
3
SPIDER-MAN

OUR PERFORMANCE

A MESSAGE FROM OUR CEO

This has been the most important year so far in my tenure as CEO of Pick n Pay. Against a very difficult economic background, we took decisive action to reduce our costs, modernise our offer, and improve the value we offer to South African consumers at a critical time. Our accelerated efficiency efforts added cost and disruption in the first part of the year; however, the Pick n Pay Group is a fitter, stronger and more competitive business as a result of this action.

Ongoing capital investment, together with the successful implementation of a number of key strategic initiatives – including the modernisation of Smart Shopper, a streamlined labour force through a voluntary severance programme and our buy better programme – enabled a substantially improved customer proposition through lower prices, better stores and our growing range of own-brand products. This strategy paid off with an exceptional final-quarter trading performance, where we delivered sales growth well ahead of the market, and solid market share growth across a number of our formats.

Pick n Pay was recognised by the Reputation Institute as South Africa's most trusted retailer last year, and as the third most trusted company in the country. I am proud of this accolade, as it is voted on by South African consumers, and it embodies everything we do every day across all our stores and operations to make the lives of our customers easier and better. The Group will always respond to the needs of society in good times and in bad, driven by a genuine purpose to make a meaningful contribution to the communities we serve.

Economic and social challenges persist, but our team is systematically and sustainably changing the performance trajectory of the Group. The greater efficiency and cost-effectiveness of our operating model will have a positive impact on future sales and earnings, and we are confident that the momentum achieved over the past few months will carry through into the 2019 financial year.

PROGRESS ON OUR PLAN

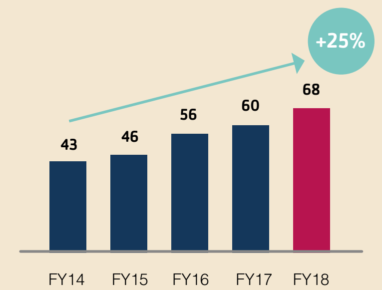
The difficult decisions taken in 2018 and the hard work and commitment from our teams is evident in the substantial progress delivered against our long-term plan.

Greater centralisation across the supply chain

We took more products through our Pick n Pay distribution centres this year, with the total volume of centralised supply increasing to 68% (FY17: 60%). Centralised grocery volume has reached 70% across the country, with the centralisation of fresh and perishable produce at 80%, and general merchandise at 40%.

Centralisation in the Western Cape region, serviced by the Group's Philippi distribution centre, now stands at 78%, with centralised grocery volume at 90%. The Philippi distribution centre now delivers to all our stores along the Garden Route of South Africa, providing improved availability across the region, and driving further cost savings and efficiencies along the 300 km coastal stretch into the Eastern Cape.

TOTAL CENTRALISATION (%)



Centralisation in the inland Gauteng region of South Africa, serviced by the Longmeadow distribution centre, has reached just over 70%, with grocery centralisation now at 75%.

Pick n Pay's new grocery distribution centre in KwaZulu-Natal is now fully operational and began delivering to stores in March 2018. Stores across the region will benefit from less trucks at their back door, more frequent deliveries and improved stock availability.

Boxer opened a second distribution centre in East London in the second half of the year, which is delivering groceries to its stores across the Eastern Cape. Boxer has demonstrated the same conviction as Pick n Pay in building a cost-effective, fully centralised supply chain. The benefits of its warehouse management system and improved demand planning and replenishment are evident in its reduced stockholding, improved on-shelf availability and exceptional waste management.

Richard Brasher
Chief Executive Officer

PICK N PAY IS SA'S MOST TRUSTED RETAILER

Pick n Pay was recognised by the Reputation Institute as South Africa's most trusted retailer last year, and as the third most trusted company in the country. I am proud of this accolade, as it is voted on by South African consumers, and it embodies everything we do every day across all our stores and operations to make the lives of our customers easier and better.

A modern loyalty programme

We modernised Smart Shopper in March 2017, delivering a more innovative and contemporary loyalty programme, offering greater relevance to customers. The programme is now significantly cheaper for the Group to run, with cost savings reinvested in lower prices for customers. The increase in product-specific discounts has delivered stronger customer advocacy and enabled greater supplier participation and funding. We offered R3 billion in personal discounts to our seven million Smart Shoppers this year, and saw the redemption of personalised vouchers double.

Buying for less

Our buy better programme has focused on closer collaboration with suppliers to improve efficiencies and lower costs across the supply chain. The programme is supported by a dedicated IT platform and supplier portal within Pick n Pay, providing comprehensive real-time product and supplier data to facilitate transparent fact-based engagement and accurate decision-making.

The programme has strengthened relationships with over 3 000 suppliers, improved our inventory management and provided greater value for customers.

Lower prices and stronger promotions

In March 2017 the Group invested R500 million in price cuts across 1 300 everyday groceries items, and extended this investment to 2 000 lines over the year, including unbeatable deals on fresh fruit and vegetable combos, and keen pricing on key butchery lines. Selling price inflation was restricted to 2.2% for the year (FY17: 6.1%), well below CPI food inflation of 5.9%.

Our work on pricing could not have come at a more important time. 84% of South African families survive on a household income of less than R20 000 per month. Pick n Pay and Boxer serve customers across all communities and income groups, and we are determined to meet the needs of all our customers, including the most vulnerable in our society.

We have spent a number of years repositioning Boxer into a lean and agile discount supermarket, and we are particularly gratified with the strong performance from this business. Focusing on middle and lower-income customers, Boxer has accelerated its turnover growth in a highly contested market. It has continued to win customers in tough times through a compact and well-defined range, highly competitive prices and a compelling meat and fresh produce offer. I am confident that Boxer is without doubt South Africa's leading limited-range discount supermarket.

A flexible estate with a wider reach

Our space growth is measured and considered, focused on sites which can deliver sustainable long-term returns. Changing customer demographics and needs provide good opportunities for the Group to grow our sales and extend our reach without impacting on existing stores or trading densities.

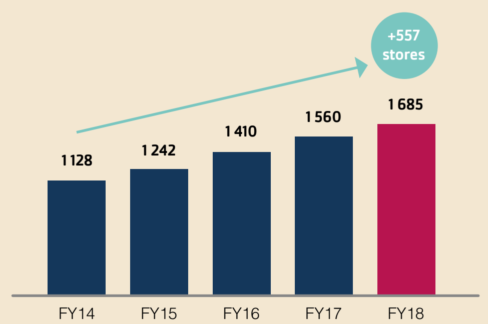
The Group, excluding TM Supermarkets, opened 124 net new stores this year (153 additions, 29 closures), adding 3.3% to its total space. This included 72 new Pick n Pay company-owned stores and 22 Boxer stores across all formats.

The Group opened 59 franchise stores across all formats during the year. The Pick n Pay franchise model is an effective way for emerging entrepreneurs to build businesses, leveraging the buying, distribution and systems capability of Pick n Pay. We support and mentor 14 convenience spaza shops across townships in Gauteng and the Western Cape. These stores reflect a transformative partnership between Pick n Pay and Government, bringing a broader range of safe and affordable food directly to neighbourhood communities. Pick n Pay will continue to play a positive role in growing the informal retail market in South Africa in order to transfer skills and ownership to economically marginalised entrepreneurs.

Better stores

We continued to invest in the quality of our estate, with 80 refurbishments over the course of the year, across 61 company-owned and 19 franchise stores. Major store refurbishments included Pick n Pay's flagship Constantia supermarket in the Western Cape, its Durban North hypermarket in KwaZulu-Natal and the Northgate Hypermarket in Gauteng. These stores all demonstrate the ongoing development of the Group's Next Generation store format and operating model, with an improved store design, a more compact range and a strong fresh and convenience offer. Our Next Generation stores continue to deliver like-for-like turnover growth ahead of the rest of the estate, giving us ongoing confidence in the merits of our investment.

NUMBER OF STORES



We have delivered solid progress on our journey to invigorate our hypermarket business – 75% are now the right size, 50% have been modernised, and in 2018, 100% were more competitive. We are particularly encouraged by the performance of our two new-look hypermarkets, in Durban North and Northgate, which, after major renovations, have been down-sized and redesigned to offer light, bright and spacious shopping experiences, with greater trading space, a stronger fresh produce range and a differentiated general merchandise offer.

A compelling own-brand and convenience range

Our growing range of own-brand products and convenience meals is an increasingly important part of our differentiated customer offer. Pick n Pay introduced 730 new or refreshed own-brand products over the year, including 25 products from its "Pick Local" supplier development programme. There is growing customer support for our own-brand products, with a number of products growing at more than double the rate of independent, national brands in the same category. Pick n Pay was particularly proud of the recognition received for its range of convenience meals, which earned 20 first places in the Sunday Times Food Awards.

Boxer is also finding success with its own-brand products, with strong growth in own-brand staple commodity products like maize, maas and canned vegetables.

Leading online offer

Pick n Pay is the leading online grocery retailer on the African continent. The Group continues to invest in its digital platform, providing customers with unbeatable convenience and ongoing innovation. Pick n Pay's online offer was boosted this year by a new mobile-enabled website, which makes online shopping easier than ever before. These and other improvements have generated a 150% increase in online customer registrations, with a 70% increase in customers accessing Pick n Pay online from a mobile device. Our dedicated online distribution centres in the Western Cape and Gauteng are giving customers a broader range, better availability and consistently high standards of delivery.

Financial services

Our partnership with TymeDigital (a subsidiary of the Commonwealth Bank of Australia) is providing our customers with greater access to banking services at the lowest cost across the banking industry. The partnership leverages off Pick n Pay's substantial store and IT infrastructure and Commonwealth Bank of Australia's extensive digital banking expertise. During the year, our money transfer service attracted over 300 000 new customer registrations.

Pick n Pay launched its first store account in September 2017, in partnership with RCS, a local subsidiary of BNP Paribas Bank. The Pick n Pay account offers the most affordable form of credit in the market, with a 55 days free credit payment option and no joining fee or hidden administration fees. After careful, individual assessment, store accounts were opened for 56 000 of our more affluent customers over the last six months of the financial year. Credit spend was below R200.0 million, with customers electing to use the Pick n Pay credit facility prudently and as an alternative to other forms of more expensive credit, with the majority of our customers electing to pay off their credit each month thereby incurring no interest charges.

The account is accessed through the customer's Smart Shopper card, with all the related benefits of our loyalty programme, with the credit provider carrying all associated funding costs and credit risk.

We will use the broad reach of our infrastructure and the strength of our IT platforms to innovate with financial services and other value-added services for the benefit of our customers.

LOOKING AHEAD

South Africa is a significantly more positive country than it was a year ago. President Ramaphosa has committed to greater levels of economic transformation and growth, including through closer collaboration with the private sector to stimulate investment, greater employment, the elimination of corruption and improved levels of service delivery.

Optimism does not automatically translate into sustainable growth. Sustainable growth requires a successful plan, and hard work to deliver that plan. Over this past year, the Group has taken the most decisive action in its 50-year history to cut costs, become more resilient and give the savings back to our customers in the form of lower prices and better value. We have made our shops brighter and more vibrant, accelerated our own-brand offer and taken real steps to become a true multi-channel retail business.

We are changing the trajectory of the Pick n Pay Group, and will build on this momentum in 2019. The Group will continue to invest in a strengthened customer offer across Pick n Pay and Boxer, and we are confident that we can win customers across all levels of our economy. The Pick n Pay Group will be South Africa's first genuine multi-channel business, with a substantive convenience and online presence, and recognition as South Africa's most affordable and inclusive banking partner.

I would like to extend my sincere thanks and appreciation to the Pick n Pay and Boxer teams who have worked tirelessly over the past few years to build a stronger and more resilient business.

Richard Brasher
Chief Executive Officer

22 June 2018

OUR CFO'S FINANCIAL REVIEW

HIGHLIGHTS

Decisive steps to improve long-term sustainable earnings

Leaner and fitter operating model created headroom to invest in lower prices for customers

Market-beating sales growth in final quarter

Action taken to improve operating model included the VSP, with a once-off severance cost of R250 million

Sustainable trading profit margin, excluding the cost of the VSP, increased from 2.2% to 2.5%

HEPS up 7.1%; diluted HEPS up 7.7%

	52 weeks to 25 February 2018	52 weeks to 26 February 2017*	% change
Turnover	**R81.6bn**	R77.5bn	5.3
Gross profit margin	**18.7%**	18.7%	
Trading profit	**R1 819.9m**	R1 735.6m	4.9
Trading profit margin	**2.2%**	2.2%	
Profit before tax, before capital items	**R1 789.1m**	R1 723.3m	3.8
Profit before tax	**R1 768.1m**	R1 677.0m	5.4
Headline earnings per share	**276.98c**	258.65c	7.1
Diluted headline earnings per share	**271.61c**	252.13c	7.7
Total annual dividend per share	**188.80c**	176.30c	7.1

* *The financial information presented above is on a restated basis. Please refer to note 28 of the Group audited Annual Financial Statements on our website at* ***www.picknpayinvestor.co.za*** *for further information.*

OVERVIEW OF OUR FINANCIAL RESULT

The Group initiated a number of substantial programmes in the first half of the year focused on reducing its operating costs and increasing its productivity across its operations. The action taken included the modernisation of its loyalty programme, a buy better initiative in collaboration with suppliers, and a voluntary severance programme (VSP) across Pick n Pay. The successful implementation of these programmes enabled the investment in a more competitive customer offer in the second half of the year, through lower prices and better promotions.

The success of this strategy was evident in the Group's strong fourth-quarter trading performance. The Group delivered sales growth of 7.3% in the final quarter of the year, with like-for-like growth of 4.9%. This performance was underpinned by the South Africa division, which delivered 8.0% sales growth, with like-for-like growth of 5.3%. This was well ahead of the market and was achieved at a time when internal selling price inflation had fallen to just 0.2%.

The action to reduce operating costs had a once-off impact of R250.0 million in the form of payments to employees who left the Group through the VSP. The VSP costs will not recur in FY19.

Including the VSP cost, trading profit was up 4.9% on last year, headline earnings per share (HEPS) up 7.1%, and diluted HEPS up 7.7%. Excluding the VSP cost, trading profit grew 19.3% year-on-year, with the trading margin improving from 2.2% to 2.5% of turnover. This demonstrates the sustainable progress delivered in building a leaner and fitter operating model.

Bakar Jakoet
Chief Finance Officer

20%
HEPS CAGR

The Group has delivered 20% compound annual growth in earnings over the past five years.

REVIEW OF FINANCIAL PERFORMANCE

The review of the Group's financial performance for the 52 weeks ended 25 February 2018 focuses on the key elements of the statement of comprehensive income and the statement of financial position which management considers material to the Group's performance over the year.

The review should be considered together with the Group's audited annual financial statements, as well as the summarised financial result and the five-year analysis of financial performance set out on pages 64 to 69.

COMPARABILITY OF FINANCIAL INFORMATION

Accounting restatements

The Group reclassified certain elements of supplier income received and advertising costs incurred during the year, which impacted its inventory valuation methodology. Advertising costs and related recoveries are now recorded on a gross basis within trading expenses and gross profit respectively. Any supplier income received that is not directly related to the cost of merchandise sold is now recognised within other trading income. The correction has not had a significant impact on either the profitability or the financial position of the Group.

The normalised result is presented on a restated basis. For further information on the restatement of reported gross profit, other trading income, trading expenses and the value of inventory, refer to note 28 of the Group annual financial statements.

The unbundling of Pick n Pay Holdings Limited RF Group

The Group modernised its control structure in the first half of last year, with the unbundling of the Pick n Pay Holdings Limited RF Group (unbundling transaction). Although there were material non-recurring items in certain individual categories of other trading income and trading expenses, the transaction had no impact on trading profit or headline earnings in the prior year.

The result presented overleaf excludes the non-recurring items related to the unbundling transaction. The result commentary is presented on a normalised basis. Please refer to page 66 for the principal differences between the Group's normalised and published results.

→ *FTSE4Good*

FTSE4Good

FTSE Russell confirms that Pick n Pay has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to assess sustainable investment funds and other products.

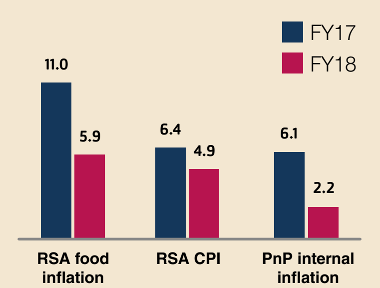
Turnover

Group turnover increased 5.3% to R81.6 billion, with like-for-like turnover growth of 2.2%. Selling-price inflation was kept to 2.2% for the year. The Group's South Africa division delivered turnover growth of 5.1% over the year, with like-for-like growth of 2.3%.

The Group's muted turnover growth reflects the pressure of an exceedingly challenging trading environment, particularly over the first three quarters of the year. However, the positive steps taken by the Group to invest in its customer offer found traction in the final quarter of the year, with a stronger trading performance across all formats.

On a constant currency basis, Group turnover was up 5.3%, with like-for-like turnover growth of 2.2%.

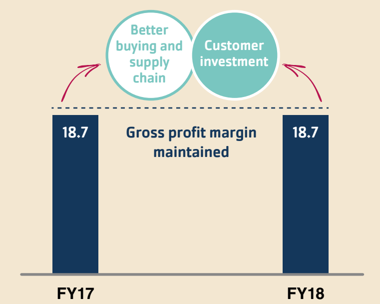
Inflation (%)



Gross profit

Gross profit increased by 5.5% to R15.3 billion (FY17: R14.5 billion). Gross profit margin remained unchanged at 18.7%. Greater price competitiveness was achieved without sacrificing margin through a combination of better buying, a more cost-effective loyalty programme and strong discipline on costs across the procurement and distribution channel.

Group gross profit margin (%)



Other trading income

Other trading income consists of franchise fee income, operating lease income, commissions, income from value-added services, and other supplier income. Other trading income increased 15.6% over the year to R1.8 billion (FY17: R1.5 billion). On a comparable basis, excluding the impact of the restructure of certain franchise agreements and the impact of new head leases detailed below, other trading income increased by 8.4%.

Franchise fee income was up 14.4% to R400.1 million (FY17: R349.8 million), with 46 net new franchise stores added over the year. A number of legacy franchise agreements have been restructured to bring them in line with the standard terms and conditions of the Group's current franchise arrangements. Any increase in franchise fees received as a result of this alignment has been offset by higher royalty payments to franchisees on products purchased through the Group's supply chain (included within gross profit). On a comparable basis, franchise fee income increased by 4.3%.

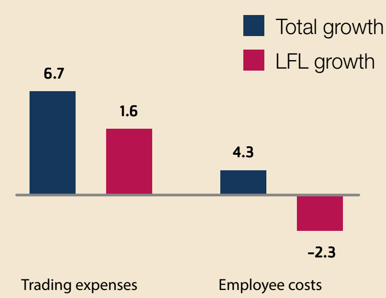
Operating lease income increased by 29.2% to R446.1 million (FY17: R345.3 million), driven by new head leases added over the year. Strategic head leases safeguard the long-term tenancy of Pick n Pay franchise stores at key locations. The increase in rental income received is matched with an equal corresponding increase in rent paid (included within occupancy costs).

Commissions, income from value-added services (VAS), and other supplier income grew 10.5% to R914.4 million (FY17: R827.3 million). VAS income grew 30.1% year-on-year, driven by strong growth in income from financial services and commissions received on third-party bill payments and prepaid electricity purchases.

Trading expenses

Trading expenses of R15.2 billion (FY17: R14.2 billion) were up 6.7% on the prior year, with like-for-like expense growth of 1.6%. Excluding the R250.0 million once-off cost of VSP compensation packages paid in the first half of the year, trading expenses were up 4.9%. This demonstrates the Group's ongoing success in improving the management of its operating costs.

Growth in trading expenses and employee costs (%)



Employee costs increased 4.3% to R6.7 billion, with like-for-like growth of -2.3%. Labour costs improved by 0.1 percentage point to 8.2% of turnover. Excluding the impact of VSP costs, employee costs grew just 0.4% year-on-year, falling to 7.9% of turnover.

Occupancy costs were up 15.2% to R3.1 billion, with 78 net new company-owned stores added to the estate over the year. Like-for-like occupancy costs increased 7.2%, driven by above-inflation regulatory increases in rates (up 20% year-on-year) and increases in security costs to ensure the safety of our customers and staff. Occupancy costs also reflect the addition of strategic head leases over a number of key franchise stores. The Group will continue to negotiate with landlords in order to secure competitive rentals and fair escalation terms, in order to reduce our occupancy costs as a percentage of turnover over time.

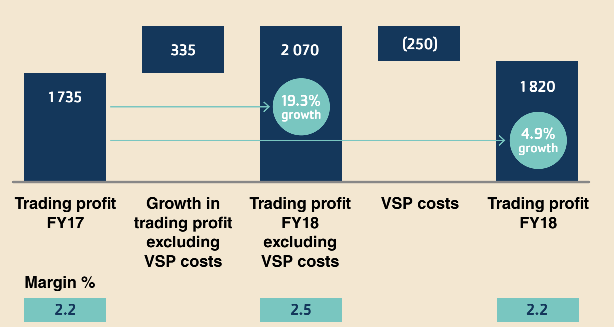
Operations costs increased 7.3% on last year to R3.2 billion, notwithstanding regulatory increases in electricity and utility charges, which were well above inflation. Depreciation and amortisation costs are up 10.8% on last year, reflecting the Group's ongoing investment in the expansion and improvement of its estate. The severe drought in the Western Cape has led to a water crisis in the City of Cape Town, which has necessitated an increase in water tariffs.

Merchandising and administration costs at R2.2 billion increased just 2.2% over the year, with like-for-like growth of 1.7%, demonstrating substantial savings in professional, legal and other support services over the year.

Trading profit

Trading profit increased by 4.9% to R1.8 billion. The trading profit margin remains unchanged at 2.2% of turnover. Excluding the once-off impact of VSP compensation payments, trading profit is up 19.3% year-on-year, to 2.5% of turnover, a good indication of the Group's sustainable profit performance.

Trading profit (Rm)



Net interest

Net interest paid increased from R92.5 million to R147.1 million. The increased interest bill is as a result of lower net cash balances over the year, which reflect the Group's sustained investment in its store opening, refurbishment and centralisation programme over the last five years.

Losses on capital items

The Group incurred capital losses of R21.0 million this year (FY17: R32.4 million) in respect of the disposal or impairment of assets and goodwill, largely related to its refurbishment programme. A further impairment loss of R13.9 million was incurred in the prior year, arising on the unbundling of the Pick n Pay Holdings Limited RF Group. Capital items are added back in the calculation of headline earnings.

Profit before tax

Profit before tax before capital items is up 3.8% to R1.8 billion, with the underlying margin maintained at 2.2% of turnover. Excluding the impact of the once-off VSP compensation payments profit before tax before capital items is up 18.4%, to 2.5% of turnover, demonstrating a marked improvement in the Group's sustainable profit margin.

Profit before tax is up 5.4%, with the underlying margin maintained at 2.2% of turnover.

Rest of Africa segment

Segmental revenue for the Rest of Africa division increased 7.7% year-on-year to R4.6 billion, with segmental revenue in constant currency up 9.3%, 1.4% on a like-for-like basis. Profit before tax was up 27.7% to R287.9 million, underpinned by a strong performance from the Group's associate in Zimbabwe, TM Supermarkets (TM). TM has continued to deliver a strong trading and profit performance in a difficult and complex operating environment. The Group's share of TM's earnings grew 45% on last year to R116.3 million. The trading environment in Zambia remains challenging and the team has responded with stringent cost control.

	FY18	FY17	% change
Segmental revenue	**R4 648.1m**	R4 315.7m	7.7
Segmental profit	**R287.9m**	R225.5m	27.7
Number of stores	**144**	140	

Tax

The Group's effective tax rate is down from 27.5% in the prior year to 26.7% in 2018. The decrease is largely as a result of the greater contribution of our associate's (TM Supermarkets) after-tax profits to the Group's net profit before tax. The Group is confident that its tax rate is sustainable at current levels over the foreseeable future.

Earnings per share

Basic earnings per share (EPS) – increased 9.0% from 250.98 to 273.64 cents per share.

Headline earnings per share (HEPS) – increased 7.1% from 258.65 to 276.98 cents per share.

The difference between the growth in headline earnings of 5.2% and the growth in HEPS of 7.1% is due to the increase in the weighted average number of treasury shares held by the Group, with shares received under the unbundling transaction last year now fully weighted.

The difference between the growth in basic earnings per share and headline earnings per share relates to the effect of losses of a capital nature in the calculation of headline earnings. Capital losses of R15.8 million, net of tax, were taken into account in the calculation of headline earnings in the current period against R37.2 million in the prior period.

Diluted headline earnings per share (DHEPS) – increased 7.7% from 252.13 to 271.61 cents per share. DHEPS reflects the dilution effect of share options held by participants in the Group's employee share schemes. The dilution decreased marginally year-on-year due to the delivery of shares to share scheme participants during the year, including the vesting of the first allocation of forfeitable plan shares.

REVIEW OF FINANCIAL POSITION

The increase in the Group's assets reflects its capital investment programme, in particular its ongoing investment in new and refurbished stores, as well as additional capacity across its central supply chain. The net asset value per share increased 4.8% on last year to 966.2 cents per share. The Group delivered return on capital employed of 32.6% (FY17: 32.3%), against a weighted average cost of capital of 12.0%.

Working capital

The timing of the Group's financial calendar has a substantial impact on reported working capital and cash balances, depending on the timing of creditor payments over financial year-end. The Group's working capital reduced by R119.4 million over the year, against a R948.1 million reduction in the prior year, largely as a result of the timing of the Group's financial calendar cut-off.

Inventory – increased 4.9% on last year to R6.0 billion, including the impact of 78 net new company-owned stores over the year and the short-term impact of greater levels of centralisation across the Group. Removing the impact of new stores and inflation, like-for-like inventory is down 5.0% on last year. This reflects consistent improvement in the Group's forecast and replenishment processes, and solid progress on its plan to reduce its stockholding of slow-moving products through its range rationalisation programme.

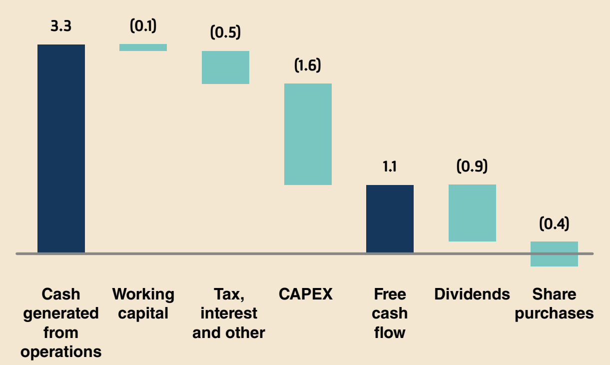
Trade and other payables – of R10.8 billion is up 3.1% on last year, with the positive impact of the Group's buy better programme reflected in lower supplier balances at year-end. The Group implemented its fully integrated 'Pick n Pay Fast Pay' platform this year, a supply chain finance programme that provides suppliers with the opportunity of immediate or early settlement of invoices.

Key banking partners on this platform provide competitive funding for participating suppliers off the strength of the Group's balance sheet.

Trade and other receivables – increased 5.5% on last year to R3.6 billion, with 46 net new franchise stores added over the year, and an increase in the sales to franchisees through the Group's supply chain. The quality of the debtors' book improved on last year, with the impairment allowance reducing to 2.5% of the value of the debtors' book, from 3.5% last year.

Cash generation and utilisation

Cash generation and utilisation (Rbn)



The Group is cash generative, with cash generated before movements in working capital up 5.5% on last year. Cash invested in working capital reflects the impact of new stores and distribution centres and strategic investment buys ahead of year-end.

The Group paid R866.5 million in dividends to shareholders, up 15% on last year, added a further R1.6 billion to its capital investment programme, and invested R423.4 million in its employee share incentive schemes. These important outlays resulted in increased gearing over the 2018 financial year, and an increased interest bill.

Cash outflows were largely funded from internal cash generation, with R1.1 billion of free cash flow generated over the year.

Cash and cash equivalents

	25 February 2018 Rm	26 February 2017 Rm
Cash balances	**1 129.1**	961.9
Cost-effective overnight borrowings	**(1 800)**	(1 800.0)
Cash and cash equivalents	**(670.9)**	(838.1)
Total borrowings	**(528.8)**	(133.2)
Net funding positions	**(1 199.7)**	(971.3)

The Group's net funding position increased by R228.4 million over the year, driven by a strong store opening and refurbishment programme. The Group raised R400.0 million of three-month debt to take advantage of competitive interest rates. The Group's liquidity position remains strong, with R5.5 billion unutilised borrowing facilities at year-end.

Capital investment

Capital expenditure related to the Group's capital investment programme of R1.6 billion was in line with target. The Group opened 94 new company-owned stores during the year (72 Pick n Pay and 22 Boxer), opened its new Pick n Pay distribution centre in KwaZulu-Natal and the new Boxer distribution centre in the Eastern Cape, and refurbished 61 stores across the estate. The Group committed the majority of its capital investment on expansion and refurbishment in order to improve the customers' shopping experience.

SHAREHOLDER DISTRIBUTION

The Board declared a final dividend of 155.40 cents per share. This brings the total annual dividend for the year to 188.80 cents per share, 7.1% up on last year, in line with HEPS growth and maintaining a dividend cover of 1.5 times headline earnings per share.

LOOKING AHEAD TO 2019

The Group has set a new trajectory for long-term sustainable earnings growth. We are confident that the benefits of the structural changes undertaken this year and the increased momentum achieved will be carried into the 2019 financial year and beyond. We will continue to focus on improving our broader customer offer, including through lower prices, in order to drive turnover growth in what remains a tough economic environment. Cost control and operating efficiency are key to gross profit margin stability and continued sustainable improvement in our profit before tax margin. We are confident in our ability to become even more cost-effective over the coming year.

The Group plans to invest a further R1.7 billion next year in new stores, refurbishments and in building our supply chain capacity. Total retail trading space will increase by an estimated 3% in 2019, in line with this year. The Group is confident of its ability to meet its investment requirements through internal cash generation and that it will reduce its reliance on cost-effective, short-term borrowings over the medium term, with a reduction in its interest bill.

APPRECIATION

Thank you to our shareholders and funders for their support and for the broader investment community, both locally and internationally, for their ongoing interest and constructive engagement with the Group. I extend my sincere appreciation to our finance and reporting teams across the Group for their professionalism, integrity and commitment to high standards of financial reporting and corporate governance. They continue to drive improvement in reporting, making our processes quicker, simpler and more transparent. I am grateful for your support.

Bakar Jakoet
Chief finance officer

22 June 2018

ANNUAL FINANCIAL RESULT

The summarised financial result is presented on a restated and normalised basis.

SUMMARY OF FINANCIAL PERFORMANCE

	As per annual financial statements 25 February 2018 Rm	% of turnover	% change	Normalised 26 February 2017 Rm	% of turnover
Revenue	83 504.8		5.5	79 134.6	
Turnover	81 560.1		5.3	77 486.1	
Cost of merchandise sold	(66 309.8)		5.2	(63 029.5)	
Gross profit	15 250.3	18.7	5.5	14 456.6	18.7
Other trading income	1 760.6	2.2	15.6	1 522.4	2.0
Franchise fee income	400.1	0.5	14.4	349.8	0.5
Operating lease income	446.1	0.6	29.2	345.3	0.4
Commissions, dividends received and other income	914.4	1.1	10.5	827.3	1.1
Trading expenses	(15 191.0)	18.6	6.7	(14 243.4)	18.4
Employee costs	(6 688.7)	8.2	4.3	(6 414.0)	8.3
Occupancy	(3 086.6)	3.8	15.2	(2 678.9)	3.5
Operations	(3 178.8)	3.9	7.3	(2 961.7)	3.8
Merchandising and administration	(2 236.9)	2.7	2.2	(2 188.8)	2.8
Trading profit	1 819.9	2.2	4.9	1 735.6	2.2
Finance income	184.1	0.2	46.0	126.1	0.2
Finance costs	(331.2)	0.4	51.5	(218.6)	0.3
Share of associate's income	116.3	0.1	45.0	80.2	0.1
Profit before tax before capital items	1 789.1	2.2	3.8	1 723.3	2.2
Losses on capital items	(21.0)			(46.3)	
Profit before tax	1 768.1	2.2	5.4	1 677.0	2.2
Tax	(471.8)	0.6	2.3	(461.0)	0.6
Profit for the period	1 296.3	1.6	6.6	1 216.0	1.6

	Cents	% change	Cents
Earnings per share			
Basic	273.64	9.0	250.98
Diluted	268.33	9.7	244.65
Headline	276.98	7.1	258.65
Diluted headline	271.61	7.7	252.13

Turnover
Turnover growth of 5.3%, with like-for-like growth of 2.2%, reflects the tough trading environment over the year and substantially lower levels of inflation.

Gross profit
Greater price competitiveness was achieved without any sacrifice in margin through a combination of better buying and strong cost discipline.

Other trading income
Other trading income includes income from value-added services, which grew 30.1% year on year.

Employee costs
Excluding the cost of the VSP of R250.0 million, employee costs grew just 0.4% year-on-year, falling to 7.9% of turnover (FY17: 8.3%).

Occupancy costs
Occupancy costs up 7.2% on a like-for-like basis, driven by above-inflation increases in rates and security costs, and the ongoing addition of strategic head leases to protect the tenancy of key franchise sites.

Net finance costs
The Group's investment in capital programmes has resulted in increased gearing over the year and an increased interest bill.

Trading profit
Trading profit margin unchanged at 2.2%. Excluding the once-off cost of the VSP, trading profit margin improved to 2.5%, an indication of the Group's sustainable profit performance.

SUMMARY OF FINANCIAL POSITION

As per annual financial statements	As at 25 February 2018 Rm	Restated As at 26 February 2017 Rm
ASSETS		
Non-current assets		
Property, plant and equipment	**6 054.4**	5 583.6
Intangible assets	**991.3**	984.3
Operating lease assets	**227.3**	198.3
Financial instruments at fair value through profit or loss	**25.7**	13.7
Investment in associate	**365.6**	309.7
Loans	**79.3**	85.1
Retirement scheme assets	**97.6**	95.3
Deferred tax assets	**194.8**	218.0
Trade and other receivables	**105.4**	145.2
	8 141.4	7 633.2
Current assets		
Inventory	**5 963.7**	5 684.0
Trade and other receivables	**3 529.1**	3 299.9
Cash and cash equivalents	**1 129.1**	961.9
	10 621.9	9 945.8
Non-current asset held for sale	**217.2**	212.8
Total assets	**18 980.5**	17 791.8
EQUITY AND LIABILITIES		
Equity		
Share capital	**6.0**	6.0
Treasury shares	**(863.4)**	(554.3)
Retained earnings	**4 951.7**	4 428.5
Foreign currency translation reserve	**(70.7)**	(24.5)
Total equity	**4 023.6**	3 855.7
Non-current liabilities		
Borrowings	**79.5**	84.0
Operating lease liabilities	**1 571.6**	1 398.6
Deferred tax liabilities	**13.7**	14.6
	1 664.8	1 497.2
Current liabilities		
Trade and other payables	**10 820.6**	10 490.2
Bank overnight borrowings	**1 800.0**	1 800.0
Current borrowings	**449.3**	49.2
Current tax liabilities	**213.7**	87.8
Derivative financial instruments	**8.5**	11.7
	13 292.1	12 438.9
Total equity and liabilities	**18 980.5**	17 791.8

Number of ordinary shares in issue – thousands	**488 450.3**	488 450.3
Weighted average number of ordinary shares in issue – thousands	**473 717.3**	482 237.5
Diluted weighted average number of ordinary shares in issue – thousands	**483 091.1**	494 709.6
Net asset value – cents per share (property value based on directors' valuation)	**966.2**	922.0

Property, plant and equipment
The increase in the Group's assets reflects its capital investment programme, in particular its ongoing investment in new and refurbished stores and its growing centralised supply chain capacity.

Inventory
Removing the impact of new stores and inflation, the like-for-like inventory value is down 5.0% year on year.

Non-current asset held for sale
Land sold after year-end during March 2018.

Total equity
The Group delivered return on capital employed of 32.6% (FY17: 32.3%) against a weighted average cost of capital of 12.0%.

Current borrowings
The Group raised R400.0 million of three-month debt to take advantage of competitive interest rates, which has eased overnight liquidity.

MODERNISATION OF PICK N PAY'S CONTROL STRUCTURE

The Group eliminated its pyramid control structure in the prior year through the unbundling of the Pick n Pay Holdings Limited RF Group. The simplified Group structure is more cost-effective in administration and improves the Group's appeal to investors.

The unbundling transaction had no impact on trading profit or headline earnings last year; however, it resulted in a number of material non-recurring movements on certain individual categories of other trading income and trading expenses, as detailed below:

Summary of non-recurring items included in trading profit in 2017:

	Normalised 26 February 2017 Rm	% of turnover	Non-recurring items 26 February 2017 Rm	As per annual financial statements 26 February 2017 Rm
Revenue	79 134.6		(412.3)	79 546.9
Turnover	77 486.1		–	77 486.1
Cost of merchandise sold	(63 029.5)		–	(63 029.5)
Gross profit	14 456.6	18.7		14 456.6
Other trading income	1 522.4	2.0	(412.3)	1 934.7
Dividend *in specie*	–		(412.3)	412.3
Franchise fee income	349.8	0.5	–	349.8
Operating lease income	345.3	0.4	–	345.3
Commissions, dividends received and other income	827.3	1.1	–	827.3
Trading expenses	(14 243.4)	18.4	412.3	(14 655.7)
Employee costs	(6 414.0)	8.3	205.8	(6 619.8)
Occupancy	(2 678.9)	3.5	–	(2 678.9)
Operations	(2 961.7)	3.8	–	(2 961.7)
Merchandising and administration	(2 188.8)	2.8	206.5	(2 395.3)
Trading profit	1 735.6	2.2	–	1 735.6

Other trading income – included a dividend *in specie* of R412.3 million, representing the value of the Pick n Pay Stores Limited shares (now held as treasury shares) received by the Group on the unbundling of Pick n Pay Holdings Limited RF (PWK).

Employee costs – the Group operates an employee share incentive scheme where eligible employees were granted share options in PWK. These share options were cancelled and replaced with Pick n Pay Stores Limited share options, in terms of the shareholder approval received at the general meeting held on 25 July 2016.

Employee costs included R205.8 million of share-based payment expenses related to the increase in the market value of PWK share options prior to the unbundling, as well as the cancellation and replacement cost of these options.

Merchandising and administration costs – included a net fair value loss of R206.5 million in respect of the Group's investment in PWK. This fair value movement was as a result of the increased market value of PWK shares prior to the unbundling, and the subsequent write-off of the investment on the receipt of the dividend *in specie* distribution.

CASE STUDY: REDUCING OUR PLASTIC FOOTPRINT

To mark World Oceans Day on 8 June 2018 and the impact that plastic has on the oceans, Pick n Pay announced a set of focused initiatives to reduce plastic waste. This follows a commitment made by Chairman, Gareth Ackerman, in April this year to put programmes in place to reduce the use of plastic in our business that is not recycled or recyclable.

Everyone has an important part to play in reducing plastic waste. Pick n Pay wants to make it possible for our customers to help in this effort, and we are giving them more choices in our stores to do just that.

Pick n Pay will initially target five areas in the short term, with an even wider set of targets and commitments that will follow.

100% recyclable plastic bags introduced

Pick n Pay will start introducing 100% recyclable plastic bags, manufactured from recycled plastic and with no added calcium, in their stores from August 2018.

Plastic straws to be phased out

Plastic straws will no longer be provided at checkouts in any of its stores. These will be replaced with paper straws which will only be available at the cold drink kiosks.

Alternatives to everyday plastic disposable items

Pick n Pay own-brand cotton buds will be introduced where the plastic inners will be replaced with paper. A bamboo toothbrush will be included in the toiletries range to provide customers with wider choice.

Reduced plastic packaging impacts

Pick n Pay has introduced recycled material in a range of its own-brand products. Containers of dishwashing liquids and all purpose cleaners now include a minimum of 25% recycled material, while carbonated soft drink bottles include a minimum of 20% recycled material. The plastic punnets used in the packaging of our fresh fruit and vegetables contain a minimum of 25% recycled material and the use thereof will be rolled out to more categories.

Free plastic collection from our stores and our online customer homes

Pick n Pay has had in-store recycling bins for plastic waste available at all our stores for several years. The online team will now increase customers' ability to recycle by offering free plastic collection from online customers' homes.

FIVE-YEAR REVIEW

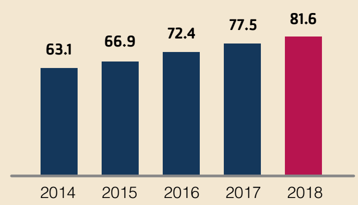
		2018	2017	2016	2015	2014
PERFORMANCE MEASURES						
Turnover growth	%	**5.3**	7.0	8.2	6.1	6.5
Gross profit margin	%	**18.7**	18.7	18.6	18.6	18.4
Other trading income margin	%	**2.2**	2.0	1.9	1.7	1.5
Trading expenses margin	%	**18.6**	18.4	18.5	18.5	18.3
Trading profit growth	%	**4.9**	19.1	20.1	18.1	20.6
Trading profit margin	%	**2.2**	2.2	2.0	1.8	1.6
Profit before tax growth	%	**5.4**	18.5	20.0	38.6	5.2
PBTAE growth	%	**3.8**	19.1	23.8	21.7	22.0
PBTAE margin	%	**2.2**	2.2	2.0	1.7	1.5
EBIT growth	%	**8.2**	(7.6)	54.6	30.3	5.9
EBITDA (before capital items) growth	%	**8.1**	14.4	16.5	4.5	13.4
Profit for the period margin	%	**1.6**	1.6	1.4	1.3	0.9
HEPS	cents	**277.0**	258.7	215.2	173.3	141.2
HEPS growth	%	**7.1**	20.2	24.2	22.8	26.8
ROCE	%	**32.6**	32.3	29.6	24.5	20.6
Net asset value per share	cents	**966.2**	922.0	869.4	741.8	651.7
WACC	%	**12.0**	13.1	12.2	10.6	10.7
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Turnover	Rm	**81 560.1**	77 486.1	72 445.1	66 940.8	63 117.0
Other trading income	Rm	**1 760.6**	1 522.4	1 379.5	1 159.9	965.5
Trading expenses	Rm	**15 191.0**	14 243.4	13 376.6	12 396.6	11 550.5
Trading profit	Rm	**1 819.9**	1 735.6	1 457.7	1 214.1	1 028.1
PBTAE	Rm	**1 789.1**	1 723.3	1 447.5	1 168.8	960.5
Profit before tax	Rm	**1 768.1**	1 677.0	1 414.9	1 179.2	850.9
Profit for the period	Rm	**1 296.3**	1 216.0	1 023.2	843.0	596.5
EBIT	Rm	**1 915.2**	1 769.5	1 915.2	1 238.8	950.5
EBITDA (before capital items)	Rm	**3 023.8**	2 797.3	2 444.5	2 097.9	2 008.5
Headline earnings	Rm	**1 312.1**	1 247.3	1 030.7	829.1	675.4
CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	Rm	**18 980.5**	17 791.8	16 312.5	14 610.3	13 941.7
Ordinary shareholders' equity	Rm	**4 023.6**	3 855.7	3 701.7	3 107.9	2 688.4
Liabilities	Rm	**14 956.9**	13 936.1	12 610.8	11 502.4	11 253.3
STOCK EXCHANGE (JSE LIMITED) PERFORMANCE						
Number of shares in issue	millions	**488.5**	488.5	488.5	487.3	480.4
Weighted average number of shares in issue	millions	**473.7**	482.2	478.9	478.3	478.4
Market capitalisation	Rbn	**36.3**	34.0	27.4	25.7	21.7
Market capitalisation net of treasury shares	Rbn	**35.3**	32.9	26.9	25.3	21.6
Price earnings ratio	times	**26.8**	26.9	26.1	30.5	32.0
Annual dividend per share	cents	**188.8**	176.3	149.4	118.1	92.3
Dividend cover	times	**1.5**	1.5	1.5	1.5	1.5
Dividend yield	%	**2.5**	2.5	2.7	2.2	2.0
Volume of shares traded	millions	**360.1**	345.7	281.6	213.3	165.2
Percentage of shares traded	%	**73.7**	70.8	57.6	43.8	34.4
Market price per share (PIK)						
– close at period-end	cents	**7 428**	6 969	5 614	5 282	4 514
– high for the period	cents	**7 606**	8 424	7 000	6 082	5 440
– low for the period	cents	**5 460**	5 525	4 850	4 401	3 519

Prior period amounts normalised for non-recurring items and/or restated to ensure comparability.

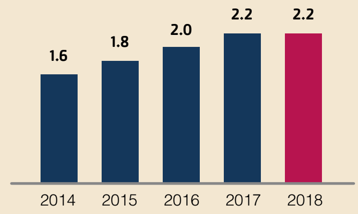
DEFINITIONS

Profit before tax and exceptional items (PBTAE)	Profit for the period, before tax and exceptional items. Exceptional items are determined by the remuneration committee. These are non-recurring items of an exceptional size and nature.
EBIT	Profit for the period, before net interest, tax and capital items.
EBITDA	Profit for the period, before net interest, tax, depreciation, amortisation and capital items.
Headline earnings	Net profit for the period adjusted for the after-tax effect of capital items.
Headline earnings per share (HEPS)	Headline earnings divided by the weighted average number of shares in issue for the period.
Return on capital employed (ROCE)	Headline earnings divided by average shareholders' equity plus non-current borrowings.
Net asset value per share	Total value of net assets at period-end, adjusted for directors' valuations of property, divided by the number of shares in issue at period-end, held outside the Group.
Weighted average cost of capital (WACC)	WACC is the calculation of our after-tax cost of capital in which each category of capital is proportionally weighted. All sources of capital, including non-current borrowings, bank overdraft and short-term borrowings, are included in the calculation.
Market capitalisation	The price per share at period-end multiplied by the number of shares in issue at period-end.
Price earnings ratio	The price per share at period-end divided by headline earnings per share.
Annual dividend per share	The interim dividend declared during the current financial period and the final dividend declared after period-end, in respect of the current financial year.
Dividend cover	Headline earnings per share divided by the dividends per share that relate to those earnings.
Dividend yield	Annual dividend per share expressed as a percentage of closing share price.

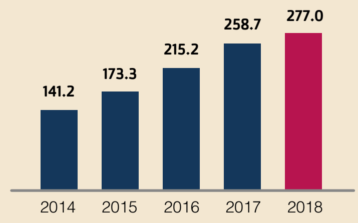
TURNOVER (Rbn)



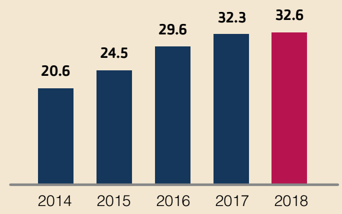
TRADING PROFIT MARGIN (%)



HEPS (cents)



ROCE (%)

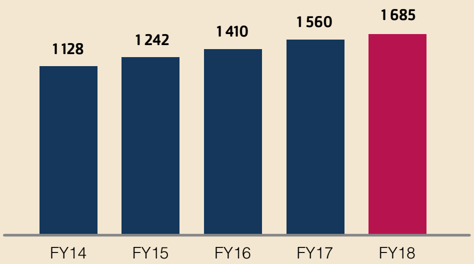


		2018	2017	2016	2015	2014
HUMAN MEASURES*						
Developed a skilled workforce						
Number of employees	000	**51.9**	54.4	52.9	48.7	49.3
Permanent employee turnover	%	**24.9**	19.9	16.1	19.3	15.0
Employment equity**						
Top management	%	**40.9**	35.0	36.0	35.7	39.0
Senior management	%	**71.3**	63.0	66.0	64.4	61.0
Professionally qualified middle management	%	**92.8**	87.0	88.0	87.1	85.0
Skilled technical and junior management	%	**97.8**	97.0	96.0	95.2	95.0
Semi-skilled and discretionary decision-making	%	**99.8**	99.8	99.7	99.7	99.8
Unskilled and defined decision-making	%	**99.7**	99.6	99.5	99.4	99.6
SOCIAL AND ENVIRONMENTAL MEASURES*						
Carbon footprint	CO_2e tonnes	**657 387.2**	671 052.6	656 765.1	613 934.7	588 509.2
Energy usage per square metre reduction (2008 baseline)	GWh	**37.0**	34.1	31.4	32.0	30.0
CO_2e emissions per square metre reduction (2013 baseline)	%	**2.5**	3.5	0.6	2.4	4.0
Waste diverted from landfill	%	**54.3**	48.4	46.0	45.0	43.0
Water consumed	megalitres	**1 161**	1 332	1 249	1 316	1 133
Total CSI spend	Rm	**30.5**	38.7	41.5	44.6	36.0
Schools in Pick n Pay School Club		**3 300**	3 025	3 025	3 025	2 750
BBBEE level		**Level 8**	Level 8	Level 4	Level 4	Level 6
OPERATIONAL STATISTICS						
Number of stores						
Group		**1 628**	1 504	1 353	1 189	1 076
Pick n Pay – company owned		**722**	661	596	510	464
Pick n Pay – franchise		**660**	614	549	490	433
Boxer – company owned		**246**	229	208	189	179
Associate						
TM Supermarkets		**57**	56	57	53	52
Total with associate		**1 685**	1 560	1 410	1 242	1 128
Total square metres	m^2 – millions	**2.5**	2.4	2.3	2.2	2.1
Company owned	m^2 – millions	**1.8**	1.7	1.6	1.5	1.5
Franchise	m^2 – millions	**0.7**	0.7	0.7	0.7	0.6

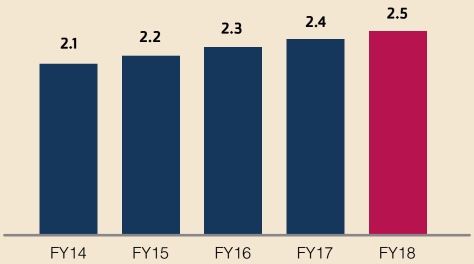
* *Information relates to Pick n Pay-owned stores only.*

** *These measures represent the participation of employment equity candidates, as governed by the Employment Equity Act, No 55 of 1998, in the presented categories.*

NUMBER OF STORES



SQUARE METRES (m^2 – millions)



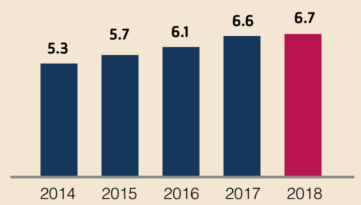
VALUE-ADDED STATEMENT

	52 weeks 25 February 2018 Rm	%	52 weeks 26 February 2017 Rm	%
Turnover	**81 560.1**		77 486.1	
Amounts paid for merchandise and expenses	**(71 445.2)**		(67 769.9)	
Finance income	**184.1**		126.1	
Total value created	**10 299.0**	**100.0**	9 842.3	100.0
Distributed as follows:				
Employees				
Salaries, wages and other benefits	**6 688.7**	**64.9**	6 619.8	67.3
To providers of capital	**1 621.1**	**15.7**	1 317.5	13.3
Distributions to shareholders	**866.5**	**8.4**	753.5	7.7
Share purchases	**423.4**	**4.1**	345.4	3.4
Finance costs	**331.2**	**3.2**	218.6	2.2
Government				
Taxation expense	**471.8**	**4.6**	461.0	4.7
Retained for growth	**1 517.4**	**14.7**	1 444.0	14.7
Depreciation and amortisation	**1 087.6**	**10.6**	981.5	10.0
Profit for the period after distributions to shareholders	**429.8**	**4.2**	462.5	4.7
Total value distributed	**10 299.0**	**100.0**	9 842.3	100.0

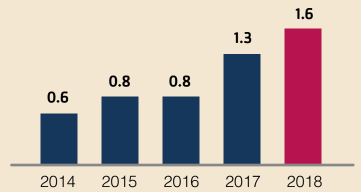
Prior period amounts normalised for non-recurring items and/or restated to ensure comparability.

We have created financial value of R10.3 billion (2017: R9.8 billion) during the financial period. The value-added statement illustrates how we have distributed this value to our stakeholders.

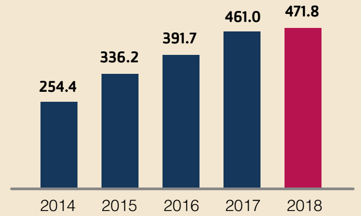
EMPLOYEE COSTS (Rbn)



PROVIDERS OF CAPITAL (Rbn)



GOVERNMENT (Rm)



RETAINED FOR GROWTH (Rbn)