	Entity	Position held in entity
Dennis Cope	Pick n Pay Retirement Scheme	Trustee
	Pick n Pay Medical Scheme	Trustee
Hugh Herman	Investec Limited	Non-executive chairman

Except for certain administrative costs carried by a subsidiary company on behalf of the Pick n Pay Retirement Scheme and the Pick n Pay Medical Scheme, transactions between the Group and these entities have occurred under terms and conditions that are no more favourable than those entered into with third parties in arm's length transactions.

Related party transactions include:

i) The Pick n Pay Retirement and Medical Schemes administer the Company's retirement and medical plans respectively.

ii) Subsidiary companies of Investec Limited manage cash resources and assets on behalf of Group companies, the Pick n Pay Retirement Scheme and the Pick n Pay Medical Scheme.

Certain non-executive directors of the Group are also non-executive directors of other public companies which may transact with the Group. Except as disclosed above, the relevant directors do not believe they have significant influence over the financial or operating policies of those companies. Those entities are not disclosed above.

Shares held by directors

The percentage shares held by directors of the Company at the reporting date is disclosed in the directors' report on page 50. For further information refer to note 3.3.

Loans to executive directors

Loans to directors amount to R0.5 million at 28 February 2011, are secured and bear interest at varying interest rates. For further information refer to note 12.

Key management personnel

Key management personnel are directors and those executives having authority and responsibility for planning, directing and controlling the activities of the Group. For further information, please refer to the key management personnel section of the Remuneration report on page 41.

29. Financial instruments

Overview

The Company and Pick n Pay Holdings Limited have limited exposure to risk in respect of financial instruments, as their only financial asset is a loan to a subsidiary company. There is minimal credit risk relating to this as it is payable by the main operating company within the Group. Liquidity risk is also minimalised as the only financial liability is an insignificant trade and other payable which will be funded by unlimited access to Group funds. Market risk is effectively negated as the financial asset and financial liability have no exposure to changes in exchange rates and very limited exposure to changes in interest rates.

The Group has exposure to the following risks arising from its financial instruments:

Credit risk
Liquidity risk
Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's objective is to effectively manage each of the above risks associated with its financial instruments, in order to limit the Group's exposure as far as possible to any financial loss associated with these risks.

The Board is ultimately responsible and accountable for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor key business risks. The Board has established the Audit committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The committee is assisted in this regard by Group Risk and Assurance Services (internal audit). Group Risk and Assurance Services undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit committee.

29.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of investments, loans, participation in export partnerships, trade receivables and cash balances.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 28 February was:

	GROUP	
	2011 Rm	2010 Rm
Investments (note 10)	**0.2**	0.2
Loans (note 12)	**90.2**	124.7
Participation in export partnerships (note 13)	**48.2**	50.6
Trade receivables (note 16)	**1 649.4**	1 828.6
Cash balances (note 17)	**715.2**	1 428.1
	2 503.2	3 432.2

Investments

The Group has no material investments and therefore there is currently no significant credit risk from these instruments.

Loans

Loans to employees are granted and managed in accordance with strict regulations laid down by the Human Resources division, governing the size of the loan which may be granted and the associated interest rate and repayment terms. Before a loan is granted, it is first established that the employee is able to afford the monthly repayment terms. Where appropriate, the Group obtains suitable forms of security when granting loans. Repayments are deducted directly from the employee's monthly salary. There are no loan balances which exceed repayment terms. The Group considers all loan balances to be recoverable and therefore no impairment provision is required.

29. Financial instruments *(continued)*

29.1 Credit risk *(continued)*

Participation in export partnerships

A company listed on the JSE Limited has warranted certain important cash flow aspects of the Group's participation in export partnerships. The Group's directors have considered the credit risk relating to these aspects warranted and have satisfied themselves as to the creditworthiness of the warrantor company.

Trade receivables

Trade receivables are amounts owing by franchisees and are presented net of impairment losses.

The Group obtains various forms of security from its franchise debtors, including bank guarantees, notarial bonds over inventory and moveable assets and suretyships from shareholders. The total credit risk with respect to receivables from franchise debtors is further limited as a result of the dispersion amongst the individual franchisees and across different geographic areas. Accordingly, the Group has no significant concentration of credit risk.

	GROUP	
	2011 Rm	2010 Rm
The ageing of trade receivables at 28 February was:		
Trade receivables not impaired		
Within payment terms	**1 302.7**	1 584.6
Exceeding payment terms by less than 14 days	**79.5**	64.9
Exceeding payment terms by more than 14 days	**4.6**	20.5
	1 386.8	1 670.0
Trade receivables with impairments		
Within payment terms	**215.3**	150.5
Exceeding payment terms by less than 14 days	**97.8**	83.1
Exceeding payment terms by more than 14 days	**132.7**	74.5
	445.8	308.1
Total trade receivables	**1 832.6**	1 978.1
Allowance for impairment losses	**(183.2)**	(149.5)
Total trade receivables net of allowance for impairment losses	**1 649.4**	1 828.6
The movement in the allowance for impairment of trade receivables during the year was as follows:		
At 1 March	**149.5**	50.7
Irrecoverable debts written off	**(62.6)**	—
Additional impairment losses recognised	**108.3**	106.8
Prior allowances for impairment reversed	**(12.0)**	(8.0)
At 28 February	**183.2**	149.5

The Group makes allowance for specific trade debtors which have clearly indicated financial difficulty and the likelihood of repayment has become impaired. More than 80% of the balance relates to customers that have an excellent credit history with the Group.

Impairment losses are recorded in the allowance account until the Group is satisfied that no recovery of the amount owing is possible, at which point the amount is considered irrecoverable and is written off against the financial asset directly. There is currently no allowance for impairment against any other class of financial asset.

Cash balances

The Group's cash is placed with major South African and international financial institutions of high credit standing and within specific guidelines laid down by the Group's Treasury committee and approved by the Board. The Treasury committee is appointed by the Board and comprises executive directors and senior executives. Consequently, the Group does not consider there to be any significant exposure to credit risk.

29. Financial instruments *(continued)*

29.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

One of the core founding principles of the Group is to maintain strong cash balances, not only to meet current financial obligations, but in order to be able to buy inventory forward on a rising market.

Adequate liquidity is further managed through the use of cash flow forecasts and by the maintenance of adequate borrowing facilities. In terms of its Articles of Association, the Group's borrowing powers are limited to its total share capital and accumulated profits. However, the Treasury committee maintains strict control over the acceptance and draw-down of any loan facility.

At 28 February the Group's loan facilities comprised:

	GROUP 2011 Rm	GROUP 2010 Rm
Total borrowing facilities granted by financial institutions	**5 799.3**	4 988.2
Total actual borrowings and utilisation of facilities	**(2 321.2)**	(1 386.1)
Unutilised borrowing facilities	**3 478.1**	3 602.1

On average, trade receivables and inventory are realised within 30 days and trade payables are settled within 60 days. To the extent that the Group requires short-term funds, it utilises available banking facilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

GROUP – 2011	Carrying amount Rm	Contractual cash flows Rm	Within 1 year Rm	2 to 5 years Rm	Over 5 years Rm
Non-derivative financial liabilities					
Secured bank loans (note 22)	**321.0**	**375.9**	**36.0**	**302.8**	**37.1**
Unsecured bank loans (note 22)	**250.0**	**286.2**	**24.1**	**262.1**	**—**
Finance lease liabilities (note 22)	**106.1**	**117.1**	**50.6**	**66.5**	**—**
Trade and other payables (note 25)	**5 980.4**	**5 980.4**	**5 980.4**	**—**	**—**
Bank overdraft (note 17)	**362.6**	**362.6**	**362.6**	**—**	**—**
Overnight bank borrowings (note 17)	**900.0**	**900.0**	**900.0**	**—**	**—**
Derivative financial liabilities					
Forward exchange contracts (note 25)	**57.4**	**57.4**	**57.4**	**—**	**—**
Total financial obligations	**7 977.5**	**8 079.6**	**7 411.1**	**631.4**	**37.1**
To be settled through the management of:					
Inventory (note 15)	**3 143.8**	**3 143.8**	**3 143.8**		
Trade receivables (note 16)	**1 832.6**	**1 832.6**	**1 832.6**		
Cash balances (note 17)	**715.2**	**715.2**	**715.2**		
Net liabilities*	**2 285.9**	**2 388.0**	**1 719.5**	**631.4**	**37.1**
GROUP – 2010					
Non-derivative financial liabilities					
Secured bank loans (note 22)	326.4	411.9	36.1	324.9	50.9
Unsecured bank loans (note 22)	250.0	310.4	24.2	286.2	—
Finance lease liabilities (note 22)	133.1	160.0	45.2	114.8	—
Trade and other payables (note 25)	7 392.5	7 392.5	7 392.5	—	—
Bank overdraft (note 17)	372.8	372.8	372.8	—	—
Derivative financial liabilities					
Forward exchange contracts (note 25)	1.1	1.1	1.1	—	—
Total financial obligations	8 475.9	8 648.7	7 871.9	725.9	50.9
To be settled through the management of:					
Inventory (note 15)	3 298.6	3 298.6	3 298.6		
Trade receivables (note 16)	1 978.1	1 978.1	1 978.1		
Cash balances (note 17)	1 428.1	1 428.1	1 428.1		
Net liabilities*	1 771.1	1 943.9	1 167.1	725.9	50.9

*As disclosed above, the Group has adequate borrowing facilities to meet these current financial obligations.

29. Financial instruments *(continued)*

29.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the risk.

Currency risk

Derivatives held for risk management

Net investment hedge

The Group has used forward exchange contracts (FECs) to hedge the foreign currency translation risk on its net investment in its foreign subsidiary InterFrank Group Holdings Pty Limited (Franklins).

The fair value of derivatives designated as a net investment hedge is a liability of R72.5 million (R52.2 million net of tax) (2010: nil), which has been recognised directly in the foreign currency translation reserve through other comprehensive income and in fair value of outstanding forward exchange contracts in trade and other payables.

Other derivatives held for risk management

The Group is exposed to foreign currency risk through the importation of merchandise. This risk is covered by entering into FECs. These contracts are matched with anticipated future cash outflows in foreign currencies. FECs are taken out when an order is placed with a foreign supplier. The Group does not use FECs for speculative purposes and does not apply cash flow hedge accounting.

The fair value of forward exchange derivative contracts is an asset of R15.1 million. This has been recognised as income in the statement of comprehensive income and is reflected as a part of fair value of outstanding forward exchange contracts in trade and other payables.

As all foreign purchases are covered by FECs, fluctuations in foreign exchange rates will have no significant impact on the Group.

In relation to the participation in export partnerships, a fixed rate of exchange was set for the purposes of converting the foreign currency receipts in respect of the partnership's sales into South African rands. Any exchange differences are for the account of the managing partner of the partnerships and will have no impact on the earnings of the Group.

The exchange rate sensitivity below, reflects the sensitivity of the assets, liabilities and profit of foreign operations to changes in exchange rates. There is very little exchange rate risk with regard to the import of goods to South Africa as FECs are in place which hedge the risk. The Group uses a 1% change in foreign currency exchange rates as a measure of sensitivity. The financial effect of a change in exchange rates in the case of a foreign operation will affect the carrying value of the foreign currency translation reserve which is a component of equity.

Exchange rate sensitivity

GROUP	**2011 1% increase Rm**	**2011 1% decrease Rm**	2010 1% increase Rm	2010 1% decrease Rm
Assets				
Inventory	**5.3**	**(5.3)**	5.3	(5.3)
Trade and other receivables	**0.3**	**(0.3)**	0.5	(0.5)
Cash and cash equivalents	**1.2**	**(1.2)**	2.5	(2.5)
Property, equipment and vehicles	**5.6**	**(5.6)**	4.9	(4.9)
Intangible assets	**0.3**	**(0.3)**	0.4	(0.4)
Goodwill	**7.0**	**(7.0)**	6.8	(6.8)
Total effect on assets	**19.7**	**(19.7)**	20.4	(20.4)
Liabilities				
Trade and other payables	**(7.0)**	**7.0**	(5.8)	5.8
Leave pay obligation	**(1.1)**	**1.1**	(1.1)	1.1
Long-term debt	**(7.1)**	**7.1**	(6.9)	6.9
Total effect on liabilities	**(15.2)**	**15.2**	(13.8)	13.8
Effect on foreign currency translation reserve	**4.5**	**(4.5)**	6.6	(6.6)

29. Financial instruments *(continued)*

29.3 Market risk *(continued)*

Interest rate risk

The Group manages the interest rate risk on long-term borrowings by fixing the interest rate with the relevant financial institution, wherever possible. We disclose below the information relating to variable interest financial instruments.

The effective rates on financial instruments at 28 February 2011 are:

		Maturity of interest-bearing assets/liabilities			
GROUP – 2011	**Weighted average interest rate %**	**1 year or less Rm**	**2 to 5 years Rm**	**Over 5 years Rm**	**Total Rm**
Financial assets					
Cash and cash equivalents (note 17)	**4.4**	**352.6**	**—**	**—**	**352.6**
Loans (note 12)	**4.7**	**12.5**	**49.9**	**27.8**	**90.2**
Total financial assets		**365.1**	**49.9**	**27.8**	**442.8**
Financial liabilities					
Variable-rate interest-bearing debt					
Finance leases (note 22.1)	**10.4**	**44.0**	**62.1**	**—**	**106.1**
Overnight bank borrowings (note 17)	**5.8**	**900.0**	**—**	**—**	**900.0**
Total financial liabilities		**944.0**	**62.1**	**—**	**1 006.1**
GROUP – 2010					
Financial assets					
Cash and cash equivalents (note 17)	8.0	1 055.3	—	—	1 055.3
Loans (note 12)	2.6	17.3	69.0	38.4	124.7
Total financial assets		1 072.6	69.0	38.4	1 180.0
Financial liabilities					
Variable-rate interest-bearing debt					
Finance leases (note 22.1)	9.2	33.2	99.9	—	133.1
Total financial liabilities		33.2	99.9	—	133.1

Market price risk

The Group has no investment in equity securities and therefore has no exposure to market price risk.

Sensitivity analysis

The analysis overleaf reflects the sensitivity of profit for the year and headline earnings per share to variations in the interest rate. Such variations affect the carrying values of financial assets and liabilities as well as the profit for the year and headline earnings per share. The variation is reflected in rand terms and represents the increase or decrease in the value of the assets, liabilities and profit/equity. The Group uses a 1% change in interest rates as a measure of interest rate sensitivity.

29. Financial instruments *(continued)*

29.3 Market risk *(continued)*

Sensitivity analysis *(continued)*

Interest rate sensitivity

GROUP	2011 1% increase Rm	2011 1% decrease Rm	2010 1% increase Rm	2010 1% decrease Rm
Financial assets				
Cash and cash equivalents	**7.2**	**(7.2)**	14.3	(14.3)
Loans	**0.9**	**(0.9)**	1.2	(1.2)
Total effect on financial assets	**8.1**	**(8.1)**	15.5	(15.5)
Financial liabilities				
Bank overdraft	**(3.6)**	**3.6**	(3.7)	3.7
Overnight bank borrowings	**(9.0)**	**9.0**	—	—
Finance leases	**(1.1)**	**1.1**	(1.3)	1.3
Short-term borrowings	**(0.5)**	**0.5**	(0.4)	0.4
Total effect on financial liabilities	**(14.2)**	**14.2**	(5.4)	5.4
Effect on profit after tax	**(4.4)**	**4.4**	7.3	(7.3)
Effect on headline earnings per share	**(0.9c)**	**0.9c**	1.5c	(1.5c)

Fair value

At 28 February 2011 the carrying amounts of cash and cash equivalents, trade receivables and trade and other payables approximate their fair values due to their short-term maturities. Trade receivables and payables will mature within 30 to 60 days. The fair value of loans, investments and interest-bearing debt approximate their carrying value as disclosed on the statement of financial position.

Basis for determining fair values

Financial liabilities

Fair value is determined by calculating the present value of future cash outflows discounted at a market interest rate at the reporting date. With regard to retirement benefit obligations, fair value is determined by a qualified actuary using actuarial assumptions.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash inflows discounted at a market-related interest rate.

Other financial assets (including cash and cash equivalents and loans)

Fair value is estimated as the present value of future cash inflows discounted at a market interest rate at the reporting date.

Participation in export partnerships – refer to note 13.

29.4 Capital management

The Board considers working capital management critical to the business and, in doing so, manages the balance between current assets and current liabilities. One of the core principles of the Group is to maintain strong cash balances in order to buy inventory forward on a rising market.

From time to time the Group purchases its own shares on the market. All share purchases are intended to cover the issue of shares under the Group's share option schemes.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30. International Financial Reporting Standards (IFRS) and interpretations to be adopted in future years

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 28 February 2011, and have not been applied in preparing these consolidated financial statements. Those standards and interpretations which are applicable to the Group are presented below.

IAS 24 amendment: Related Party Disclosures

The definition of a related party per IAS 24 has been amended to include that if an entity is identified as a related party in another entity's financial statements then the other entity is also a related party in the aforementioned entity's financial statements. This standard becomes mandatory for the Group's 2012 financial statements, and may affect related party disclosure.

IFRS 9: Financial Instruments

Under IFRS 9 there are two options in respect of the classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

The revised IFRS 9 becomes mandatory for the Group's 2014 financial statements. The impact cannot be determined at this stage.