AUDITED ANNUAL FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 MARCH 2020

Pick n Pay

2020

We are pleased to provide our

2020 Audited Annual Financial Statements

to our stakeholders

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These Group and Company annual financial statements have been prepared by the Group's Finance Division under the supervision of the Chief Finance Officer (CFO), Lerena Olivier, CA(SA).

DIRECTORS' RESPONSIBILITY STATEMENT

PICK N PAY STORES LIMITED GROUP

The directors are responsible for the preparation and fair presentation of the Group annual financial statements and annual financial statements of Pick n Pay Stores Limited (the Company), comprising the statements of financial position at 1 March 2020, and the statements of comprehensive income, changes in equity and cash flows for the period then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa No. 71 of 2008 (Companies Act) and the directors' report.

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

The directors have made an assessment of the ability of the Company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the period ahead.

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

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS OF THE COMPANY

The Group annual financial statements and annual financial statements of Pick n Pay Stores Limited, as identified in the first paragraph, were approved by the Board of directors on 19 June 2020 and signed by:

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

COMPANY SECRETARY'S CERTIFICATE

PICK N PAY STORES LIMITED GROUP

In my capacity as Company Secretary, I certify that for the period ended 1 March 2020, Pick n Pay Stores Limited and its subsidiaries has filed all returns and notices as required for a company in terms of section 88(2)(e) of the Companies Act No.71 of 2008, as amended, and that such returns and notices are, to the best of my belief, true, correct and up to date.

Debra Muller
Company Secretary
19 June 2020

DIRECTORS' REPORT

PICK N PAY STORES LIMITED GROUP

NATURE OF BUSINESS

The Company, which is domiciled and incorporated in the Republic of South Africa and listed on the JSE, the recognised securities exchange in South Africa, is an investment holding company. The Group comprises subsidiaries and an associate that retail food, clothing, general merchandise, pharmaceuticals and liquor throughout Africa, both on an owned and franchise basis. The Group also acquires and develops strategic retail and distribution sites.

Significant subsidiaries held directly are presented in note 28 of the Group annual financial statements.

OVERVIEW OF FINANCIAL RESULTS AND ACTIVITIES

Refer to the review of operations on pages 18 to 27 for an overview of financial results and activities of the Group.

The Group manages its retail operations on a 52-week trading calendar where the reporting period will always end on a Sunday. To ensure calendar realignment, a 53rd-week of trading is required approximately every six years. The Group added a 53rd week of trading to the prior financial period, and accordingly the results for the prior financial period are for a 53 week period, ended 3 March 2019, compared to 52 weeks in the current financial period under review. Refer to the annual financial statements presented on pages 30 to 107.

In order to provide useful and transparent comparative information, we have made our results available on a 52-week basis. In addition, we have further presented our results on a comparable basis by adjusting for the non-comparable effects of IAS 29 *Financial Reporting in Hyperinflationary Economies* and a strategic change in our arrangements with airtime and data providers. Refer to the Appendices on pages 110 to 115.

GOING CONCERN

The Pick n Pay Group is operating in the unprecedented circumstances created by the global Coronavirus (COVID-19) pandemic, with South Africa operating under a National State of Disaster and subject to an extended lockdown. Countries in the rest of Africa, in which the Group operates, have implemented similar measures in an attempt to slow down the spread of the virus.

The Board of directors (the Board) has performed a formal review of the Company and its subsidiaries' ability to continue trading as going concerns in the foreseeable future. As part of this review, the Board has given careful consideration to the current COVID-19 outbreak and its impact on the Group. Due to the uncertainty of this outbreak, the Board has considered a range of scenario forecasts to understand the potential outcomes on the Group. In line with standard governance practice, the Board has made an assessment of the Group's solvency and liquidity and is satisfied of the Group's ability to continue as a going concern for the foreseeable future and that the presentation of the annual financial statements on a going concern basis is appropriate.

In accordance with the requirements of the Companies Act, the Group ensures that it complies with the liquidity and solvency requirements for any dividend payment and provision of financial assistance.

SHAREHOLDER DISTRIBUTION

In light of the current economic upheaval from the COVID-19 pandemic, the Board has decided that it would be prudent not to declare a dividend at this time but rather to preserve cash. It is anticipated that a formal dividend declaration will be considered and communicated once the full impact of the COVID-19 pandemic on the Group's operations can reasonably be known and assessed. But for the pandemic, the Board would have declared a final dividend of 173.06 cents per share, maintaining the Group's dividend cover of 1.3 times Comparable Headline Earnings per Share on a 52-week basis. Refer to the Appendices on pages 110 to 115 for further information on the Group's Comparable Headline Earnings per Share. Further communication in this regard will follow at the time of the Group's financial year 2021 interim results publication.

SHARE CAPITAL

At period end, 8 485 240 shares (2019: 9 576 550 shares) of Pick n Pay Stores Limited were held within the Group. These shares are held to settle obligations of share options granted under the Group's employee share scheme.

In addition, 7 630 000 shares (2019: 8 494 000) of Pick n Pay Stores Limited are held within the Group in order to settle obligations under the Group's forfeitable share plan. Participants to the forfeitable share plan have non-forfeitable rights to the dividends on these shares.

Directors' report (continued)

During the period under review, the Company's controlling shareholder (Ackerman Investment Holdings Proprietary Limited) transferred its Pick n Pay Stores Limited shareholding to its wholly-owned subsidiary, Newshelf 1321 Proprietary Limited. Refer to the analysis of ordinary shareholders on page 116.

BORROWINGS

The Group's overall level of debt (including overnight borrowings) decreased by R140.0 million to R2 985.0 million, reflecting a positive impact of financial calendar cut-off. Refer to the Review of Operations on pages 18 to 27 for further information on the Group's net funding position

LEGAL PROCEEDINGS

The Company and its subsidiaries are not involved, and have not in the 2020 financial period been involved, in any legal or arbitration proceedings which may have or have had a material effect on the financial position of the Group, nor is the Company aware of any such proceedings that are pending or threatened.

SPECIAL RESOLUTIONS

On 30 July 2019, the Company's shareholders approved the following special resolutions as tabled in the notice to the annual general meeting:

Directors' fees for the 2020 and 2021 annual financial periods

Shareholders approved the directors' fees.

Provision of financial assistance to related or inter-related companies and others

Shareholders resolved, in terms of the provisions of section 45 of the Companies Act, that the Company may from time to time provide direct or indirect financial assistance to any director, prescribed officer, related company, inter-related company or member of a related or inter-related company on such terms and conditions as determined by the Board.

General approval to repurchase Company shares

Shareholders resolved that the Company or any of its subsidiaries may acquire issued shares of the 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 Memorandum of Incorporation of the Company, the provisions of the Companies Act, and the Listings Requirements of the JSE, provided further that acquisitions of shares in the Company by the Company and its subsidiaries may not, in the aggregate, exceed in any one financial year 5% of the Company's issued share capital of the class of repurchased shares.

DIRECTORS AND SECRETARY

Refer to note 4 of the Group annual financial statements for a list of directors of the Company for the 2020 financial year.

The directors listed below retire by rotation and they offer themselves for re-election at the next Annual General Meeting (AGM) on 4 August 2020:

Gareth Ackerman (non-executive)
Hugh Herman (non-executive)
Jeff van Rooyen (non-executive)

The directors listed below offer themselves for election at the next AGM on 4 August 2020:

Lerena Olivier (executive), effective 6 September 2019
Aboubakar Jakoet (non-executive), effective 6 September 2019

Subsequent to the 2020 financial year end, the following directors were appointed to the Board and offer themselves for election at the next AGM on 4 August 2020:

Mariam Cassim (non-executive), effective 18 May 2020
Haroon Bhorat (non-executive), effective 18 May 2020

The Company Secretary is Debra Muller.

DIRECTORS' INTEREST IN SHARES

Refer to note 4 of the Group annual financial statements and note 8 of the Company annual financial statements for details of the directors' interest in shares.

AUDIT, RISK AND COMPLIANCE COMMITTEE

We draw your attention to the audit, risk and compliance committee report on pages 12 to 17 where we set out the responsibilities of the committee and how it has discharged these responsibilities during the period.

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

19 June 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PICK N PAY STORES LIMITED

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Pick n Pay Stores Limited and its subsidiaries ('the Group') and company set out on page 30 to 95 and 98 to 107, which comprise of the consolidated and separate statements of financial position as at 1 March 2020, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the period then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 1 March 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (Revised November 2018) (together "the IRBA Codes") and other independence requirements applicable to performing audits of financial statements of the group and company in South Africa.

We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and company in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA code) and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Independent auditor's report (continued)

The Key Audit Matters apply only to the audit of the consolidated financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
ADOPTION OF *IFRS 16 LEASES*	
The new accounting standard on leases, IFRS 16 *Leases*, became effective during the period ending 1 March 2020. In adopting the standard using the full retrospective approach, the Group recognised right-of-use ('ROU') assets, net investment in leases, and lease liabilities with carrying values as at 1 March 2020 totalling R9 880.6 million, R2 350.9 million and R15 905.2 million respectively. The disclosures required by the standard for these balances are contained in notes 1.6, 11, 12 and 24. The impact of adopting IFRS 16 *Leases* is disclosed in note 32. We focused attention in this area due to the number of property and non-property contracts in the Group, the values associated to the respective rentals, the level of judgement required in assessing the accounting for various lease terms (such as beneficial occupation date and end date), the complexity of subsequent modifications to leases and the restatement of comparative information required as a result of the fully retrospective adoption of the standard. Therefore, given the volume of different lease agreements and the significance of the differences between these agreements, there was significant audit effort required to inspect the agreements, consider the appropriateness of the discount rate for each lease and consider management's assessment of subsequent modifications and possible impairment indicators. Furthermore, we were required to extensively involve our different specialists in the evaluation of discount rates, the impairment assessments and data-integrity. For these reasons, as well as the materiality of the adoption to both the financial position and performance of the Group the adoption of IFRS 16 *Leases* was a key audit matter.	Our procedures, amongst others, included: • We evaluated management's policies, processes and controls put in place to identify, capture and account for active leases across the group. This evaluation included the involvement of the internal information technology specialists on our team; • We evaluated the completeness of property and non-property leases identified by management by comparing rental payments made during and subsequent to period end to the IFRS 16 lease database, and testing the beneficial occupation dates for a sample of stores opened subsequent to period end; • For a sample of leases: – We inspected the terms and conditions of the underlying contract and evaluated management's identification of relevant lease terms to determine whether the leases were correctly considered for adoption and accounted for in terms of the standard; – We inspected the details of the contract to assess management's determination of the beneficial occupation date and the lease end date (considering option periods contained in the contract); – We assessed the discount rates determined by management with reference to entity-specific borrowing rates and external market data with the assistance of our internal quantitative analyst specialists; – We recalculated the lease liabilities and ROU assets based on the underlying contractual terms; • We evaluated the completeness of modifications to lease agreements identified by management through enquiries with operational management regarding lease amendments and investigation of changes in lease payments over the period. In addition, for a sample of leases we reperformed the calculation of the modification impacts on the ROU assets and lease liabilities. • We evaluated management's impairment assessments of the ROU assets by evaluating the recoverable amount for a sample of cash generating units with reference to recent market transactions; • We evaluated management's impairment assessments of a sample of Net Investment in Lease receivables by recalculating the expected credit loss, assessing the *probability of default* and *loss given default* in conjunction with our internal quantitative analyst specialists, and verifying the calculation inputs to source documentation; and • In conjunction with our internal financial reporting specialists, we assessed the completeness and accuracy of disclosures with reference to the requirements of *IFRS 16 Leases*.

Independent auditor's report (continued)

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
GOODWILL IMPAIRMENT	
Goodwill for the Group has a carrying value of R444.1 million at 1 March 2020 (2019: R428.5 million). Goodwill originated from the purchase of subsidiaries in prior years, and the purchase of individual retail outlets in the current and prior years. Disclosure relating to goodwill is included in notes 1.6 and 9 of the financial statements. Management performs a goodwill impairment test annually and applies judgement in determining the assumptions and inputs to calculate the *fair value less costs of disposal* and *value in use* to be used as the recoverable amount for each cash generating unit. We focused our attention on the assumptions applied and inputs used by management in forecasting cash flows, including forecast growth rates for the explicit and terminal forecast periods and forecast trading margins. Furthermore, we focused our attention on the assumptions and inputs used in calculating discount rates, including the judgement involved in quantifying a specific risk premium. Due to the difficult trading environment and deteriorating macro-economic outlook in the current year, the assessment of the reasonableness of assumptions relating to cash flow forecasts required robust dialogue and extensive use of internal valuation specialists. Accordingly, the matter has been considered a key audit matter.	Our procedures relating to the impairment assessment of goodwill recognised on the purchase of stores included, amongst others: • We evaluated, in conjunction with our internal valuation specialists, the methodology applied by management in determining the *fair value less costs of disposal* and *value in use* for cash generating units, with reference to the requirements of accounting standards and our knowledge of the business; • We recalculated management's discounted cash flow models and confirmed their arithmetical accuracy; • We evaluated the key assumptions and judgements, including the revenue growth rates, trading margins, cost growth rate assumptions, working capital and capital expenditure cash flows, and the weighted average cost of capital used to discount the forecast cash flows, by assessing, in conjunction with our internal valuations specialists, the reasonableness of key assumptions against historic performance and market information; • We involved our internal valuation specialists in assessing the discount rates against external market references and recalculating the discount rates used; • We assessed the assumptions and calculations of *fair value less cost of disposal* for cash generating units with reference to recent market transactions, and involved our internal valuation specialists to evaluate the reasonableness of management's assessments; • We assessed the impact of the adoption of IFRS 16 *Leases* in the determination of the carrying values and recoverable amounts for each cash generating unit; and • In conjunction with our internal financial reporting specialists, we assessed the completeness and accuracy of disclosure relating to the impairment assessments with reference to the requirements of IAS 36 *Impairment of Assets*.

Independent auditor's report (continued)

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
INVENTORY VALUATION – REBATES AND PROVISIONS	
The gross carrying value of inventory, provisions for shrinkage, obsolescence and mark downs against inventory are disclosed in note 16. The two areas noted below relating to inventory valuation has been assessed as a key audit matter in the current year: 1. Rebates and other income that have been received as a reduction in the purchase price of inventories. 2. Provision for obsolete, redundant and slow-moving inventory items. 1. Rebates and other income that have been received as a reduction in the purchase price of inventories. The Group earns significant amounts of rebates and other income, and recognises the relevant portion of these as a reduction in the cost of inventory where the payments do not relate to a specific and genuine service. Management have applied significant judgement relating to the determination of these rebates and other income received as a reduction in the purchase price of inventory which has an impact on the measurement of inventory as at 1 March 2020. We had focused attention in this area due to the judgement required in assessing the accounting for various rebate and other income contracts, as well as the complexity of the calculation used in recognising the relevant portion of these as a reduction in the closing cost of inventory. In addition to the complexity of the calculation we note that as a result of the volume and variety of rebate and other income agreements, for which the terms vary from period to period, there is significant audit effort required. This fact and the materiality of the impact to the valuation of the closing cost of inventory meant we considered this a key audit matter in the current period. 2. Provision of obsolete, redundant and slow-moving inventory items. Obsolete, redundant and slow-moving inventory items are identified on a regular basis by management across the procurement and supply chain channel and are written down to their estimated net realisable values, including for shrinkage and anticipated mark downs. We focused attention on the areas of significant management judgements, including forecast future trading expectations and the expectation of sales volumes of the products being considered. Significant audit effort was required in the current year as a result of the difficult trading environment and deteriorating macro-economic outlook, and the increase in the carrying value of inventory in relation to the prior period. Furthermore, changes in the mix of inventory on hand from period to period (e.g. fresh food or clothing) resulted in additional audit effort as the assumptions and judgements used in valuing inventory vary between the categories. The matter is thus considered a key audit matter.	1. Our procedures relating to the effect of rebates and other income that has been received as a reduction in the purchase price of inventories on the valuation of inventory included, amongst others: • We inspected a number of major supplier agreements to understand their terms; • We assessed management's conclusion as to whether or not the rebate relates to a specific and genuine service, and consequently the treatment of the rebate in relation to the measurement of the cost of inventory at year end, through comparison to prior year treatment and evaluation of the types and terms of rebates received with reference to contractual terms; • We assessed the systems used to calculate rebates as well as the controls implemented in the process of rebate calculation; • We recalculated and assessed the rebate amounts recognised and the period in which they were recognised. This was based on the inspection of contractual performance obligations on a sample of contracts with suppliers to assess the conditions required for supplier rebates to be recognised and whether or not these had been met; and • We assessed the recognition and classification of the rebates and other income and related costs in terms of the requirements of IAS 2 *Inventories*. 2. Our procedures relating to provisions against inventory included, amongst others: • We evaluated the methodology, assumptions and judgements applied by management in determining the shrinkage, obsolescence and mark down provisions, by assessing and testing historical information, and assessing data trends and ageing profiles; • We evaluated the overall reasonableness of the provisions by performing analytical procedures on provisioning levels, including a comparison against historical experience and taking into account economic conditions existing as at 1 March 2020; and • We assessed the disclosures of the provisions in terms of IAS 2 *Inventories*.

Independent auditor's report (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the 118-page document titled "Pick n Pay Audited Annual Financial Statements for the period ended 1 March 2020", which includes the Company Secretary's certificate, Directors' report, and the Audit, risk and compliance committee report as required by the Companies Act of South Africa and the Directors' responsibility statement, Review of operations, Analysis of ordinary shareholders, Analysis of B shareholders, Appendices, and Corporate Information which we obtained prior to the date of this report, and the Integrated Annual Report and Corporate Governance Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's or company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and/or company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and/or separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report (continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Pick n Pay Stores Limited for 5 years.

Ernst & Young Inc.

Director: Malcolm Rapson
Registered Auditor

Chartered Accountant (SA)
3rd Floor, Waterway House
3 Dock Road, V&A Waterfront
Cape Town

19 June 2020

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

PICK N PAY STORES LIMITED GROUP

INTRODUCTION

The Group operates in the fast-moving consumer goods industry on the African continent, primarily in South Africa, and recognises that it will be exposed to certain risks in order to achieve sustainable growth. The focus of the Group's risk management is to ensure that an appropriate balance between risk and reward is maintained while protecting all stakeholders against avoidable risks and mitigating the impact of unavoidable risks.

The Board of directors (the Board) is responsible for Group-wide risk governance by ensuring that adequate systems are in place to identify, evaluate and manage key business risks. The Board is assisted in this regard by the audit, risk and compliance committee, whose responsibility it is to develop, communicate and monitor the risk management process across all divisions in the Group.

The Board retains the overall responsibility to review and approve the annual financial statements for the Group and the Company.

NOVEL CORONAVIRUS PANDEMIC (COVID-19) AND ITS IMPACT ON THE ACTIVITIES OF THE COMMITTEE

The Pick n Pay Group is operating in the unprecedented circumstances created by the global COVID-19 pandemic, with South Africa operating under a National State of Disaster and subject to an extended lockdown. Countries in the rest of Africa, in which the Group operates, implemented similar measures in an attempt to slow down the spread of the pandemic.

As an essential service provider, the Group has embraced its responsibility to support consumers with vital access to essential consumer goods during the lockdown, notwithstanding considerably constrained operating circumstances.

The COVID-19 pandemic and extended lockdown measures continues to have a significant impact on the economies in which the Group operates in. In response to this, and as informed by the committee, the Group has expanded its group risk strategy and framework regarding crisis management to specifically address the COVID-19 pandemic. Internal controls impacted by the pandemic continue to be assessed, monitored and amended where relevant, including controls which address the following risks:

- Health, safety and human resources
- Liquidity and going concern
- Governance and regulatory
- Group strategy and economic implications
- Operational and technological
- Financial reporting
- Communication

In addition, business continuity and disaster recovery plans continue to be assessed and, where necessary, amended.

The Board concluded that the impact of the COVID-19 pandemic was a non-adjusting subsequent event, as the first case in South Africa was confirmed after the 2020 financial year-end. The COVID-19 pandemic therefore did not affect the economic assumptions and estimates made at 1 March 2020 for financial measurement purposes. Refer to note 31 of the audited Group annual financial statements for further information. The guidance and amendments to regulations published by the JSE, IFRS and SAICA regarding the Group's reporting obligations continue to be closely monitored.

The practical implications of the COVID-19 lockdown resulted in logistical delays in the financial statements close process and the audit process of the 2020 financial result. Following consultation with the JSE and EY, the committee consented to management's request that the Group's result be released with a review opinion, as opposed to an audit opinion, to ensure that the Group's results were released timeously to shareholders. The reviewed results were released on 12 May 2020, followed with the approval of the audited financial result on 19 June 2020.

The committee will continue to oversee management's efforts to ensure the on-going integrity of the Group's risk and control environment in these unprecedented times of the COVID-19 pandemic.

Audit, risk and compliance committee report (continued)

COMPOSITION AND ACTIVITIES OF THE COMMITTEE

A standing statutory committee, it is chaired by an independent non-executive director and comprises only independent non-executive directors. In accordance with the requirements of the Companies Act, members of the committee are appointed annually by the Board for the ensuing financial period and are elected by shareholders at the annual general meeting. Fees paid to committee members are disclosed in the annual Corporate Governance Report available on the Group's website at www.picknpayinvestor.co.za.

The committee meets formally twice a year with the Chairman, the Chief Executive Officer, the Chief Finance Officer, the head of the internal audit function and the external auditors in attendance. The committee has the right to invite other Board members, executives and external advisors to attend any meeting. In addition, the committee chairman meets with executives, and the internal and external auditors whenever necessary. The internal and external auditors have unfettered access to the committee and its members throughout the year. Formal minutes of meetings are made available to all members of the committee and are available on request to all members of the Board. The effectiveness of the committee is assessed as part of the annual Board and committee self-evaluation process.

Committee members and attendance at meetings held during the 2020 financial period

MEMBERS	QUALIFICATIONS AND EXPERIENCE	ATTENDANCE
Jeff van Rooyen (Chairman)	A chartered accountant with extensive experience in both the private and public sectors, Jeff is chairman of the committee	2/2
Hugh Herman	An attorney and well-respected businessman, Hugh is honorary life president of the Investec Group	2/2
David Friedland	A chartered accountant with extensive expertise in auditing, risk and compliance, David had a long career as audit engagement partner and lead partner with major audit companies	2/2
Audrey Mothupi	An Honours graduate with wide business experience in strategy, marketing and banking, Audrey is the CEO of the SystemicLogic Group	2/2

Full details of the members' qualifications and experience are set out in the CVs section of the annual Corporate Governance Report on the Group's website at www.picknpayinvestor.co.za.

RESPONSIBILITIES AND ACTIVITIES PERFORMED

The committee is authorised by the Board to investigate any activity within its terms of reference. The committee has the right to:

- Seek any information that it requires from any employee or director
- Demand unrestricted access to records and information
- Liaise directly with the Group internal audit services and the external auditors
- Obtain outside legal or other professional advice
- Have access to the resources it needs to fulfil its responsibilities
- Set and maintain an appropriate mandate for subsidiary company audit committees

Full details of the role of the committee are set out in the annual Corporate Governance Report, available on the Group's website at www.picknpayinvestor.co.za.

The Group manages its retail operations on a 52-week trading calendar, where the reporting period ends on a Sunday. To ensure calendar alignment, a 53rd week of trade is required approximately every six years and, as a result, a 53rd week of trading was included in the prior period.

To provide useful and transparent comparative information, a 52-week result for the prior year has been presented for comparison against the current year 52-week result. The prior period 52-week financial information constitutes pro forma information as per the JSE Listings Requirements. Refer to the Appendices for further information.

Audit, risk and compliance committee report (continued)

Integrated and financial reporting and finance function

RESPONSIBILITIES	ACTIVITIES PERFORMED AND AREAS OF FOCUS
• Providing independent oversight and assessment of the effectiveness of the Group's assurance functions and services, with particular focus on combined assurance arrangements, including internal audit, external assurance service providers and the finance function • Providing independent oversight and assessment of the integrity of the annual financial statements and other external reports issued by the Group • Providing independent oversight and assessment of the management of financial and other risks that affect the integrity of external reports issued by the Group • Ensuring that the necessary internal controls and checks and balances are in place • Establishing that management are enforcing use of the controls • Overseeing any tender process adopted to establish whether new external auditors should be appointed • Acting as a liaison between the external auditors and the Board	• Reviewed and recommended to the Board for approval the annual financial statements, interim results, preliminary results announcement and Integrated Annual Report; • Ensured and recommended to the Board that financial and integrated reporting was reliable and was in conformity with International Financial Reporting Standards (IFRS); the Companies Act, the JSE Listings Requirements and the King IV Code of Conduct; • Reviewed and approved the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls; • Ensured that the Group has established appropriate financial reporting procedures and that those procedures are operating, including considering the Group structure, to ensure that the committee has access to all the financial information of each company in the Group, to allow effective preparation of the report on the financial position of the Group; • Continued focus on ensuring that the Group's financial systems, processes and controls are operating effectively and are responsive to changes in the environment and industry; • Reviewed the sustainability disclosure in the Integrated Annual Report and ensured that it was consistent with financial information reported; • Considered the expertise, experience and resources of the Group's finance function; • Reviewed the Group's integrated reporting function and progress, considering factors and risks that could impact on the integrity of the Integrated Annual Report; • Reviewed and confirmed that the listed company has an independent sponsor at all times during the financial period; • Ensured that the appointment of the external auditor was included as a resolution for shareholders to vote on in the Notice of the 2020 annual general meeting; • Reviewed and considered representations by management on the going concern statement for the Group and recommended the adoption of the going concern concept to the Board, including any potential impact of the COVID-19 pandemic; • Reviewed and considered representations by management on the conclusion that the COVID-19 pandemic was a non-adjusting subsequent event; • Ensured that prior period pro forma financial information, prepared in accordance with IFRS and the JSE Listings Requirements, was provided to stakeholders on an equivalent 52-week basis, to assist stakeholders with their assessment of the Group's comparable performance; • Reviewed and considered the adoption of new accounting standards that impacted on financial reporting, including the adoption of IFRS 16 *Leases;* and • Monitored the political and economic situation in Zimbabwe and the accounting treatment of the Group's investment in its associate, TM Supermarkets (Pvt) Ltd in a hyperinflationary environment, including the application of IAS 29 *Financial Reporting in Hyperinflationary Economies.*

Internal audit

The internal audit function is independent of business operations and provides assurance on the adequacy and effectiveness of internal controls. In developing its annual combined assurance plan, the internal audit function follows a risk-based methodology to identify material business risks, which are then confirmed and addressed by the relevant individual divisional managers.

RESPONSIBILITIES	ACTIVITIES PERFORMED AND AREAS OF FOCUS
• Reviewing and approving the internal audit charter and audit plans • Evaluating the independence, effectiveness and performance of the internal audit function and compliance with its mandate • Reviewing the Group's system of internal control, including financial controls, ensuring that management is adhering to and continually improving these controls • Reviewing significant issues raised by the internal audit process • Reviewing policies and procedures for preventing and detecting fraud	• Reviewed the internal audit coverage plan; • Considered and confirmed the composition, experience, resources, independence and skills of the internal audit function; • Considered and confirmed that the head of the internal audit function has the appropriate expertise and experience for the position; • Ensured continued progress in integration with the combined assurance model; • Reviewed the effectiveness of internal financial controls; and • Met separately with the internal auditors to confirm that they received the full co-operation of management.

Audit, risk and compliance committee report (continued)

External audit

Following a tender process, Ernst & Young Inc. (EY) was appointed as external auditor to the Group in July 2015, bringing their tenure to five years.

The committee annually considers whether a tender process should be adopted to establish whether new external auditors should be appointed. The Independent Regulatory Board for Auditors' (IRBA) rule on mandatory audit firm rotation was taken into consideration. In terms of the rule, the external auditor firm would be rotated in the financial period ended 2027. The committee concluded that a new tender process was not required in the 2021 financial period.

In terms of section 92 of the Companies Act, no. 71 of 2008 as amended (the Act), the designated auditor of a company is required to be rotated after serving as a company's auditor for five consecutive financial years. The 2020 financial year marks the end of the five-year tenure of Malcolm Rapson as designated audit partner. Tina Rookledge will be appointed as the new designated audit partner for the 2021 financial period. Both audit partners have been assessed to have the necessary competence, ability and independence required for this position.

The committee confirmed its satisfaction with the performance and level of service rendered by EY during the 2020 financial period.

RESPONSIBILITIES	ACTIVITIES PERFORMED AND AREAS OF FOCUS
• Acting as a liaison between the external auditors and the Board • Nominating the external auditor for appointment by shareholders • Determining annually the scope of audit and non-audit services that the external auditors may provide to the Group • Approving the remuneration of the external auditors and assessing their performance • Assessing annually the independence of the external auditors • Ensuring a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor	• Ensured the appointment as external auditor a registered auditor, who, in the opinion of the committee, was independent of the Group and recommended approval for the re-appointment of EY as external auditors; • Ensured that the re-appointment of the external auditor complied with relevant legislation; • Assessed the competence of the designated audit partner; • Ensured that the Group's designated audit partner would be rotated during the 2021 financial period, in compliance with section 92 of the Companies Act; • Reviewed IRBA's rule on the requirements of mandatory audit firm rotation; • Determined the fees to be paid to the external auditor, as well as the terms of engagement; • Pre-approved non-audit services provided by the external auditors; • Considered and confirmed the independence of the external auditors, taking into account all non-audit services performed and circumstances known to the committee; • Reviewed the external audit coverage plan to ensure adequate coverage of critical risk areas and dealt with questions arising from audit activities; • Met with management, independently of the auditors, to discuss issues relevant to the audit and for purposes of evaluating the quality and effectiveness of the external audit function; • Evaluated the performance, and reviewed the reports, of the external auditors and ensured that the reporting was reliable, transparent and a fair representation for the use by stakeholders; • Received and appropriately dealt with any queries relating to the accounting practices of the Group, the content of its financial statements and the internal financial controls of the Group or to any related matter; • Made submissions to the Board on any matter concerning the Group's accounting policies, financial controls, records and reporting; and • Met separately with both the external and internal auditors to confirm that full co-operation was received by them from management.

Audit, risk and compliance committee report (continued)

Risk management

The Chief Finance Officer serves as the Chief Risk Officer for the Group and attends all audit, risk and compliance committee meetings by invitation. The day-to-day responsibility for identifying, evaluating and managing risk remains the responsibility of senior management, who are supported by the internal audit function. Currently, the combined assurance plan serves as the source for the Group's top-down risk management programme. These risks are typically strategic and operational, and are quantified by the finance function, where relevant.

RESPONSIBILITIES	ACTIVITIES PERFORMED AND AREAS OF FOCUS
• Ensuring that the Group has adequate processes in place to identify, monitor and manage all significant business and financial risk areas • Assisting management to identify risk areas, and evaluating management in the handling of identified risks • Ensuring that the Group's assets are secure • Ensuring that the Group's information systems are adequate, secure and function effectively • Ensuring that the accounting system and controls are adequate and function effectively • Ensuring that the effectiveness of the internal control measures is continually evaluated • Ensuring that systems exist that adequately provide for the Group's conformance with all laws, regulations and codes	• Discharged all audit, risk and compliance committee responsibilities of all the subsidiary companies in the Group; • Together with internal auditors, external auditors and management, reviewed the findings of the financial review committees of the material operating divisions in the Group; • Ensured that management's processes and procedures were adequate to identify, assess, manage and monitor enterprise-wide risks; • Reviewed operational risks, in particular how they were managed; • Met with management to review their progress on identifying and addressing material risk areas within the business; • The Chairman met regularly with key management to keep abreast of emerging issues which, during the 2020 financial period, included: – The adoption of new accounting standards, including IFRS 16 *Leases* – Continued monitoring of possible corporate governance failures and their implications on risk management and director responsibilities in oversight of management – The unfolding political and economic events in Zimbabwe and in other countries in Africa in which the Group is operating or considering operating • Reviewed both global and local governance failures, to ensure that the Group's risk management remained robust and relevant.

Audit, risk and compliance committee report (continued)

POLICY ON NON-AUDIT SERVICES

All non-audit services provided by the Group's external auditors are required to be pre-approved by the committee. The nature and extent of non-audit services provided by the external auditors has been reviewed to ensure that the fees for such services do not become so significant as to call into question their independence. During the period under review, EY received R0.4 million (2019: R0.4 million) equating to 3.6% (2019: 4.3%) of the total audit remuneration relating to agreed-upon procedures. All non-audit services undertaken during the 2020 financial period were approved in accordance with this policy.

EXPERTISE AND EXPERIENCE OF CHIEF FINANCE OFFICER AND FINANCE FUNCTION

The committee, together with the lead external audit partner, has considered and confirmed the composition, experience, resources and skills of the finance function. The committee is satisfied that Lerena Olivier has the appropriate expertise and experience for the position of Chief Finance Officer of the Group. In addition, the committee is satisfied that the composition, experience and skills of the finance function meet the Group's requirements.

LEGAL REQUIREMENTS

The committee has complied with all applicable legal, regulatory and other responsibilities for the 2020 financial period.

EFFECTIVENESS OF THE DESIGN AND IMPLEMENTATION OF INTERNAL FINANCIAL CONTROLS

The committee has examined the effectiveness of internal financial controls, to assess if there are any significant weaknesses in the design, implementation or execution of internal financial controls that could result in material financial loss, fraud, corruption or error. Through this process no material matter has come to the attention of the audit, risk and compliance committee or the Board that has caused the directors to believe that the Group's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements. The committee has concluded that the current design of internal financial controls is effective but will continue to be watchful.

THE ARRANGEMENTS IN PLACE FOR COMBINED ASSURANCE AND THE COMMITTEE'S VIEW ON ITS EFFECTIVENESS

The committee ensured that the combined assurance model addressed all significant risks facing the Group and monitored the relationship between external and internal assurance providers and the Group. The committee concluded that the arrangements in place for combined assurance were effective.

ANNUAL FINANCIAL STATEMENTS AND GOING CONCERN

Following review of the consolidated Group and separate Company annual financial statements for the financial period ended 1 March 2020, the committee is of the opinion that, in all material respects, the financial statements comply with International Financial Reporting Standards and the Companies Act and that they fairly present the financial position of the Group and Company for the 2020 financial period and the results of the operations and cash flows for the period then ended.

The committee reviewed and considered representations by management on the going concern statement for the Group and recommended the adoption of the going concern concept to the Board, following specific consideration of the impact of the COVID-19 pandemic.

In compliance with the requirements of the King IV Report™, an Integrated Annual Report will be compiled for 2020 in addition to these annual financial statements.

APPROVAL OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

The committee confirms that it functioned in accordance with its charter for the 2020 financial period and that its report to shareholders was approved by the Board.

Jeff van Rooyen
Chairman: audit, risk and compliance committee

19 June 2020

REVIEW OF OPERATIONS

PICK N PAY STORES LIMITED GROUP

FEEDING THE NATION IN CHALLENGING TIMES

Key financial indicators	52 weeks to 1 March 2020	53 weeks to 3 March 2019*	Pro forma 52 weeks to 24 February 2019*	Pro forma % change
Turnover – comparable#	R89.2 billion	R87.2 billion	R85.2 billion	4.7
Turnover – reported#	R89.3 billion	R88.3 billion	R86.3 billion	3.5
Gross profit margin	19.7%	19.1%	19.1%	
Trading profit	R3 148.0 million	R3 054.9 million	R2 915.9 million	8.0
Trading profit margin	3.5%	3.5%	3.4%	
Comparable profit before tax and capital items (Comparable PBT)**	R1 870.7 million	R1 883.0 million	R1 756.4 million	6.5
Comparable PBT margin	2.1%	2.1%	2.0%	
Comparable PBT – South Africa	R1 780.6 million	R1 658.8 million	R1 545.2 million	15.2
Comparable PBT margin – South Africa	2.1%	2.0%	1.9%	
Profit for the period, after tax	R1 194.7 million	R1 444.6 million	R1 349.7 million	(11.5)
Reported HEPS♦	287.89 cents	300.58 cents	280.60 cents	2.6
Reported diluted HEPS (DHEPS)♦	286.39 cents	296.83 cents	277.11 cents	3.3
Comparable HEPS♦	278.81 cents	300.58 cents	280.60 cents	(0.6)
Comparable DHEPS♦	277.36 cents	296.83 cents	277.11 cents	0.1

* *IFRS 16 Restatement – the financial information presented for the prior period is on a restated basis, with the full retrospective adoption of IFRS 16 Leases (IFRS 16). Refer to note 32 of the audited Group annual financial statements for further information.*

\# *Comparable Turnover – following a strategic change in arrangements with cellular airtime and data providers this year, the Group now only transacts airtime and data on an agency basis. Relevant sales and related purchases previously recognised on a gross basis within turnover and cost of sales are now recognised on a net basis within other income. Comparable Turnover information is provided, with relevant airtime and data sales excluded, to allow for an accurate assessment of year-on-year performance. Refer to the Appendices for further information.*

** *Comparable Profit before Tax and Capital Items (Comparable PBT) – excludes a net monetary hyperinflation gain recognised in the current year in respect of the Group's investment in its associate, TM Supermarkets in Zimbabwe, under the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies (IAS 29). Comparable PBT therefore excludes the impact of hyperinflation accounting.*

♦ *Reported Headline Earnings (HEPS) and Reported Diluted Headline Earnings per share (DHEPS) include a net monetary hyperinflation gain recognised in the current year in respect of the Group's investment in its associate, TM Supermarkets in Zimbabwe, under the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies (IAS 29). Comparable Headline Earnings and Comparable Diluted Headline Earnings per share exclude the impact of hyperinflation accounting. Refer to the Appendices for further information.*

Review of operations (continued)

INTRODUCTION

The Pick n Pay Group has published its FY20 financial results in the unprecedented circumstances of the COVID-19 pandemic, with the country operating under a National State of Disaster.

We embrace our responsibility to help feed the nation as an essential service provider. Our Pick n Pay and Boxer teams are working tirelessly with our suppliers and partners to maintain an effective supply chain and to ensure our stores are well-stocked with food and groceries. In fulfilling this role, the safety and well-being of our colleagues and customers is our top priority. True to our values, we have also provided over 5 million meals to the most vulnerable in our communities across the country, through our Feed the Nation campaign.

We set out in this report:

A. A review of our performance over the FY20 financial year – which ended on 1 March 2020. This was four days before the first confirmed COVID-19 case in South Africa, and the result was not impacted by the pandemic

B. A summary of our actions in response to the COVID-19 outbreak, up to the time of publication of this report

C. A comment on current trading conditions and the uncertain outlook for the remainder of our FY21 financial year

D. An update on progress in delivering our long-term plan, which has strengthened our ability to play a crucial role in the current crisis, and in the years to follow

A. FY20 FINANCIAL RESULT: SOUTH AFRICAN OPERATIONS DELIVER IN A CHALLENGING ECONOMY

The Group traded in difficult economic conditions throughout the year, with low growth, high unemployment, rising household costs and constrained consumer spending in all regions.

Group Comparable Turnover growth of 4.7% (South Africa: 5.1%) was delivered against a strong base in the previous year, and reflects deteriorating economic conditions throughout the year, and a final quarter disrupted by lengthy power outages (load shedding) in South Africa, alongside some supply chain labour disruption. Viewed over a two-year period, the Group has delivered comparable compound annual sales growth of 6%, ahead of the South African retail market. We are particularly pleased with the progress and performance of our Boxer business, together with our Pick n Pay stores, serving lower- and middle-income customers. Exceptional quality and value are driving positive volume growth for the Group in this important section of the market.

By unlocking further efficiency gains, the Group has lifted the gross profit margin to 19.7%, and has restricted the growth in trading expenses to 6.3% year-on-year, and just 2.9% in the second half.

Operations in Zambia and Zimbabwe impacted the result, reducing Group earnings by 8.7% pts year-on-year. However, the Group's result was protected by a resilient performance from the core South African business, which lifted its Comparable Profit before Tax by 15.2% this year, enabling the Group to deliver Comparable Headline Earnings in line with last year.

Group earnings have also been impacted by the increase in the tax rate from 24.3% last year to 31.2% this year, driven by losses in certain jurisdictions outside South Africa, hyperinflation in Zimbabwe and the reversal of related deferred tax assets.

Comparable Headline Earnings per Share, which excludes the impact of hyperinflation accounting in Zimbabwe, at 278.81 cents per share is in line with last year on a comparable 52-week basis.

REVIEW OF FINANCIAL PERFORMANCE

Please note the following technical accounting elements in the presentation of these financial results:

Financial calendar – the FY20 financial year is a 52-week period, and its results are not directly comparable with those of the 53 weeks of FY19. Unless specifically stated otherwise, the result commentary that follows is on a comparable 52-week basis. Please refer to Appendix 1 provided for the basis of preparation of this pro forma 52-week financial information, which was restated for the adoption of IFRS 16.

COVID-19 pandemic – COVID-19 did not impact the Group's financial performance over FY20. However, it is a significant post-period end event. The Group has considered the impact that the pandemic – and the measures taken so far by government to defeat it – may have on our financial liquidity and reported financial position, including the value of inventory on hand, the recoverability of receivables, the adequacy of provisions, the availability of debt funding and the Group's ability to meet its working capital obligations. Additional disclosures are provided where applicable.

For information on all other technical considerations, including IFRS 16 *Leases and IAS 29 Financial Reporting in Hyperinflationary Economies* – please refer to the audited Group annual financial statements.

Turnover

Group Comparable Turnover increased by 4.7% in FY20 to R89.2 billion, with like-for-like turnover growth of 1.5%. Net new stores added 3.2% to sales growth, with notable growth in new Boxer supermarkets and Pick n Pay clothing stores.

The Group restricted its selling price inflation to 2.6% year-on-year, with inflation increasing moderately from 2.2% in the first half of the year to 2.8% in the second half.

Group Comparable Turnover growth slowed to 3.5% in the second half of the year from the 6.0% delivered in H1 FY20. This reflects the base effect of a strong performance in the second half of last year (turnover growth of 7.8%), and the impact of

Review of operations (continued)

labour disruption in our supply chain alongside increasingly difficult trading conditions, including low consumer confidence and spending, and power disruptions (load shedding) in the final quarter.

Our core South Africa division delivered Comparable Turnover growth of 5.1%, with like-for-like turnover growth of 1.9%. South African turnover growth slowed from 6.5% in the first half of the year to 3.8% in the second half. This was again due in part to trading against a strong base in the second half of last year. However, sales were also impacted by supply chain labour disruption at our Longmeadow distribution centre in Gauteng in December 2019. This had a significant impact on stock availability and sales growth in the region over the festive season. The Group continues to work with its labour partners to improve ways of working.

Trading conditions in Zambia remained challenging over the year, with the weaker Zambian kwacha and negative revenue growth weighing on Group turnover growth. On a constant currency basis, Group Comparable Turnover grew 5.0% year-on-year. Refer to the Appendices provided for further information on the Group's constant currency and like-for-like turnover calculations.

A wider reach

The Group has 1 925 stores across all Pick n Pay and Boxer formats, including 1 092 company-owned stores, 774 franchise stores and 59 stores operated by our associate in Zimbabwe. We opened 160 new stores this year, including 80 Pick n Pay and Boxer company-owned stores across all formats.

Reflecting our customers' desire for greater convenience, our new stores are now, on average, 25% smaller than a few years ago. The Group closed 30 under-performing stores, improving the overall quality of the estate.

Progress in modernising Pick n Pay hypermarkets continued, including the re-opening of our smaller and refurbished Vaal and Steeledale hypermarkets and the conversion of a large supermarket in Witbank to a modern compact hypermarket. 13 of our 21 hypermarkets have been refurbished over the past five years, delivering improved profitability through a stronger fresh offer, more relevant general merchandise, and targeted promotional campaigns. Our hypermarket division also provides a growing wholesale offer to cater for an expanding customer base of independent traders.

Pick n Pay's high-quality clothing business continued to gain traction, with a strong performance in womenswear, and market share gains in baby, kids and menswear departments. Our clothing division ran effective multi-buy promotions, and refurbished stores in key locations including Eastgate, Gateway, Fourways and Tygervalley. Pick n Pay opened 24 net new clothing stores this year, and now has 241 stand-alone clothing stores.

Our liquor business grew ahead of food and grocery categories, driven by wine, gin and craft beer sales. The Group opened 49 net new Pick n Pay and Boxer liquor stores over the year, on an owned and franchise basis, taking its stand-alone liquor footprint to 571 stores.

The Group opened 77 new franchise stores this year, including 15 supermarkets, nine local convenience market stores and 20 express stores on BP forecourts. The Group closed six under-performing franchise supermarkets during the period, and converted six franchise stores to company-owned Pick n Pay and Boxer formats.

Greater clarity and relevance

Pick n Pay re-organised its store operations into three customer segments: Value, Core and Select, enabling the team to optimise product range, promotions and customer engagement for each customer segment. Range optimisation delivered a 10% reduction in Pick n Pay's overall product count this year. Effective range optimisation strengthens the offer for customers through greater clarity, relevance and availability. Stores in Pick n Pay's value segment delivered strong volume growth against a 35% reduction in range. South African consumers recognised Pick n Pay as the number one supermarket for range in the TNS customer spotlight survey this year. Boxer delivered industry-leading sales growth with a tight range of 3 000 products. Boxer's retail market share in many commodity products – including maize, oil, sugar and chicken – is now over 15%.

Integrated loyalty

Pick n Pay's fully integrated and digital Smart Shopper loyalty programme was recognised as South Africa's best loyalty programme for the seventh consecutive year by the Sunday Times Top Brands Awards. The programme is a key value driver for Pick n Pay customers, with targeted discounts and personalised promotions, as well as loyalty points. Alongside new "Smart Price" promotions for loyalty customers, Smart Shoppers were issued over R4.0 billion in personalised vouchers this year and, with longer validity dates, the number of voucher redemptions have grown by 50%. Smart Shopper's value collaboration with TymeBank saw 1.2 million TymeBank customers earn double points on purchases at Pick n Pay. 2.5 million loyalty customers have taken advantage of our partnership with BP, earning R150 million in Smart Shopper points on their fuel purchases. New strategic partners include Kauai, Steers and Wimpy.

Leading online offer

Online sales grew 17% year-on-year, with a 12% increase in customers. The Group changed its logistics partner, and invested in a dedicated online customer services team. Alongside availability and on-time delivery rates of 98%, these initiatives increased our customer satisfaction rating to 96%. Pick n Pay online introduced a "Grocery Genius" service – enabling customers to set up an automatic weekly or monthly delivery. A stronger online operation enabled the Group to expand its offer rapidly in response to heavy customer demand in the COVID-19 crisis. This is covered later in this report.

Value for customers

The Group maintained its commitment to unbeatable prices and promotions, supported by cost discipline and efficiency gains across its operations. Pick n Pay and Boxer focused on fewer, deeper promotions to deliver greater value on products that matter the most to customers, with our increasingly efficient operating model supporting ongoing price investment. The team delivered a strong programme of deep value promotions this year without any sacrifice in gross profit margin.

GROSS PROFIT

Gross profit increased 6.5% to R17.6 billion, with gross profit margin improving by 0.6 percentage points from 19.1% to 19.7% of turnover. The Group once again demonstrated tight gross profit margin management, unlocking further value across its supply chain, notwithstanding sustained price investment and the

Review of operations (continued)

margin impact of supply chain labour disruption in the last quarter of the year.

Greater efficiency and cost control

The Group's gross profit margin improvement benefited from a strong performance from the Group's Boxer business, which now takes 45% of its volume through its centralised distribution network, driving greater levels of supply chain productivity and efficiency. With centralised supply now close to 80% in Pick n Pay, the team is focused on optimising its systems and infrastructure. Benefiting also from its work on range rationalisation and store segmentation, Pick n Pay delivered a 10% reduction in fresh waste and a 11% reduction in shrink this year.

Own brand

The team redesigned and relaunched close on 5 000 own brand products this year, receiving accolades for quality and innovation, including five Sunday Times Food awards. Sales of Boxer's own brand products grew over 30% year-on-year, with many of its staple own brand products – including maize, baked beans, mayonnaise and washing powder – reaching a sales participation of over 35%.

Other income

Other income increased 6.5% to R1.6 billion.

Franchise fee income – increased 2.2% year-on-year, to R398.3 million. The growth in franchise fee income was impacted by the Group's new agency agreement for cellular airtime and data sales. Franchise fee income excluding the impact of the agency agreement was up 3.6%.

Commissions and other income – increased 6.1% to R1.0 billion, and includes commission and incentive income not directly related to the sale of inventory, such as advertising income from the Group's Fresh Living magazine, and the provision of data analytics support to suppliers. This broad revenue category includes income from value-added services, which increased 14.2% year-on-year.

Value-added services

The Group delivered growth across all categories of value-added services, including commissions from third-party bill payments, travel and event ticketing and financial services. The Group's strategic partnership with TymeBank has provided a low-cost banking solution for 1.2 million customers across South Africa, making it the fastest-growing digital bank in the world in its first year of operation.

8 000 insurance policies were sold through an in-store partnership with Hollard. We were the first retailer to offer deposits at till point through partnerships with FNB, Investec, Discovery and TymeBank, and 4.6 million domestic and cross-border money transfers were facilitated.

Trading expenses

Trading expenses grew 6.3% year-on-year to R16.0 billion, with like-for-like expense growth contained at 4.0%. The trading expense margin grew from 17.5% to 17.9% of turnover, as operating costs continue to grow ahead of turnover. However, the Group responded effectively to an escalating trend in costs in the second half of the year by restricting the growth in trading expenses in these six months to just 2.9%.

Employee costs increased 3.7% to R7.4 billion, and 1.4% on a like-for-like basis. This reflects the positive impact of the reversal of a portion of share incentive costs in the second half of the year, offset by retirement and other gratuity payments, including bonuses to lower levels of management. Ignoring this net benefit of R100 million, employee costs grew 5.3% year-on-year, and 2.9% like-for-like, representing important progress on the 12.5% increase reported in the first half.

Occupancy costs grew 9.5% to R2.3 billion, and 8.2% on a like-for-like basis, driven largely by increases in rates, insurance and security costs. Under IFRS 16, property rentals previously recorded in occupancy costs have been replaced by depreciation (recorded in occupancy costs) and implied interest charges (recorded within finance costs). The Group remains committed to reducing its cash cost of occupancy, and continues to engage with landlords to secure fair rental and escalation terms which sustain mutual growth.

Operations costs increased 10.8% (7.1% like-for-like) to R3.8 billion. The increase in store operating costs largely reflects the impact of load shedding on the business (for example: running diesel generators, and higher levels of repairs and maintenance for equipment damaged by power disruptions and surges). In addition, higher regulated electricity tariffs drove electricity costs up 15.0% year-on-year (10.5% like-for-like), despite more efficient electricity use in our stores for the tenth consecutive year.

Merchandising and administration costs increased 4.4% (1.8% like-for-like) to R2.5 billion, with ongoing discipline in advertising costs, professional fees and other administrative costs.

Net interest

Net interest paid, including implied interest charges under IFRS 16, increased 2.5% year-on-year to R1.3 billion. The Group's implied IFRS 16 net interest charge remained flat year-on-year at R1.2 billion, reflecting annual stability in our broad lease portfolio. The cost of the Group's net funding increased 26.0% year-on-year, from R90.5 million to R114.0 million, reflecting increased borrowings over the second half of the year, driven by higher inventory levels. Please refer to the working capital and net funding sections of this report for further information.

Rest of Africa segment

The Group's Rest of Africa segment contributed R4.7 billion of segmental revenue, down 1.7% on the 52 weeks of last year. Removing the impact of currency weakness, segmental revenue was up 2.8% in constant currency terms.

The performance of the Rest of Africa division reflects difficult trading conditions across southern Africa, particularly in Zambia and Zimbabwe. The division delivered Comparable Profit before Tax, before capital items and before the impact of hyperinflation in Zimbabwe, of R90.1 million, down 57.3% year-on-year.

Zambia

The difficult economic conditions in Zambia have impacted our business over a number of years. Trading conditions deteriorated further in FY20, and local currency weakness drove up US dollar-based operating costs, fuelling higher levels of inflation. The retail sector in Zambia remains highly competitive, and Pick n Pay responded with tight cost control, stronger working capital management and improved operational efficiency, delivering lower prices and a better shopping experience for customers.

Review of operations (continued)

Zimbabwe

Over the past 18 months, the Group's associate in Zimbabwe, TM Supermarkets, has grappled with severe currency shortages, currency devaluation, high levels of inflation, shortages of fuel and other staple goods, and shortages of power and water. The financial performance of TM Supermarkets reflects these significant challenges. Our share of associate's income fell from R109.0 million last year to R66.3 million this year, impacted by foreign exchange losses on the translation of foreign liabilities, and includes a net monetary gain of R43.2 million on the application of hyperinflation accounting in the region.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Share of TM's earnings, before the application of hyperinflation accounting	**23.1**	109.0
TM Supermarkets trading result	102.5	151.1
Forex loss on translation of foreign debt	(79.4)	(42.1)
Application of hyperinflation accounting	**43.2**	–
Net monetary gain on the re-indexing of assets		
Share of associate's income	**66.3**	109.0
Impairment of investment in associate	**(173.6)**	–
TM's impact on the Group's PBT	**(107.3)**	109.0

The Group assessed the fair value of its investment in TM Supermarkets, and as a result of severe currency illiquidity and currency devaluation in the region, has impaired the value of its investment by a further R173.6 million to a carrying value of R50.4 million. The hard work of the TM Supermarkets team over the past few years to build customer and supplier loyalty has paid off in difficult times. TM Supermarkets has kept its shelves stocked, and has been rewarded with market share growth. TM Supermarkets was recognised as the 2019 Retailer of the Year in Zimbabwe, alongside numerous other community-based awards. TM Supermarkets is able to remit funds to South Africa as liquidity becomes available in the region, reducing its amount owed to Pick n Pay from R132.9 million at the beginning of the year, to R40.1 million at year-end.

Capital items

The Group incurred net capital losses of R177.9 million in FY20, against net capital profits of R25.4 million last year. The capital loss is driven by the Group's R173.6 million impairment of its investment in associate in Zimbabwe due to hyperinflation, alongside losses on the sale of stores assets in respect of store closures and the conversion of company-owned stores to franchise stores.

The Group recognised R26.5 million of capital profits on the termination of leases this year, under the provision of IFRS 16 (FY19: R19.7 million). Capital items are added back in the calculation of headline earnings.

Comparable Profit before Tax before Capital Items (which excludes hyperinflation gains)

The Group's Comparable PBT was up 6.5% year-on-year to R1.9 billion, with the Comparable PBT margin improving from 2.0% last year to 2.1% of turnover.

Comparable PBT from our South African segment increased 15.2% year-on-year, with an improvement in its Comparable PBT margin from 1.9% to 2.1% of segmental turnover. Ignoring the once-off net benefit of the reversal of share incentive costs during the second half of the year, Comparable PBT from our South African segment increased 8.8% year-on-year.

Tax

The Group's effective tax rate, excluding the impact of hyperinflation and related impairments, increased from 24.3% last year to 27.9% this year. The significant increase has been driven by losses incurred in operations outside of South Africa, and the reversal of related deferred tax assets. In addition, pessimistic investor sentiment across the South African equities market and its impact on the Group share price over the year, reduced the deferred tax asset recognised in respect of the Group's share incentive obligations. Hyperinflation accounting, and all related impairments, further increased the effective tax rate to 31.2%.

Earnings per share

Earnings per share (EPS) decreased by 11.7% to 250.90 cents, reflecting the impact of the Group's capital losses this period, largely due to hyperinflation in Zimbabwe, against capital profits in the prior year.

Headline Earnings per Share (HEPS) increased by 2.6% to 287.89 cents, reflecting the impact of the Group's share of hyperinflation gains in TM Supermarkets in Zimbabwe. All related impairment losses and other capital items were added back in the calculation of HEPS.

Comparable Headline Earnings per Share (Comparable HEPS) is in line with last year at 278.81 cents per share, excluding the impact of hyperinflation accounting in Zimbabwe. Comparable Diluted Headline Earnings per Share is also flat year-on-year at 277.36 cents.

REVIEW OF FINANCIAL POSITION

The strength of the Group's period end reflects its sustained and effective capital investment programme. The Group's net asset value was impacted by the impairment of its investment in TM Supermarkets to a fair value of R50.4 million (2019: R184.4 million), driven by the translation of our investment in TM Supermarkets at a rate of 30.8 Zimbabwe dollars to 1.0 US dollar (FY19: 3.3 Zimbabwe dollars to 1.0 US dollar).

Working capital

The Group generated cash from working capital of R249.9 million over the year (52 weeks), compared to an outflow of R708.5 million last year (53 weeks), with positive benefits from the financial calendar cut-off in FY20.

The working capital position at 3 March 2019 last year reflected the impact of month-end supplier payments in line with the Group's normal trade terms, annual provisional tax payments and a substantive increase in rental and other prepayments.

Review of operations (continued)

Group inventory balances increased by R826.4 million, or 14.5% year-on-year, to R6.5 billion. The investment in inventory reflects the addition of 73 net new company-owned stores, greater levels of centralisation by Boxer, and strategic investment buys at period-end to take advantage of competitive prices for customers. On a comparable 52-week basis, excluding the impact of new stores and cost inflation, like-for-like inventory values were up 4.3% on last year. The Group did not sustain its positive FY19 momentum on reducing stock levels, and this had an impact on cash balances. Removing old and slow-moving stock from the business remains a key focus area in unlocking value within working capital.

Trade and other receivables remain well-controlled. On a comparable 52-week basis, and excluding the impact of financial calendar cut-off, franchise and other trade debt (current and non-current) is in line with last year, notwithstanding the addition of 55 net new franchise stores over the year and a growing wholesale offer. The Group is satisfied with the overall quality of its debtors' book, with an impairment allowance of 2.7%.

Net funding

The Group has maintained a low level of gearing for a number of years. The Group has no long-term funding, and is geared through cost-effective short-term borrowings only, mainly funding the business through internally generated cash flow and an effective working capital cycle.

	1 March 2020 Rm	3 March 2019 Rm
Cash balances	1 947.3	1 503.2
Cost-effective overnight borrowings	(2 050.0)	(1 800.0)
Cash and cash equivalents	**(102.7)**	(296.8)
One to three-month borrowings	(935.0)	(1 325.0)
Net funding position	**(1 037.7)**	(1 621.8)

The Group's improved net funding position at 1 March 2020 reflects the positive impact of financial calendar cut-off, with a greater level of supplier payments reflected last year, in line with the Group's normal trade terms. The Group's average level of short-term borrowings increased over the second half of this year, driven by higher inventory levels, with net funding interest up 26.0% year-on-year. The Group remains highly cash generative, generating R1.8 billion of free cash flow this year, before the payment of dividends to shareholders and share buy-backs in respect of share incentive schemes. The Group's liquidity position remained strong, with R6.0 billion of unutilised and available facilities at period-end.

Capital investment

The Group invested R1.7 billion in capital improvements in FY20. The Group commits the majority of its capital spend to customer-facing initiatives, which generate sustainable long-term returns. Over the year, R545 million was invested in new stores, R874 million on refurbishments, and R298 million on supply chain capability and IT infrastructure. The Group will continue to invest in expanding and modernising its estate, and is confident of its ability to meet its capital investment requirements through internally generated cash flow.

SHAREHOLDER DISTRIBUTION

In light of the current economic upheaval from the COVID-19 pandemic, the Board has decided that it would be prudent not to declare a dividend at this time but rather to preserve cash. It is anticipated that a formal dividend declaration will be considered and communicated once the full impact of the COVID-19 pandemic on the Group's operations can reasonably be known and assessed. But for the pandemic, the Board would have declared a final dividend of 173.06 cents per share, maintaining the Group's dividend cover of 1.3 times Comparable Headline Earnings per Share on a 52-week basis. Further communication in this regard will follow at the time of the Group's FY21 interim results publication.

B. OUR ACTIONS IN RESPONSE TO THE COVID-19 OUTBREAK

The close of our FY20 financial year on 1 March 2020 coincided closely with the beginning of the COVID-19 outbreak in South Africa, with the first confirmed case in the Republic announced on 5 March 2020. The President declared a National State of Disaster on 15 March, and imposed a nationwide lockdown from 27 March 2020.

We are proud of our response to the crisis across the Pick n Pay business, our Boxer business and our excellent franchisees – inside and outside South Africa. Our actions have been co-ordinated and led by a steering committee, established in February 2020, comprising key executives from across our Pick n Pay and Boxer teams.

Our teams have a crucial role to play throughout the crisis. In the unprecedented conditions of the nationwide lockdown, and the subsequent move to level 4, our teams have been performing an essential service in ensuring the distribution and supply of food and basic goods. We have communicated this responsibility as being to *Feed the Nation*, explaining that, to achieve this, we must *Stay Safe, Stay Open, Stay Full, and Stay Working*.

Stay safe

Our goals here are to protect the health of our colleagues and customers by upholding rigorous hygiene standards across our stores, offices and supply chain, and to support the national imperative of minimising person-to-person transmission through "social distancing" measures. Our decisions are guided by the advice of expert scientific bodies, including the South African Department of Health and the National Institute for Communicable Diseases.

Our actions include:

- **Reinforcing personal hygiene**: communicating to all employees that the best way to combat the virus is to follow a rigorous and effective personal hygiene regime, in particular by washing our hands often with soap and water for at least 20 seconds. We regularly reinforce this message to all colleagues. In line with guidance from the Department of Health, we have also provided all front-line employees with cloth face masks
- **Cleaning and sanitising**: early strengthening of the already rigorous cleaning regime in our stores, including sanitising all till points and trolleys regularly throughout the day, and encouraging customers to use freely available wipes and sprays to sanitise their hands in our stores

Review of operations (continued)

- **Effective sickness protocol**: establishing and communicating a clear protocol to ensure that no colleagues are at work if they have the symptoms of COVID-19, and setting out the steps they must take to isolate and protect themselves in these circumstances
- **Social distancing in stores**: introducing Perspex screens at checkouts to provide separation between customers and cashiers; introducing floor markings at checkouts to ensure customers stay 1.5 metres apart when queuing; limiting the number of customers in stores to preserve effective social distancing; and adopting various measures outside stores to ensure social distancing when queuing

Stay open

We embrace the responsibility placed upon us – alongside other national grocery retailers – to maintain public confidence through a period of unprecedented disruption, uncertainty and anxiety by keeping our stores open.

Our actions include:

- **Registration as an essential service provider to operate throughout the nationwide lockdown**: securing registration on the first available day for our Pick n Pay, Boxer and supply chain operations, and ensuring that colleagues have permits to travel as essential workers
- **Ensuring adequate public transport**: liaising with government on solutions to disruptions to public transport, and where necessary providing our own transport for colleagues
- **Clarity on goods permitted for sale**: working closely with government to ensure clarity on what can and cannot be sold during the various levels set out in the government's Risk Adjusted Strategy, so that customer needs are met
- **Closing some operations**: our stand-alone clothing and liquor stores were closed during the nationwide lockdown, alongside wine, tobacco, clothing and some other departments in our supermarkets. Winter clothing sales have been permitted since the move to level 4 with further restrictions lifted in lower levels
- **Helping vulnerable customers**: we were the first retailer in South Africa to introduce a dedicated shopping hour for the elderly, and have introduced measures to make shopping easier for healthcare workers

Stay full

Our role is to help maintain public confidence throughout the crisis by keeping our stores well-stocked with the food and basic goods that people need.

Our actions include:

- **Maintaining supply**: working closely with our supplier base to ensure steady production and distribution of key products. Over 90% of food sold in our stores is manufactured domestically, and suppliers report that overall production and distribution remains resilient, notwithstanding the trying circumstances
- **Customer communications**: providing regular reassurance of our determination and ability to feed the nation throughout the crisis. When necessary, we have encouraged customers to resist the temptation to buy more than they need
- **Maintaining availability**: introducing temporary individual customer purchasing limits in some categories (e.g. hygiene products) when these are in particular demand
- **Pricing**: we have given an assurance that we will never increase the prices of key products just because they are in high demand during the COVID-19 crisis

Stay working

Our business resilience plan is designed to minimise the impact of the pandemic on our colleagues and our functions.

Our actions include:

- **Reducing the risk of sickness**: our actions on personal hygiene, social distancing, and our sickness protocol, are all designed to reduce the risk of infection and the risk of passing the virus onto colleagues or customers if we do get sick
- **Social distancing in the office**: most of our office employees are currently working from home. We have replaced physical meetings with online meetings. Where colleagues remain in the office to perform essential office-based functions, we have implemented stringent social distancing measures
- **Employee absences**: despite taking important precautions, our contingency plan anticipates the risk of higher employee absences during the outbreak. We have implemented a plan to focus stores on the more essential tasks in these circumstances. In our offices we have put in place plans for essential employees to nominate their deputies, and ensure that they are physically separate to reduce the risk of them becoming sick at the same time
- **Travel**: prior to the lockdown, we prohibited all local and international work-related travel, alongside any personal international and non-essential domestic air travel
- **Financial robustness**: as covered elsewhere in this report, we are pro-active in safeguarding our financial robustness, liquidity and management of risk

Rewarding colleagues and supporting communities

We were exceptionally proud to hear our President recognise grocery shop workers as unsung heroes in the fight against COVID-19. To add our thanks for the incredible work being done by our front-line colleagues, we have awarded them a special bonus of R1 000 each, with R500 paid at the end of April and at the end of May.

As well as supporting many vulnerable communities across the country, we have launched a Feed the Nation campaign in partnership with a number of national and regional charities. Through this campaign, our colleagues are inspiring customers to support us in helping to feed those who are in the greatest need during the crisis.

Review of operations (continued)

C. CURRENT TRADING CONDITIONS AND OUTLOOK FOR THE REMAINDER OF FY21

As noted elsewhere in this report, trading conditions for South African grocery retailers were already difficult before the COVID-19 outbreak. However, in the space of less than a month, COVID-19 turned a difficult situation into an unprecedented one in terms of new challenges.

Current trading conditions

Trading has been significantly disrupted as a result of the COVID-19 outbreak. At the time of publication, the situation is still evolving. However, we can discern four separate stages in terms of trading:

1. *Disruption to international trade – mid to end- February 2020*

   During this period, consumer demand and behaviour remained in an essentially pre-crisis pattern, with a small but noticeable uptick in the purchasing of personal hygiene and household cleaning products towards the end of February 2020, as the number of countries infected by COVID-19 increased. During this period, the Group also experienced some disruption to imports – principally of clothing and general merchandise products commonly imported from Asia – as China and other Asian economies introduced restrictions in an attempt to control outbreaks in their territories.

2. *Spike in demand – 1 March to 26 March*

   The Group experienced a significant spike in demand for personal hygiene and cleaning products in the week of the first confirmed COVID-19 case on 5 March.

   This expanded to cover non-perishable foods (e.g. tinned and packaged products) and household items (e.g. toilet paper) after the President's declaration of a National State of Disaster on 15 March.

   This demand spike continued up to 26 March, the final day before the introduction of the nationwide lockdown. Demand for some products was so elevated that it induced temporary shortages in some stores, and the Group responded by imposing certain temporary limits on individual purchases. However, spikes in demand were not uniform across all stores, and were much more noticeable in stores serving higher-income customers.

3. *Lockdown and level 4 conditions – 27 March to 31 May*

   This period was characterised by severely limited trading, as a result of the following factors:

   - **Regulations confining the population to their place of residence**. Although shopping for food and basic goods is permitted, the regulations and government statements make it clear that these should be limited to essential journeys. As a result, customers have significantly reduced the frequency of their shopping trips, and the number of stores visited on each trip.
   - **Prohibitions on the sale of some goods**. The regulations permit the sale of food products, cleaning and hygiene products, and some "basic goods" including airtime and electricity. A broad range of products normally sold by the Group was prohibited from sale, including liquor, tobacco, and many general merchandise categories. Clothing sales were not permitted during the nationwide lockdown, but winter clothing sales were allowed under level 4 restrictions.
   - **Reduction in economic activity bearing down on consumer incomes and spending**. There are anecdotal reports from some other countries that social restrictions to limit the spread of COVID-19 – e.g. prohibitions on gatherings, closure of cafes, restaurants and "non-essential" shops - may be advantageous to food and grocery retailers in shifting consumer spending from discretionary sectors to non-discretionary products, principally food. Experience from the South African lockdown to date is that the impact of any such shift is outweighed by the negative impact on consumer spending resulting from the shutdown of large parts of the economy, and the consequent reduction in the payment of wages and salaries – notwithstanding the economic assistance measures introduced by government to mitigate some of the effect.

4. *Level 3 conditions – from 1 June to present*

   South Africa was taken to Level 3 of the government's COVID-19 Risk Adjusted Strategy on 1 June 2020. At this level there is a general easing of many economic and business restrictions, including those over retail and wholesale trade. The Group is now able to trade in all products, both online and through its physical store estate, with the exception of cigarettes and other tobacco-related products. Prohibitions in respect of social distancing, and all social gatherings, including the closure of restaurants and other establishments across the hospitality and tourist industries remain in place.

While the growth in demand for online grocery sales has generally been slow in South Africa in recent years, it has significantly accelerated as a result of the COVID-19 outbreak. With the largest and most developed online grocery business in sub-Saharan Africa, Pick n Pay was uniquely placed to respond. Our team rapidly increased its capacity and reach, and met the needs of many new customers. Pick n Pay's one-hour liquor delivery partnership with "Bottles" has been re-engineered during the nationwide lockdown to deliver same-day grocery essentials to customers. We have also rolled out a "Click and Collect" service across many of our Pick n Pay stores, and many of our company-owned and franchise stores now encourage customers to email or WhatsApp their orders directly to the store, for collection or delivery.

Despite the growth in online demand, at the time of publication, the impact of the COVID-19 outbreak and the measures taken by government to tackle it have been negative for Group trading relative to how we would have expected to trade under normal circumstances. The eventual outcome will depend on the duration of the outbreak, and the speed with which the government is able to transition from the more restrictive levels of its Risk Adjusted Strategy onto the less restrictive levels.

Review of operations (continued)

Impact on margin

The current crisis is likely to put pressure on profit margins for the following reasons:

a) An inability during the more restrictive levels of the lockdown period to trade in some key categories, including liquor, tobacco and most clothing and general merchandise lines. These categories make up approximately 20% of our revenues, and have relatively high margins compared with basic food and grocery lines

b) A general reduction in overall consumer and trading activity, as summarised above

c) Additional costs on the business, arising for example from extra hygiene and social distancing measures which are essential in protecting colleagues and customers, and the cost of providing appreciation bonuses to front-line colleagues for their work during the nationwide lockdown

Impact on liquidity

The Group has, as a rule, followed a prudent gearing strategy, financing its growth and refurbishment initiatives through internally generated cash flow, and focusing its capital investment on lower-risk domestic opportunities, with potential for long-term sustainable returns. The Group has no long-term structured debt, and has actively managed its working capital needs through short-term cost-effective facilities. In so doing, the Group has developed strong strategic partnerships with local and international banks, and institutional funders in the capital market. This approach positioned the Group well for the COVID-19 crisis, providing it with a stable funding platform and necessary liquidity.

The Group has constructively engaged with all its strategic funders, and has now drawn down 65% of its available facilities to protect itself against possible liquidity pressures in financial markets. Short-term cash resources raised as a result are prudently invested in low-risk call deposit funds. Furthermore, we are in the advanced stages of terming out a portion of our uncommitted short-term facilities, into longer-term, fully committed lines, while ensuring our cost of funding remains competitive.

At this early stage of the crisis, our net gearing remains low and our overall liquidity remains sufficient and stable to meet our working capital and operational needs over the foreseeable future. The Group remains committed to paying all suppliers and service providers in line with negotiated terms, and providing our essential employees with the assurance of pay and benefits. We will protect our liquidity through tightly managed operating costs, and the delay of all non-critical capital spend.

Outlook for the remainder of FY21

It is impossible to predict at this stage the trajectory and outcome of the COVID-19 outbreak, the measures that government will need to continue to take to minimise it, the resulting impact on the economy, consumer confidence and spending, and the broader implications for grocery retail.

A number of important factors cannot be known at this stage, including:

- the extent and duration of the COVID-19 outbreak globally, in sub-Saharan Africa, and specifically in South Africa;
- the speed and effectiveness of the public health response internationally, in Africa and in South Africa;
- the duration and extent of the nationwide lockdown, during which the greatest downward impact on economic activity is concentrated;
- the risk of reinfection in any part of the globe, leading to a second wave of disruption and economic damage, including in southern Africa; and
- the global and local policy response, and its ability to mitigate the financial and economic losses resulting from the measures to suppress the epidemic.

Depending on how each of these factors plays out, forecasts range from:

- an "optimistic" scenario in which disruption to the economy, albeit significant, lasts for three to four months, but is followed by a rapid growth rebound; to
- a "pessimistic" scenario in which the outbreak and the disruption flowing from it extends into 2021, resulting in a prolonged global and local recession

Under either scenario, the economic recession in South Africa would deepen significantly, with current annual GDP forecasts ranging from around -5% to -9% in real terms. Management concluded that this range of scenarios had no impact on the Group's ability to continue as a going concern.

Earnings are currently impacted as a result of the mitigation measures taken by the government to combat COVID-19. However, the many uncertainties in which everyone is operating mean that it is simply not possible at this stage to estimate or quantify the likely impact over the full financial year.

D. PROGRESS ON OUR LONG-TERM PLAN

Over the coming months, businesses, institutions and individuals will inevitably devote much of their focus to navigating short-term disruption and uncertainty. The period will continue to require swiftness and dexterity in decision-making, and huge flexibility in response to new and unprecedented challenges.

However, we are certain that the pandemic will be overcome, and it is vital that organisations devote attention to the future after COVID-19. For the Pick n Pay Group, this means taking stock of the turnaround that has been delivered over the past few years, being clear on what remains to be done, and having a definite and well-defined programme to deliver it.

A successful turnaround

Over the past seven years, the Group has changed beyond recognition, altering the trajectory of its performance and prospects. Long-term achievements include:

- Next-generation stores have transformed the shopping trip for customers and now account for well over half of our estate
- A step-change in our fresh meat and produce offer, which we believe provides the best combination of quality and value in the market
- A centralised supply chain delivering exceptional availability, freshness and reliability to corporate and franchise stores
- A transformed and rapidly growing Boxer business, which has become the best limited-range discounter in sub-Saharan Africa

Review of operations (continued)

- A modern online and retail services offer across Pick n Pay and Boxer stores, which provides a tangible second engine of growth within the Group

Despite operating in an increasingly difficult economy, these and other steps have enabled the Group to deliver substantial improvements in its PBT margin over time, with a clear ambition to deliver more.

The remaining challenge

Food and grocery retail is undergoing major changes in every country. Customers are demanding higher quality and traceability in the products they buy, a seamless offer across online and physical stores, greater convenience in the location and size of stores, and a broad range of services which enable them to fulfil many of their needs under one roof. Above all, customers continue to demand better value from their retailers.

This is both a global trend and an immutable reality in the South African market, where the vast majority of customers subsist on very limited incomes in a challenging economy. The financial and economic dislocation resulting from the COVID-19 outbreak will heighten the need for retailers to respond by offering even greater value.

The priorities for the Pick n Pay Group are to:

- Further reduce our costs in order to deliver the better value that customers were demanding before COVID-19, a demand which will be heightened during and after the crisis
- Become even more customer-focused around our Select, Core and Value structures in Pick n Pay, with an optimised range and offer at each level of the market. One consequence of the COVID-19 crisis and the customer response to it, is a deeper understanding of the core range of products on which customers genuinely depend, in good times and bad
- Continue to expand our Boxer business, benefiting more customers in more communities to become the premier limited-range discounter in every region of the country
- Accelerate private label penetration across Pick n Pay and Boxer – to provide more unbeatable value and innovation for customers, together with better control of production and margin for the Group
- Build rapidly on our excellent online and retail service offer. The COVID-19 outbreak may have provided a catalyst for a rapid acceleration in online grocery shopping in South Africa, and we intend to build on our position as the largest and most reliable player in the market
- Rolling out a limited-range discount format for sustainable growth outside South Africa. We believe that the potential for growth in the rest of Africa can be fulfilled through a more flexible, lower-cost model attuned to the needs of local customers

A programme for action

To accelerate progress towards delivering these objectives, the Group launched an internal change programme, Project Future, in January this year. Two objectives are core to this programme:

- A reduction of R1 billion over two years in the costs of the Pick n Pay business. This will be delivered by identifying cost reductions across the Company, including reducing waste in our operations and offices, increasing efficiency in our operations, and being more effective in our use of resources including property, energy and water. Pick n Pay is committed to reduce other costs before we reduce the number of our people. However, the focus on greater efficiency must include the cost of employing people, which is the single biggest expense in the Company. As a result, the Company launched a voluntary severance programme in March 2020, open to all colleagues in Pick n Pay. This programme is an opportunity for colleagues to choose to leave the business on a voluntary basis, with a more generous package than would be the case with any statutory retrenchment programme.
- A simpler and more effective organisation. The Group is modernising its ways of working, including the structure and organisation of our head office teams, our meeting and decision-making processes, and our use of information and other technologies. As with many other organisations and individuals around the world, the COVID-19 outbreak is rapidly teaching us about the power of modern communications and remote working, and about what is really required to run a business effectively, even in the most difficult of times.

CONCLUSION

We are proud of our role as an essential service in the crisis, which we see as being entirely consistent with our core value of customer sovereignty and our belief that doing good is good business.

We extend our thanks to our Pick n Pay and Boxer teams, particularly those on the front line, who have worked with urgency and determination to put rigorous health and hygiene measures in place to protect staff and customers, and to keep our shelves stocked at a time when our customers need it the most.

We are determined to fulfil with distinction our responsibility to help feed the nation. We are a much stronger, more flexible and more effective business than we were seven years ago, and are confident that we will be able to respond and adapt to whatever is required of us in the coming months.

Our greater strength and dexterity reflects the progress we have made through our long-term plan. We know there is more to do on this journey, and will ensure that we make further progress to deliver on the expectations of customers, colleagues, shareholders and other stakeholders – not just in the current crisis, but in the better years that will follow it.

Gareth Ackerman
Chairman

Richard Brasher
Chief Executive Officer

19 June 2020

02

GROUP ANNUAL FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

for the period ended

	Note	52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
Revenue	2	91 323.4	90 236.6
Turnover	2	89 281.5	88 293.2
Cost of merchandise sold		(71 679.8)	(71 436.7)
Gross profit		17 601.7	16 856.5
Other income		1 570.2	1 497.9
Franchise fee income	2	398.3	399.1
Operating lease income	2	140.7	112.7
Commissions and other income	2	1 031.2	986.1
Trading expenses		(16 023.9)	(15 299.5)
Employee costs	3	(7 368.2)	(7 238.9)
Occupancy		(2 271.5)	(2 088.7)
Operations		(3 836.0)	(3 515.1)
Merchandising and administration		(2 548.2)	(2 456.8)
Trading profit		3 148.0	3 054.9
Finance income	2	471.7	445.5
Finance costs	3	(1 772.1)	(1 726.4)
Share of associate's income	14	66.3	109.0
Profit before tax before capital items		1 913.9	1 883.0
(Loss)/profit on capital items		(177.9)	25.4
(Loss)/profit on sale of property, plant and equipment		(18.8)	11.0
Impairment loss on property, plant and equipment	10	(8.2)	–
Impairment loss on intangible assets	9	(3.8)	(5.3)
Profit on termination of leases		26.5	19.7
Impairment loss on investment in associate	14	(173.6)	–
Profit before tax	3	1 736.0	1 908.4
Tax	6	(541.3)	(463.8)
Profit for the period		1 194.7	1 444.6
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss		(4.5)	(21.4)
Remeasurement in retirement scheme assets	22	(6.2)	(29.9)
Tax on items that will not be reclassified to profit or loss	13	1.7	8.5
Items that may be reclassified to profit or loss		(33.2)	(256.5)
Foreign currency translations		(42.0)	(275.0)
Movement in cash flow hedge		6.3	3.1
Tax on items that may be reclassified to profit or loss	13	2.5	15.4
Total comprehensive income for the period		1 157.0	1 166.7
		Cents	Cents
Earnings per share**			
Basic earnings per share	7	250.90	304.04
Diluted earnings per share	7	249.60	300.26

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

** *Refer to the Appendices for more information on the Group's comparable earnings performance and comparable headline and diluted headline earnings per share.*

STATEMENT OF FINANCIAL POSITION

	Note	As at 1 March 2020 Rm	Restated* As at 3 March 2019 Rm	Restated* As at 25 February 2018 Rm
ASSETS				
Non-current assets				
Intangible assets	9	865.4	909.8	944.1
Property, plant and equipment	10	6 622.4	6 189.3	6 054.4
Right-of-use assets	11	9 880.6	10 102.9	9 765.6
Net investment in lease receivables	12	2 129.9	1 860.8	1 778.8
Deferred tax assets	13	753.1	785.4	590.1
Investment in associate	14	50.4	184.4	365.6
Loans	15	86.6	102.0	79.3
Retirement scheme assets	22	68.7	72.2	97.6
Investment in insurance cell captive	29	54.9	35.2	25.7
Operating lease assets		13.0	12.8	10.2
Trade and other receivables	17	93.6	82.3	105.4
		20 618.6	20 337.1	19 816.8
Current assets				
Inventory	16	6 519.8	5 693.4	5 940.3
Trade and other receivables	17	4 168.5	4 301.4	3 525.5
Cash and cash equivalents	18	1 947.3	1 503.2	1 129.1
Net investment in lease receivables	12	221.0	248.9	231.6
Right-of-return assets	25	20.7	20.6	19.6
Derivative financial instruments	29	9.4	3.1	–
		12 886.7	11 770.6	10 846.1
Non-current asset held for sale		–	–	217.2
Total assets		33 505.3	32 107.7	30 880.1
EQUITY AND LIABILITIES				
Equity				
Share capital	19	6.0	6.0	6.0
Treasury shares	20	(961.7)	(993.7)	(863.4)
Retained earnings		4 303.2	4 331.9	3 841.1
Other reserves		5.3	(6.0)	–
Foreign currency translation reserve		(342.7)	(303.2)	(43.6)
Total equity		3 010.1	3 035.0	2 940.1
Non-current liabilities				
Lease liabilities	24	14 188.5	13 635.1	13 100.1
Deferred tax liabilities	13	3.1	14.2	13.7
Borrowings	21	–	–	79.5
		14 191.6	13 649.3	13 193.3
Current liabilities				
Trade and other payables	23	11 255.2	10 346.3	10 473.5
Lease liabilities	24	1 716.7	1 676.8	1 520.4
Deferred revenue	25	298.8	256.2	281.3
Overnight borrowings	18	2 050.0	1 800.0	1 800.0
Borrowings	21	935.0	1 325.0	449.3
Current tax liabilities	6	47.9	19.1	213.7
Derivative financial instruments	29	–	–	8.5
		16 303.6	15 423.4	14 746.7
Total equity and liabilities		33 505.3	32 107.7	30 880.1

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

STATEMENT OF CHANGES IN EQUITY

for the period ended

	Note	Share capital Rm	Treasury shares Rm	Retained earnings Rm	Other reserves Rm	Foreign currency translation reserve Rm	Total equity Rm
At 25 February 2018 as published		6.0	(863.4)	4 951.7	–	(70.7)	4 023.6
Adoption of IFRS 16 *Leases**	32	–	–	(1 110.6)	–	27.1	(1 083.5)
At 25 February 2018 restated*		6.0	(863.4)	3 841.1	–	(43.6)	2 940.1
Adoption of IFRS 9 *Financial Instruments***		–	–	(30.2)	–	–	(30.2)
Total comprehensive income for the period		–	–	1 423.2	3.1	(259.6)	1 166.7
Profit for the period*		–	–	1 444.6	–	–	1 444.6
Foreign currency translations*		–	–	–	–	(259.6)	(259.6)
Movement in cash flow hedge		–	–	–	3.1	–	3.1
Remeasurement in retirement scheme assets		–	–	(21.4)	–	–	(21.4)
Other reserve movements		–	–	–	(9.1)	–	(9.1)
Transactions with owners		–	(130.3)	(902.2)	–	–	(1 032.5)
Dividends paid		–	–	(938.0)	–	–	(938.0)
Share purchases	20	–	(311.2)	–	–	–	(311.2)
Net effect of settlement of employee share awards	20	–	180.9	(180.6)	–	–	0.3
Share-based payments expense	3	–	–	216.4	–	–	216.4
At 3 March 2019 restated		**6.0**	**(993.7)**	**4 331.9**	**(6.0)**	**(303.2)**	**3 035.0**
Total comprehensive income for the period		**–**	**–**	**1 190.2**	**6.3**	**(39.5)**	**1 157.0**
Profit for the period		**–**	**–**	**1 194.7**	**–**	**–**	**1 194.7**
Foreign currency translations		**–**	**–**	**–**	**–**	**(39.5)**	**(39.5)**
Movement in cash flow hedge		**–**	**–**	**–**	**6.3**	**–**	**6.3**
Remeasurement in retirement scheme assets		**–**	**–**	**(4.5)**	**–**	**–**	**(4.5)**
Other reserve movements		**–**	**–**	**–**	**5.0**	**–**	**5.0**
Transactions with owners		**–**	**32.0**	**(1 218.9)**	**–**	**–**	**(1 186.9)**
Dividends paid		**–**	**–**	**(1 125.7)**	**–**	**–**	**(1 125.7)**
Share purchases	20	**–**	**(87.6)**	**–**	**–**	**–**	**(87.6)**
Net effect of settlement of employee share awards	20	**–**	**119.6**	**(118.9)**	**–**	**–**	**0.7**
Share-based payments expense	3	**–**	**–**	**25.7**	**–**	**–**	**25.7**
At 1 March 2020		**6.0**	**(961.7)**	**4 303.2**	**5.3**	**(342.7)**	**3 010.1**

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

** *The Group adopted IFRS 9 during the prior period using a modified retrospective approach. Refer to the 2019 published audited annual financial statements.*

STATEMENT OF CASH FLOWS

for the period ended

	Note	52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
Cash flows from operating activities			
Trading profit		**3 148.0**	3 054.9
Adjusted for non-cash items		**2 967.5**	3 001.0
Depreciation on property, plant and equipment	10	**1 132.9**	1 026.1
Depreciation on right-of-use assets	11	**1 646.9**	1 561.5
Amortisation on intangible assets	9	**151.0**	175.4
Share-based payments expense	3	**25.7**	216.4
Movements in operating lease assets		**(0.2)**	(2.6)
Movements in retirement scheme assets		**(2.7)**	(4.5)
Fair value and foreign exchange adjustments		**13.9**	28.7
Cash generated before movements in working capital		**6 115.5**	6 055.9
Movements in working capital		**249.9**	(708.5)
Movements in trade and other payables and deferred revenue		**951.5**	(152.3)
Movements in inventory and right-of-return assets		**(821.2)**	238.6
Movements in trade and other receivables		**119.6**	(794.8)
Cash generated from trading activities		**6 365.4**	5 347.4
Other interest received	2	**275.6**	258.8
Other interest paid	3	**(389.6)**	(349.3)
Interest received on net investment in lease receivables	12	**183.3**	155.6
Interest paid on lease liabilities	24	**(1 312.1)**	(1 278.6)
Cash generated from operations		**5 122.6**	4 133.9
Dividends paid		**(1 125.7)**	(938.0)
Tax paid	6	**(487.1)**	(817.3)
Cash generated from operating activities		**3 509.8**	2 378.6
Cash flows from investing activities			
Investment in intangible assets	9	**(91.5)**	(137.9)
Investment in property, plant and equipment	10	**(1 653.7)**	(1 312.5)
Proceeds on sale of non-current asset held for sale	10	**–**	217.2
Purchase of operations	30	**(22.8)**	(10.5)
Proceeds on disposal of intangible assets		**0.3**	0.3
Proceeds on disposal of property, plant and equipment		**61.2**	168.2
Principal net investment in lease receipts	12	**220.0**	231.8
Lease incentives received		**121.0**	36.7
Loans repaid/(advanced)		**15.4**	(22.7)
Cash utilised in investing activities		**(1 350.1)**	(829.4)
Cash flows from financing activities			
Principal lease liability payments	24	**(1 487.4)**	(1 668.5)
Borrowings raised	21	**12 760.0**	4 700.0
Repayment of borrowings	21	**(13 150.0)**	(3 903.8)
Share purchases	20	**(87.6)**	(311.2)
Proceeds from employees on settlement of share awards		**0.7**	0.3
Cash utilised in financing activities		**(1 964.3)**	(1 183.2)
Net increase in cash and cash equivalents		**195.4**	366.0
Net cash and cash equivalents at beginning of period		**(296.8)**	(670.9)
Foreign currency translations		**(1.3)**	8.1
Net cash and cash equivalents at end of period	18	**(102.7)**	(296.8)
Consisting of :			
Cash and cash equivalents		**1 947.3**	1 503.2
Overnight borrowings		**(2 050.0)**	(1 800.0)

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Reporting entities

The Group annual financial statements for the 52 weeks ended 1 March 2020 (2019: 53 weeks ended 3 March 2019) comprise Pick n Pay Stores Limited and its subsidiaries and associate (the Group). Pick n Pay Stores Limited is referred to as the Company.

1.2 Statement of compliance

The Group annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa.

1.3 Basis of preparation

The Group annual financial statements are prepared on the historical cost basis except where stated otherwise in the accounting policies below.

All financial information has been rounded to the nearest million, unless otherwise stated.

The Group manages its retail operations on a 52-week trading calendar where the reporting period will always end on a Sunday. To ensure calendar realignment, a 53rd-week of trading is required approximately every six years. The Group added a 53rd week of trading to the prior financial period, and accordingly the results for the prior financial period are for a 53-week period, compared to a 52-week period in the current financial period. Refer to the Appendices for further information.

The accounting policies set out below have been applied consistently to all periods presented in these Group annual financial statements and to all companies in the Group, except where the Group has adopted IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments that became effective during the period. Several new standards, amendments to standards and interpretations became applicable to the Group during the current period and have been applied in the preparation of these Group annual financial statements. These new standards, amendments to standards and interpretations did not have a significant impact on the Group, except for the application of IFRS 16 *Leases*. Refer to the relevant accounting policies in the remainder of note 1 and refer to note 32.

The Group has not early adopted IFRS and IFRIC interpretations and amendments that are not yet effective for the Group. Refer to note 33.

1.4 Basis of consolidation

Investment in subsidiaries

The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the Group annual financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All inter-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Interest in equity-accounted investees

Associates are those entities over which the Group exercises significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's interest in equity-accounted investees comprises its interests in associates.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The aggregate of the Group's share of profit or loss of an associate is shown in the statement of comprehensive income and represents profit or loss after tax and after non-controlling interests in the subsidiaries of the associate. Where there are changes recognised directly in the OCI or equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of other comprehensive income and statement of changes in equity, respectively. Any dividends received by the Group is credited against the investment in associate.

Unrealised gains or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Refer to note 14.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.5 Foreign currency transactions and translations

Functional and presentation currency

The Group annual financial statements are presented in South African rand. Certain individual companies (foreign operations) in the Group have functional currencies that differ to that of the presentation currency of the Group and are translated on consolidation.

Transactions and balances

Transactions denominated in foreign currencies are translated to the respective functional currencies of Group entities at the rates of exchange ruling on the dates of the transactions. Differences arising on settlement or translation of monetary items are recognised in the statement of comprehensive income.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to South African rand at the rates of exchange ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to South African rand at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of 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 are translated at the relevant foreign exchange rates ruling at the reporting date to the presentation currency of the Group. The income and expenses of foreign operations are translated to the presentation currency of the Group at the weighted-average rate of exchange for the period. Profits or losses arising on the translation of assets and liabilities of foreign operations are recognised in other comprehensive income (OCI) and presented within equity 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 or losses arising from such a monetary item are considered to form part of a net investment in a foreign operation, and are recognised in OCI and presented in a foreign currency translation reserve.

1.6 Use of estimates, judgements and assumptions

The preparation of these annual 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. Actual results may differ from these estimates. The uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The assumptions and estimates used in the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include, but are not limited to, the following:

Income earned from suppliers

The Group enters into various agreements with suppliers and these agreements provide for various purchase rebates and other income.

Rebates are accrued for as part of cost of merchandise sold when they are closely related to the purchase of inventory. Judgement is required by management to assess the nature of the rebates for recognition as a reduction in the purchase price of inventories and recognising the relevant portion as a reduction in the cost of inventory.

Taking into account cumulative purchases of inventory to date, as well as historical and forecasted performance, management uses judgement to estimate the probability of meeting contractual obligations and thereby uses judgement in determining the amount of volume-related rebates recognised. As a result, the rebates actually received may vary from that which has been accrued.

Other income earned from suppliers is recognised in revenue, within other income, when services are provided to suppliers that are not closely related to the purchase of inventory and when the Group can reasonably estimate the fair value of the service. Management uses judgement in determining whether the services provided to suppliers are sufficiently separable from the purchase of inventory, by determining if the supplier could have entered into an agreement with a party, other than a purchaser of its inventory, in order to receive those services. Refer to note 1.19.

Estimating variable consideration for returns

The Group estimates variable consideration to be included in the transaction price for the sale of goods where customers are entitled to a right of return within a specified time frame. The Group uses statistical projection methods for forecasting sales returns which are based on historical return data. Any significant changes in experience as compared to historical return patterns will impact the expected return percentages estimated by the Group. Estimated return percentages are updated regularly and the refund liability is adjusted accordingly. Refer to note 25.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.6 Use of estimates, judgements and assumptions (continued)

Measurements of share-based payments

Various assumptions are applied in determining the fair value of share awards granted to employees such as expected volatility, expected dividend yield, the expected life of the award and vesting conditions. Judgement, informed by terms and conditions of the grant, is used to determine the valuation model to be used. The key assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 5.

Provision for expected credit losses on net investment in lease receivables, loans and trade and other receivables

The Group has established a provision matrix that is based on historical credit loss experience and applicable credit insurance, adjusted for forward looking factors specific to net investment in lease receivables, loans and trade and other receivables and the economic environment. At each reporting period, the historical observed default rates are updated and changes in forward looking estimates are analysed. The assessment of historical observed default rates and forward looking factors require significant judgement and estimates. The Group's historical credit loss experience and forecast economic conditions may therefore not be representative of the actual default in the future. Refer to notes 12, 15, 17 and 29.

Inventory net realisable value allowances

The Group evaluates its inventory to ensure that it is carried at the lower of cost and net realisable value. Allowances are made against slow moving, obsolete and damaged items. Damaged inventories are identified and written down through inventory verification processes. Allowance for slow moving and obsolete inventories are assessed continuously. Obsolescence is assessed based on a comparison of the level of inventory holding and the projected likely future sales, taking into account factors existing at the reporting date. Refer to note 16.

Measurement of deferred revenue in respect of customer loyalty programme and prepaid gift cards

Reward credits (loyalty points) granted to customers participating in the Group's Smart Shopper loyalty programme and prepaid gift cards provide rights to customers which need to be accounted for as separate performance obligations. The consideration allocated to unredeemed loyalty points and unredeemed gift cards are measured by reference to its stand-alone selling prices adjusted for an expected forfeiture rate. The Group applies statistical projection methods in its estimation of forfeiture rates by using customers' historical redemption patterns as the main input, and is therefore subject to uncertainty. The expected forfeiture rate is updated regularly and the liabilities for unredeemed loyalty points and unredeemed gift cards are adjusted accordingly. Refer to note 25.

Estimates of useful lives and residual values of intangible assets

Intangible assets are amortised over their useful lives, taking into account applicable residual values. Useful lives and residual values are reviewed at each reporting date, taking into account factors such as the manner of recovery, innovation in technology and relevant market information.

Estimates of useful lives and residual values of property, plant and equipment

Property, plant and equipment are depreciated over their useful lives, taking into account applicable residual values. Useful lives and residual values are reviewed at each reporting date, taking into account factors such as the manner of recovery and relevant market information.

Estimates of useful lives of right-of-use assets

Right-of-use assets are depreciated over their useful lives, which are directly linked to the lease term of the underlying lease agreement. Useful lives are reviewed at each reporting date, taking into account factors such as lease term extension and termination options.

Measurements of the recoverable amounts of cash-generating units

The recoverable amount of cash-generating units (CGU) containing goodwill is determined by calculating its value-in-use. The Group treats a store as a separate CGU for impairment testing of intangible assets, property, plant and equipment and right-of-use assets. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, future cash flows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount of CGUs are disclosed in note 9.

Classification of leases

Judgement is applied when assessing whether an arrangement should be treated as a lease. Where the Group acts as lessor, judgement is applied in determining whether the risks and rewards of the underlying asset have been transferred in order to classify leases as either finance leases or operating leases.

Estimates of lease terms of lease agreements

Lease terms applicable to lease agreements, relating to the Group's net investment in lease receivables and lease liabilities, are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Management exercises judgement in determining the likelihood of exercising termination or extension options in determining the lease term including considerations of the age of the lease, the nature of the leased asset and the expected return on the underlying cash-generating unit to which the leased asset belongs.

Subsequent to the commencement date of lease agreements, lease terms are reassessed when there is a significant event or change in circumstances that is within the Group's control and affects its ability to exercise or not to exercise the option to renew or to terminate. Significant events could include a change in the Group's assessment of whether it is reasonably certain to exercise a renewal or termination option, the incurrences of unanticipated significant leasehold improvements or the negotiation of unanticipated lease incentives.

Estimates of incremental borrowing rates

Incremental borrowing rates applied in the measurement of certain lease liabilities are specific to the country, term, currency and start date of the applicable lease agreement. Incremental borrowing rates are based on a series of inputs including the prime lending rate, the repo rate, a credit risk adjustment and a country specific adjustment.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.6 Use of estimates, judgements and assumptions (continued)

Determination of the functional currency of foreign equity-accounted investee in Zimbabwe

During the prior reporting period:

- Since the adoption of multiple currencies by the Zimbabwean government in 2009, entities in Zimbabwe were operating in a multi-currency regime. As a result of this regime, and prior to 1 October 2018, the US dollar was designated as the functional and presentation currency of TM Supermarkets. The Group applied official average and closing US dollar (USD) to South African rand (ZAR) exchange rates during this period.
- On 1 October 2018, following the directive issued by the Reserve Bank of Zimbabwe (RBZ), the Real Time Gross Settlement (RTGS) dollar was adopted as the functional and presentation currency of TM Supermarkets. The application of the change in functional currency was applied prospectively.
- The share of associate's income and net asset value of TM Supermarkets of the prior period were translated into the Group's presentation currency, at the average and closing rates respectively, in accordance with the provisions of IAS 21 *Effects of Changes in Foreign Exchange Rates* (IAS 21). As disclosed in the 2019 Group annual financial statements, significant judgement was applied in the estimation and application of exchange rates used when translating the results of TM Supermarkets for the 2019 financial year.

During the current reporting period:

- On 24 June 2019, the RBZ introduced statutory instrument 142 of 2019 resulting in the renaming of the RTGS dollar to the Zimbabwe dollar (ZWL$) and resulting in the ZWL$ being the only form of legal tender in the country. The ZWL$ was therefore adopted as the functional and presentation currency of TM Supermarkets prospectively from this date.
- Significant judgement was applied in the estimation and application of the ZWL$ to ZAR exchange rate. These judgements and assessments are in line with those applied during the 2019 financial year. Management assessed that the official interbank exchange rate is not available for immediate settlement as shortages of foreign currency results in the official exchange rate not being liquid. Estimated exchange rates were therefore used when translating the result of TM Supermarkets. Inputs considered in this estimate includes the official inflation rate and the premium at which Old Mutual and PPC Ltd. shares trade on the Zimbabwe Stock Exchange compared to trades on the Johannesburg Stock Exchange.
- The share of associate's income and net asset value of TM Supermarkets have been translated into the Group's presentation currency at the closing rate in accordance with the hyperinflationary provisions of IAS 21. Refer to note 14.

Impairment reviews of investment in associate

Judgement is required in determining whether indicators of impairment exist, which includes the liquidity and devaluation of Zimbabwean currency, currency shortages experienced in-country, rapid increases in Zimbabwe inflation rates and the liquidity restrictions imposed by the Reserve Bank of Zimbabwe which could prevent the Group from realising its investment. The recoverable amount of the Group's equity-accounted investee in Zimbabwe is determined as the higher of fair value less costs of disposal and value-in-use. Estimates of the future cash flows are used in the value-in-use calculation and are sensitive to the discount rate used for the discounted cash flow model and the growth rate used for extrapolation purposes. Refer to note 14.

Income and deferred taxes

The Group is subject to income tax in numerous jurisdictions. Significant judgement is required in determining the provision for tax as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of the taxes that are likely to become due.

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted. Refer to notes 6 and 13.

Measurements of post-retirement defined-benefit obligations

The Group operates post-retirement defined-benefit schemes. Actuarial valuations are performed to assess the financial position of these various schemes and are based on assumptions such as the discount rate, future salary increases, future pension increases and future increases in healthcare costs. Refer to note 22.

Consolidation of the Group's share trust

The Group operates an employee share option scheme through the Pick n Pay Employee Share Purchase Trust. According to management's judgement, the Group controls the trust as it has exposure or rights to variable returns from its involvement with the investee and has the ability to affect returns from the trust through its power over the trust. The Group has therefore consolidated the trust into its results. Refer to notes 19 and 20.

Subsequent events

Judgement has been exercised in assessing that the impact of the COVID-19 pandemic is a non-adjusting subsequent event. The first COVID-19 case in South Africa was confirmed 4 days after the period end, and the pandemic does not affect the economic assumptions and estimates made at 1 March 2020 for measurement purposes. Refer to note 31. No other subsequent events requiring judgement or estimates were identified during the period.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.7 Intangible assets

Intangible assets are held by the Group for the use in the supply of goods or administrative purposes and are expected to be used for more than one financial period. Intangible assets acquired are initially recognised at cost if it is probable that associated future economic benefits will flow to the Group and the cost can be measured reliably.

If the intangible assets are acquired via a business combination, initial recognition is at fair value.

Intangible asset development consists of two phases; research phase and development phase. Expenditure incurred during the research phase is expensed as incurred.

Intangible assets that are developed are initially recognised at cost if the cost can be measured reliably, the intangible assets are technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete the development. If not, the development expenses are recognised in the statement of comprehensive income when they are incurred.

Intangible assets are subsequently measured at cost less accumulated amortisation and impairment losses, with the exception of goodwill. Goodwill is measured at cost less accumulated impairment losses as it has an indefinite useful life and is not amortised.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised but are expensed in the statement of comprehensive income when they are incurred.

Cost

The cost of intangible assets includes expenditure that is directly attributable to the acquisition of the intangible asset. The cost of developed intangible assets includes the cost of materials, direct labour and any overhead costs directly attributable to preparing the intangible asset for its intended use.

The Group recognises in the carrying amount of intangible assets, subsequent expenditure when that cost is incurred, if it is probable that the future economic benefits embodied with the cost will flow to the Group and the cost can be measured reliably. All other costs, such as costs associated with the implementation or maintenance of intangible assets, are recognised in the statement of comprehensive income as an expense when incurred.

Goodwill is acquired through business combinations and initially measured at 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 at the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Amortisation

Amortisation is calculated on the cost of an intangible asset, less its residual value, over its useful life. The residual value is the estimated amount that the Group would receive from the disposal of the intangible asset, after deducting the estimated costs of disposal, if the intangible asset was already of the age and the condition expected at the end of its useful life.

Management determines the amortisation methods, useful lives and residual values at acquisition. These are reviewed at each reporting date and adjusted if appropriate. Any adjustments are accounted for prospectively as a change in estimate.

Amortisation is recognised as an expense in the statement of comprehensive income, within operational expenses, on a straight-line basis over the estimated useful life of each intangible asset from the date that it is available for its intended use.

Useful lives

The estimated useful lives, per category of intangible assets, are as follows:

Goodwill	Indefinite
Systems development	7 years
Licences	5 to 10 years

Impairment

Intangible assets are assessed for impairment as non-financial assets in accordance with note 1.14.

Derecognition

Intangible assets are derecognised upon disposal or when no future economic benefits are expected to flow to the Group from either their use or disposal. Gains or losses on derecognition of an intangible asset are determined by comparing the proceeds from disposal, if applicable, with the carrying amount of the intangible asset and are recognised directly in the statement of comprehensive income.

1.8 Property, plant and equipment

Property, plant and equipment are tangible assets held by the Group for use in the supply of goods or for administrative purposes and are expected to be used for more than one financial period. Property, plant and equipment are initially recognised at cost if it is probable that associated future economic benefits will flow to the Group and the cost can be measured reliably. All property, plant and equipment are subsequently measured at cost less accumulated depreciation and impairment losses, with the exception of land. Land is measured at cost less impairment losses as it has an indefinite useful life and is not depreciated.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.8 Property, plant and equipment (continued)

Cost

The cost of property, plant and equipment 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.

The Group recognises in the carrying amount of property, plant and equipment subsequent expenditure, including 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 cost 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, such as day-to-day servicing costs, are recognised in the statement of comprehensive income as an expense when incurred.

Depreciation

Depreciation is based on the cost of an asset, less its residual value, over its useful life. The residual value is the estimated amount that the Group would receive from the disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and the condition expected at the end of its useful life.

Management determines the depreciation methods, useful lives and residual values at acquisition. These are reviewed at each reporting date and adjusted, if appropriate. Any adjustments are accounted for prospectively as a change in estimate.

Depreciation is recognised as an expense in the statement of comprehensive income, within operational expenses, on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date that they are available for its intended use. Leasehold improvements 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.

Where significant components of an item of property, plant and equipment have different useful lives, they are depreciated separately.

Useful lives

The estimated useful lives, per category of property, plant and equipment, are as follows:

Property	
• Land	Indefinite
• Buildings and major components	10 to 40 years
Furniture, fittings, equipment and vehicles	
• Furniture and fittings	5 to 14 years
• Equipment	2 to 15 years
• Vehicles	4 to 5 years
Leasehold improvements	3 to 8 years
Aircraft and major components	7 to 20 years

Impairment

Property, plant and equipment are assessed for impairment as non-financial assets in accordance with note 1.14.

Derecognition

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to flow to the Group from either their use or disposal. Gains or losses on derecognition of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if applicable, with the carrying amount of the item and are recognised directly in the statement of comprehensive income.

Non-current asset held for sale

Non-current assets held for sale are stated at the lower of the carrying amount and fair value less cost to sell if their carrying amount will be recovered principally through a sale transaction rather than continued use and this sale is considered highly probable.

1. 9 Right-of-use assets

The Group enters into various lease agreements as the lessee of property, equipment and vehicles. Where leases convey the right to control the use of the underlying leased assets, the Group classifies these leases as right-of-use assets in a consistent manner to its property, plant and equipment. Right-of-use assets are initially recognised at cost at the date at which the Group gains control of the right to use the leased asset, referred to as the commencement date of lease agreements, and are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Cost

The cost of right-of-use assets includes the initial measurement of the corresponding lease liabilities and any initial direct costs, less any lease incentives received.

Depreciation

Depreciation is based on the cost of the right-of-use asset over its useful life. At the commencement date of lease agreements, management determines useful lives as the lease term of corresponding lease liabilities. These lease terms are reviewed at each reporting date and adjusted, if appropriate. Any adjustments are accounted for prospectively as a change in estimate.

Depreciation is recognised as an expense in the statement of comprehensive income, within occupancy costs, on a straight-lined basis over the estimated useful lives of the right-of-use assets.

Useful lives

The estimated useful lives, per category of right-of-use assets, are as follows:

Property	5 to 30 years
Equipment and vehicles	5 to 11 years

Impairment

Right-of-use assets are assessed for impairment as non-financial assets in accordance with note 1.14.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. 9 Right-of-use assets (continued)

Derecognition

Right-of-use assets are derecognised upon the loss of control by the Group of the right to use the leased assets. Gains or losses on derecognition are determined by comparing the value of corresponding lease liabilities, with the carrying amount of right-of-use assets and are recognised directly in the statement of comprehensive income.

1.10 Net investment in lease receivables

In addition to its primary property lease portfolio, the Group holds head-leases over strategic franchise sites. These sites are sub-let to franchisees, with the franchisees holding the right to control the use of the leased assets. Where the Group does not retain the right to control the use of leased assets, due to the leased asset being subjected to a sub-lease, right-of-use assets are not recognised by the Group. The Group recognises the present value of future lease payments under head leases as lease liabilities (refer to note 1.17), and capitalises the present value of future lease receivables under sub-leases as net investment in lease receivables.

Initial measurement

At the date when the franchisee gains the right to control the use of leased assets, referred to as the commencement date of sub-lease agreements, the Group measures the net investment in lease receivable at the present value of the lease payments to be received over the lease term, discounted at the Group's incremental borrowing rate.

The Group determines the lease term of the net investment in lease receivable as the non-cancellable period of the lease, and determines the incremental borrowing rate as the rate applicable to the corresponding head lease liability.

Subsequent measurement

Net investment in lease receivables are subsequently measured at amortised cost using the effective interest method, reduced by future lease receipts net of interest earned.

Impairment

Net investment in lease receivables are assessed for impairment as financial assets in accordance with note 1.14.

Derecognition

Net investment in lease receivables are derecognised when the Group regains the right to control the use of leased assets. Gains or losses on derecognition are determined by comparing the carrying value of corresponding lease liabilities with the carrying value of net investment in lease receivables, and are recognised directly in the statement of comprehensive income.

1.11 Operating lease assets

Leases where the lessor retains the right to control the use of underlying leased assets are classified as operating leases. Operating leases include leases for kiosk space within retail owned sites provided to third parties.

Rentals receivable under operating leases are credited to the statement of comprehensive income on a straight-line basis over the term of the relevant lease. This results in the raising of an asset for future lease income on the statement of financial position. Operating lease assets are classified as non-current assets, with the exception of the portion with a maturity date of less than 12 months of the reporting date which are disclosed as current assets and are included under trade and other receivables. The asset reverses during the latter part of each lease term when the actual cash flow exceeds the straight-lined lease income included in the statement of comprehensive income.

1.12 Inventory

Inventory comprises merchandise for resale and consumables. Inventory is measured at the lower of cost and net realisable value, and is classified as a current asset as it is expected to be sold within the Group's normal operating cycle.

Cost is calculated on the weighted-average basis and includes expenditure incurred in acquiring the inventory and bringing it to its existing location and condition, including distribution costs, and is stated net of relevant purchase rebates.

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

The carrying amount of inventories sold is recognised as an expense in the statement of comprehensive income.

1.13 Right-of-return assets and refund liabilities

For the sale of goods where customers are entitled to a right of return within a specified period of time, the Group recognises a right-of-return asset (and corresponding adjustment to cost of sales) which is representative of the Group's right to recover the goods expected to be returned by customers.

The asset is measured at the carrying amount of inventory estimated to be returned using the expected value method, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its estimated level of returns, as well as any additional decreases in the value of the returned products.

For goods that are expected to be returned, the Group recognises a refund liability for the customer's right to a refund (and corresponding adjustment to turnover) which is measured at the amount the Group expects it will have to return to the customer. Refer to note 25.

1.14 Impairment of assets

The determination of whether an asset is impaired requires management judgement. Among others, the following factors will be considered: estimated profit and cash forecasts, discount rates, duration and extent of the impairment, regional economic factors and geographical and sector performance.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.14 Impairment of assets (continued)

Financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group applies a simplified approach for measuring impairment on trade receivables, net investment in lease receivables and operating lease assets at an amount equal to lifetime ECLs. To measure lifetime ECLs, trade receivables, net investment in lease receivables and operating lease assets are assessed on an individual basis. The ECL rates are based on historical credit loss experienced during the period, adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the debtors to settle their receivables. The Group has identified CPI inflation and internal selling price inflation to be the most relevant factors and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group applies a general approach for measuring impairment on other receivables and loans, at an amount equal to expected credit losses, taking into account past experience and future macro-economic factors. The loss allowance is measured at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at reporting date, the credit risk has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to 12-month expected credit losses.

The Group considers a financial asset in default when contractual payments are one to two weeks past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The carrying amounts of non-financial assets (other than inventory, defined-benefit assets 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 non-financial assets, such as goodwill, which have indefinite useful lives and are not subject to depreciation or amortisation, or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset 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 units (CGUs) to which the asset belongs. A CGU is the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets.

Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination and, for the purposes of impairment testing, are evaluated at the lowest level at which goodwill is monitored for internal reporting purposes. The units or group of units are not larger than the operating segments identified by the Group.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. The carrying amount is impaired and the non-financial asset is written down to its recoverable amount with the related impairment loss recognised in the statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs (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.

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.

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

1.15 Share capital

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

1.16 Treasury shares

Own equity instruments held by Group entities are classified as treasury shares in the Group annual financial statements. 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.

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 retained earnings.

Dividends received on treasury shares are eliminated on consolidation.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.17 Leases Liabilities

The Group enters into various lease agreements as the lessee of property, equipment and vehicles. Where lease agreements convey the right to control the use of underlying leased assets, the Group recognises the present value of future lease payments under the lease as lease liabilities.

Initial recognition

At the date when the Group gains the right to control the use of underlying leased assets, referred to as the commencement date, the Group measures the lease liability at the present value of the lease payments to be made over the lease term, discounted at an applicable discount rate.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Judgement is applied in determining the likelihood of exercising extension or termination options in determining the lease period.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised or termination options reasonably certain not to be exercised. Variable lease payments are initially measured using the index or rate at the commencement date.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used. The incremental borrowing rate is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The discount rate used for the Group's commercial vehicle fleet is the interest rate implicit in the lease agreement. All other lease payments are discounted using the Group's incremental borrowing rate specific to the lease term, country, currency and commencement date of the lease. Incremental borrowing rates are based on a series of inputs including the prime rate, the repo rate, credit risk adjustments and country specific adjustments.

The Group accounts for non-lease components together with the lease component to which it relates as a single lease component.

Subsequent measurement

Lease liabilities are subsequently measured at amortised cost using the effective interest method, reduced by future lease payments net of interest charged. Interest costs are recorded in the statement of comprehensive income.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments of lease payments based on an index or rate take effect, the lease liability is re-measured with a corresponding adjustment to the right-of-use asset. Further re-measurements occur when there is a change in future lease payments resulting from a rent review.

Lease terms are reassessed when there is a significant event or change in circumstance that is within the Group's control and affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Significant events could include a change in the Group's assessment of whether it is reasonably certain to exercise a renewal or termination options, the incurrences of unanticipated significant leasehold improvements or the negotiation of unanticipated lease incentives. Upon the occurrence of the significant event, lease liabilities are re-measured with a corresponding adjustment to corresponding right-of-use assets.

Derecognition

Lease liabilities are derecognised upon the Group's loss of control of the right to use leased assets. Gains or losses on derecognition are determined by comparing the carrying value of corresponding right-of-use assets with the carrying value of lease liabilities and are recognised directly in the statement of comprehensive income.

Variable lease payments

Certain property leases contain variable payment terms linked to sales generated from retail owned and franchise stores, referred to as turnover rent expense. Turnover rent expense is recognised in the statement of comprehensive income within occupancy costs, in the period in which the event or condition that triggers the payment occurs.

Leasing of low-value assets and short-term leases

Payments associated with short-term leases and leases of low-value assets are recognised on a straight line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

1.18 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

The classification of the Group's financial instruments at initial recognition depends on the financial instrument's contractual cash flow characteristics and the Group's model for managing them. The Group manages its financial assets in order to generate cash flows, by determining whether cash flows will result from collecting cash flows, selling the financial asset, or both, and whether the contractual cash flows are solely payments of principal amounts and interest.

The Group classifies its financial instruments into the following categories: financial assets at amortised cost, financial instruments at fair value through profit or loss, financial liabilities at amortised cost and derivatives designated as hedging instruments.

Financial instruments are recognised on trade date when the Group becomes a party to the contractual provisions of the instrument and are initially recognised at fair value, plus transaction costs for financial instruments not measured at fair value through profit or loss.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.18 Financial instruments (continued)

Initial recognition and measurement (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Where there is no active market, the Group uses valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the annual financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Derecognition

Financial assets (or where applicable, a part of a financial asset or a group of similar 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, are discharged or are cancelled. The resulting differences between the carrying values on derecognition of the financial instrument and the amount received or paid is recognised in the statement of comprehensive income.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, when the Group has a legally enforceable right to offset the recognised amounts, and intends either to settle on a net basis, or to realise the net assets and settle the liability simultaneously.

Subsequent measurement

Financial assets at amortised cost

The Group measures financial assets at amortised cost if both the following conditions are met:

- The financial asset is held with the objective to hold the financial asset in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include net investment in lease receivables, trade and other receivables, cash and cash equivalents and loans. Net investment in lease receivables and trade and other receivables mainly comprise franchisee receivables. Certain net investment in lease receivables and trade and other receivables are considered to be long term in nature and are recorded as non-current in the statement of financial position. Loans mainly comprise housing and other employee loans.

Net investment in lease receivables, trade and other receivables and loans

Net investment in lease receivables, trade and other receivables and loans are measured at amortised cost using the effective interest method, less impairment losses. The effective interest amortisation is included in finance income in the statement of comprehensive income.

Cash and cash equivalents and overnight borrowings

Cash and cash equivalents and overnight borrowings are measured at amortised cost, using the effective interest method, less accumulated impairments. The effective interest amortisation is included in finance income or costs in the statement of comprehensive income. Cash and cash equivalents comprise cash on hand and amounts held on short-term deposit at financial institutions. Overnight borrowings include short-term borrowings repayable on demand. Overnight borrowings are repayable on demand, managed on a daily basis and are considered an integral part of the Group's cash management.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits net of outstanding overnight borrowings.

Financial instruments at fair value through profit or loss

Financial instruments are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the statement of comprehensive income.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.18 Financial instruments (continued)

Subsequent measurement (continued)

Financial instruments at fair value through profit or loss (continued)

Financial assets are classified and measured at amortised cost or fair value through OCI, if it gives rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's investment in the insurance cell captive is measured at fair value through profit or loss as cash flows are not solely payments of principal and interest. In addition, the Group manages this investment and evaluates performance based on its fair value in accordance with the Group's documented risk management or investment strategy. Any fair value gains or losses as a result of subsequent measurement are recognised in the statement of comprehensive income.

Financial liabilities at amortised cost

Financial liabilities at amortised cost mainly comprise of lease liabilities, borrowings and trade and other payables.

Lease liabilities

Refer to note 1.17 for further information.

Borrowings

Borrowings are measured at amortised cost using the effective interest method. The effective interest amortisation is included in finance costs in the statement of comprehensive income. The maturity date of each financial liability is dependent on the contractual terms of the related borrowing.

Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest method. The effective interest amortisation is included in finance costs in the statement of comprehensive income. Trade and other payables mainly comprise trade payables for merchandise for resale and are all short term in nature.

Derivatives designated as hedging instruments

The Group holds derivative financial instruments, being forward exchange contracts (FECs) that are defined as hedging instruments, in order to mitigate the risks associated with the firm commitment of purchasing imported inventory, defined as the hedged item.

The relationship between the FECs and the underlying inventory is classified as a cash flow hedge, as the FECs are used to hedge the variability in cash flows attributable to the foreign currency risks of importing inventory. The Group qualified for the application of hedge accounting in terms of its first time adoption of IFRS 9 in the prior period.

The hedge is deemed to be highly effective as the terms of the FEC match the terms of the purchase of imported inventory. The effective portion of the change in fair value of the FECs are recognised in other comprehensive income and accumulated in the cash flow hedging reserve within equity.

The accumulated amount in the reserve is released to the statement of comprehensive income when the underlying inventory is sold. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised immediately in the statement of comprehensive income.

FECs are measured at fair value and are carried as derivative financial assets when the fair value is positive and as derivative financial liabilities when the fair value is negative.

1.19 Revenue

Revenue is recognised when the Group satisfies performance obligations and transfers control of goods or services to its customers at an amount that reflects the consideration the Group expects to be entitled to in exchange for these goods or services, allocated to each specific performance obligation. Revenue is measured at the fair value of the consideration received or receivable.

Turnover

Revenue from the sale of goods, or turnover, comprises sales to customers through its owned stores and the Group's supply arrangements. All turnover is stated exclusive of value-added tax.

Turnover is recognised at a point in time when the Group transfers control of goods to its customer at the point of sale and is measured at the fair value of consideration received or receivable, net of returns, trade discounts, loyalty discounts and volume rebates. Discounts, rebates or loyalty payments to customers are deducted from turnover, unless it is directly funded by suppliers. Payment of the transaction price in respect of the sale of goods is due immediately when the customer purchases goods and takes delivery.

Turnover recognised through deferred revenue transactions (Smart Shopper loyalty programme and prepaid gift cards) is not recognised at the time of the initial transaction, but is deferred and recognised as a contract liability (deferred revenue) when the consideration is received and recognised as turnover over time, as and when the Group's obligations are fulfilled.

Smart Shopper loyalty programme

The Group has a customer loyalty programme in South Africa, Smart Shopper, whereby customers are awarded with reward credits (loyalty points) which are effectively used as cash back against future purchases. Loyalty points granted to customers participating in the Smart Shopper loyalty programme provide rights to customers that is accounted for as separate performance obligations.

The fair value of the consideration received under the Smart Shopper loyalty programme is allocated between the sale of goods supplied and the loyalty points granted. The consideration allocated to the loyalty points is measured by reference to their relative stand-alone selling price which is calculated as the amount for which the loyalty points could be separately sold, adjusted for an expected forfeiture rate. Such consideration is not recognised as turnover at the time of the sales transaction, but is recognised as a deferred revenue liability until the loyalty points have been redeemed or forfeited. The likelihood of redemption, based on management's judgement of expected redemption rates, is reviewed on a regular basis and any adjustments to the deferred revenue liability is recognised in turnover. Refer to note 25.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.19 Revenue (continued)

Turnover (continued)

Prepaid gift cards

Gift cards represent a prepaid value card which effectively can be redeemed as cash consideration against future purchases. The consideration allocated to prepaid gift cards is measured at the fair value of the consideration received in advance, adjusted for an expected forfeiture rate. Such consideration is not recognised as turnover at the time of the initial transaction, but is recognised as a deferred revenue liability until the prepaid gift card has been redeemed or when the Group's obligations have been fulfilled. The Group updates its estimates of forfeiture on a regular basis and any adjustments to the deferred revenue liability are recognised in turnover. Refer to note 25.

Franchise fee income

Income from franchisees, calculated as a percentage of the sale of goods by franchisees through their point of sale to their customers, in accordance with the substance of the relevant franchise agreement, is recognised at a point in time, as franchisee fee income, when the sale that 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.

Certain property sub-leases contain variable payment terms linked to sales generated from franchise stores, referred to as turnover rent income. Turnover rent income is recognised in the statement of comprehensive income in the period in which the event or condition that triggers the payment occurs.

Commissions and other income

The Group acts as a payment office for the services provided by a variety of third parties to the Group's customers, such as bill payments, sale of electricity and travel tickets. The related agent's commission received is recognised as income at a point in time, when the transaction that gives rise to the income takes place.

Commissions relating to the sale of third-party services are recognised over time, based on the stage of completion by reference to services performed to date as a percentage of total services to be performed. Commissions related to the sale of third-party products are recognised at a point in time, when the underlying third-party product is sold to the customer.

Other income is recognised as and when the Group satisfies its obligations in terms of the contract and includes income earned from the sale of Smart Shopper analytical data and the sale of advertising space through the Group's various advertising mediums.

Finance income

Finance income is recognised over time as it accrues in the statement of comprehensive income, using the effective interest method, by reference to the principal amounts outstanding and at the interest rate applicable.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

1.20 Finance costs

Finance 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.

1.21 Taxes

Income tax on the profit or loss for the period 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 in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

Current tax

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

Deferred tax

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of the assets and liabilities at the reporting date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and investments in subsidiaries, to the extent that the holding company has the ability to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 recognised in the statement of comprehensive income, except to the extent that it relates to a transaction that is recognised directly in equity or other comprehensive income, 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 recognised in other comprehensive income or directly to equity, in which case it is recognised in other comprehensive income or directly in 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.21 Taxes (continued)

Deferred tax (continued)

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

Dividends withholding tax

Dividends withholding tax is a tax levied on shareholders and is applicable on dividends declared. The Company withholds dividends tax on behalf of their shareholders at a rate of 20% on dividends declared for shareholders that are not exempt from this tax.

1.22 Employee benefits

Short-term employee benefits

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

Accruals for employee entitlements to wages, salaries, bonuses and annual leave represent the amount which the Group has a present obligation to pay as a result of employees' services provided up to the reporting date. These accruals have been calculated at undiscounted amounts based on current wage and salary rates.

Share-based payment transactions

The share ownership programme enables Group employees to acquire shares in Pick n Pay Stores Limited (PIK), thereby treating them as equity-settled share-based payment transactions in the Group.

The fair value of awards granted is recognised as an employee cost expense in the statement of comprehensive income with a corresponding increase in equity for these equity-settled share-based transactions. The fair value is measured at grant date and the cost of the awards granted is spread over the period during which the employees become unconditionally entitled to the awards (the vesting period).

The fair value of the awards granted is measured using an actuarial binomial option pricing model, taking into account the terms and conditions upon which the awards are granted. Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award, unless there are also service and/or performance conditions.

No cumulative expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested, irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Retirement benefits

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

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 period when the services have been rendered.

Contributions to a defined-contribution plan that are made more than 12 months after the end of the period in which the employees render the services are discounted to their present value.

Defined-benefit plans

A defined-benefit plan is a post-employment benefit plan other than a defined-contribution plan.

The Group's net obligation in respect of the defined-benefit plans is calculated separately by estimating the amount of future benefit that qualifying employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined-benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined-benefit liabilities or assets, which comprise actuarial gains or losses, the return on plan assets (excluding amounts included in net interest on the net defined-benefit liability) and the effect of the asset ceiling (if any, excluding amounts included in net interest on the net defined-benefit liability) are recognised immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined-benefit liability or asset for the period by applying the discount rate used to measure the defined-benefit obligation at the beginning of the period to the then net defined-benefit liability or asset, taking into account any changes in the net defined-benefit liability or asset during the period as a result of contributions and benefit payments. Net interest expense or income and other expenses related to defined-benefit plans are recognised in the statement of comprehensive income.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.22 Employee benefits (continued)

Defined-benefit plans (continued)

When the benefits of a plan are changed, or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the statement of comprehensive income.

The Group recognises gains or losses on the settlement of a defined-benefit plan when the settlement occurs.

1.23 Expenses

Expenses, other than those dealt with under a specific accounting policy note, are recognised in the statement of comprehensive income when it is probable that an outflow of economic benefits associated with the transaction will occur and that it can be measured reliably.

Expenditure relating to advertising and promotional activities are recognised as an expense when the Group has received such services.

1.24 Dividends distributed to shareholders

Dividends are accounted for in the period that they have been declared by the Company and are directly charged to equity.

1.25 Operating segments

The Group discloses segmental financial information which is used internally by the entity's Chief Operating Decision-Maker (CODM) in order to assess performance and allocate resources. The Group annually performs a detailed review of the executive, or group of executives, that could be considered the appropriate and relevant CODM of the Group. During the current and prior period under review, the CODM of the Group comprised the Group executive committee, which consisted of the Chief Executive Officer, Chief Information Systems Officer and Chief Finance Officer.

Operating segments are individual components of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's CODM and for which discrete financial information is available. The CODM evaluates segmental performance based on 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. Operating segments that display similar economic characteristics are aggregated for reporting purposes.

The Group has two operating segments, namely South Africa and Rest of Africa with no individual customer accounting for more than 10% of turnover. South Africa operates in various formats under the Pick n Pay and Boxer brands in South Africa. The Rest of Africa segment is responsible for the Group's expansion into the rest of Africa.

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

1.26 Net asset value per share

Net asset value per share is calculated by taking the total equity value of the Group, adjusted with the differential between the carrying value and the directors' valuation of property, divided by the number of shares held outside the Group.

1.27 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Group for the period by the weighted average number of shares in issue (excluding treasury shares).

Dilutive earnings per share is calculated by adjusting the profit attributable to ordinary equity holders of the Group, and the weighted average number of shares in issue, for the effects of all dilutive potential ordinary shares. Share options held by participants in the Group's employee share schemes and forfeitable shares have dilutive potential.

1.28 *Pro forma* information

Certain financial information presented in these Group annual financial statements constitutes *pro forma* financial information. The *pro forma* financial information is the responsibility of the Board of directors of the Company and is presented for illustrative purposes only. Because of its nature, the *pro forma* financial information may not fairly present the Group's financial position, changes in equity, result of operations or cash flows. The Group's external auditors has issued a reporting accountants report on the *pro forma* financial information, which is available for inspection at the Group's registered office. Refer to the Appendices for further information.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
2	**REVENUE**		
	Revenue from contracts with customers	**90 711.0**	89 678.4
	Turnover	**89 281.5**	88 293.2
	Franchise fee income	**398.3**	399.1
	Commissions and other income	**1 031.2**	986.1
	Operating lease income*	**140.7**	112.7
	Finance income	**471.7**	445.5
	Bank balances and investments	**205.1**	190.7
	Trade receivables and other	**70.5**	68.1
	Net investment in lease receivables (note 12)	**196.1**	186.7
		91 323.4	90 236.6

Revenue recognised during the period from amounts included in deferred revenue at the beginning of the period, amounted to R134.6 million (2019: R177.8 million). Refer to note 25.

Revenue from contracts with customers has been further disaggregated into geographical regions. Refer to note 27.

		52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
3	**PROFIT BEFORE TAX**		
	Profit before tax is stated after taking into account the following expenses:		
3.1	**Employee costs**		
	Salaries and wages	**6 709.3**	6 336.3
	Staff benefits and training	**344.2**	416.4
	Share-based payments expense	**25.7**	216.4
	Net expense recognised on defined-benefit plan (note 22.1)	**4.7**	3.7
	Contributions to defined-contribution plans (note 22.2)	**284.3**	266.1
		7 368.2	7 238.9
3.2	**Auditor's remuneration**		
	Assurance services - current year	**11.2**	8.4
	Assurance services - prior period (over)/under provision	**(0.6)**	0.5
	Other services	**0.4**	0.4
		11.0	9.3
3.3	**Finance costs**		
	Lease liabilities* (note 24)	**1 382.5**	1 377.1
	Borrowings and other	**389.6**	349.3
		1 772.1	1 726.4
3.4	**Foreign exchange loss***	**23.4**	41.4

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

4 DIRECTORS' REMUNERATION AND INTEREST IN SHARES

4.1 Directors' remuneration

	Fees for board meetings R'000	Fees for committee and other work R'000	Base salary R'000	Retirement and medical contri-butions R'000	Fringe and other benefits R'000	Total fixed remune-ration R'000	Bonus and gratuity*** R'000	Total remune-ration R'000	Long-term share award charges# R'000
2020									
Non-executive directors	**7 487.5**	**2 134.5**	**–**	**–**	**–**	**9 622.0**	**–**	**9 622.0**	**–**
Gareth Ackerman	**4 660.0**	**–**	**–**	**–**	**–**	**4 660.0**	**–**	**4 660.0**	**–**
David Friedland	**435.0**	**235.0**	**–**	**–**	**–**	**670.0**	**–**	**670.0**	**–**
Hugh Herman	**435.0**	**532.0**	**–**	**–**	**–**	**967.0**	**–**	**967.0**	**–**
Alex Mathole	**435.0**	**184.5**	**–**	**–**	**–**	**619.5**	**–**	**619.5**	**–**
Audrey Mothupi	**435.0**	**371.5**	**–**	**–**	**–**	**806.5**	**–**	**806.5**	**–**
Aboubakar Jakoet*	**217.5**	**115.5**	**–**	**–**	**–**	**333.0**	**–**	**333.0**	**–**
David Robins	**435.0**	**94.5**	**–**	**–**	**–**	**529.5**	**–**	**529.5**	**–**
Jeff van Rooyen	**435.0**	**601.5**	**–**	**–**	**–**	**1 036.5**	**–**	**1 036.5**	**–**
Executive directors	**–**	**–**	**24 710.8**	**2 182.9**	**3 175.9**	**30 069.6**	**–**	**30 069.6**	**5 846.4**
Richard Brasher	**–**	**–**	**10 707.0**	**968.0**	**742.5**	**12 417.5**	**–**	**12 417.5**	**4 551.7**
Aboubakar Jakoet*	**–**	**–**	**2 711.3**	**52.8**	**1 348.4**	**4 112.5**	**–**	**4 112.5**	**2 673.6**
Lerena Olivier**	**–**	**–**	**1 896.2**	**182.4**	**169.7**	**2 248.3**	**–**	**2 248.3**	**285.2**
Richard van Rensburg	**–**	**–**	**4 980.0**	**431.3**	**327.6**	**5 738.9**	**–**	**5 738.9**	**(637.8)**
Suzanne Ackerman-Berman	**–**	**–**	**2 922.3**	**276.8**	**289.6**	**3 488.7**	**–**	**3 488.7**	**(791.6)**
Jonathan Ackerman	**–**	**–**	**1 494.0**	**271.6**	**298.1**	**2 063.7**	**–**	**2 063.7**	**(234.7)**
Total remuneration	**7 487.5**	**2 134.5**	**24 710.8**	**2 182.9**	**3 175.9**	**39 691.6**	**–**	**39 691.6**	**5 846.4**
2019									
Non-executive directors	7 122.5	1 697.0	–	–	–	8 819.5	–	8 819.5	–
Gareth Ackerman	4 438.0	–	–	–	–	4 438.0	–	4 438.0	–
David Friedland	413.0	223.0	–	–	–	636.0	–	636.0	–
Hugh Herman	413.0	497.0	–	–	–	910.0	–	910.0	–
Alex Mathole	413.0	90.0	–	–	–	503.0	–	503.0	–
Audrey Mothupi	413.0	268.0	–	–	–	681.0	–	681.0	–
Lorato Phalatse^	206.5	149.0	–	–	–	355.5	–	355.5	–
David Robins	413.0	–	–	–	–	413.0	–	413.0	–
Jeff van Rooyen	413.0	470.0	–	–	–	883.0	–	883.0	–
Executive directors	–	–	24 174.8	1 878.2	1 354.0	27 407.0	41 736.0	69 143.0	46 071.1
Richard Brasher	–	–	10 140.0	916.4	293.7	11 350.1	20 640.0	31 990.1	32 477.3
Aboubakar Jakoet	–	–	5 088.6	33.8	152.6	5 275.0	15 216.0@	20 491.0	4 628.4
Richard van Rensburg	–	–	4 720.5	408.8	323.6	5 452.9	4 800.0	10 252.9	4 628.4
Suzanne Ackerman-Berman	–	–	2 832.0	262.2	286.6	3 380.8	720.0	4 100.8	2 603.2
Jonathan Ackerman	–	–	1 393.7	257.0	297.5	1 948.2	360.0	2 308.2	1 733.8
Total remuneration	7 122.5	1 697.0	24 174.8	1 878.2	1 354.0	36 226.5	41 736.0	77 962.5	46 071.1

* *Effective 6 September 2019, Aboubakar Jakoet retired as an executive director and was appointed as a non-executive director of Pick n Pay Stores Limited. On retirement, outstanding leave encashment and the settlement of outstanding employee loans resulted in additional fringe and other benefits received during the year.*

** *Lerena Olivier was appointed as an executive director of Pick n Pay Stores Limited on 6 September 2019.*

*** *The remuneration committee has not awarded a short-term bonus to its executive directors this year, as the growth in comparable profit before tax and exceptional items (PBTAE) of 6.5% for the 52 weeks ended 1 March 2020 was short of the targeted 8.0%.*

@ *During the prior period, a gratuity of R10.0 million was granted to Aboubakar Jakoet on his retirement, in appreciation of his outstanding contribution to the Pick n Pay Group over the 34 years of his career.*

\# *The long-term share awards expense or recoupment is determined in accordance with IFRS 2 Share-Based Payments, and reflects the current year's charge recorded in the Group's statement of comprehensive income and statement of changes in equity. The fair value of share awards are determined at grant date, and are recognised in the statement of comprehensive income and statement of changes in equity over the period during which the employee becomes unconditionally entitled to the award (the vesting period). Long-term share awards will vest in the future only if all the vesting criteria set out in the rules of the 1997 Employee Share Options Scheme and the Forfeitable Share Plan (FSP) are met. Dependent on the nature of the vesting criteria, long-term share awards expense may be reversed and recouped by the Group if the vesting criteria are not met. During the current year, certain vesting criteria relating to FSP awards with a vesting date of 25 June 2020 were not met. As a result, approximately 70% of the cumulative long-term share awards expense relating to this FSP allocation was recouped by the Group.*

^ *Lorato Phalatse resigned, in the prior period, as a director of Pick n Pay Stores Limited on 31 August 2018.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

4 DIRECTORS' REMUNERATION AND INTEREST IN SHARES (CONTINUED)

4.2 Directors' interest in ordinary shares

2020	How held*	Balance held at 3 March 2019	Additions/ grants	Disposals	Forfeits@	Balance held at 1 March 2020	Forfeits sub-sequent to 1 March 2020#	Additions /grants sub-sequent to 1 March 2020	Beneficial/ non-beneficial interest^
Gareth Ackerman	direct	309	–	–	–	309	–	–	Beneficial
	indirect	1 687 200	17 000	–	–	1 704 200	–	5 806	Beneficial
	indirect	19 762	–	–	–	19 762	–	–	Non-beneficial
Ackerman Pick n Pay Foundation**	indirect	101 900	–	–	–	101 900	–	–	Non-beneficial
Ackerman Investment Holdings Proprietary Limited***	indirect	124 677 238	–	(124 677 237)	–	1	–	–	Non-beneficial
Newshelf 1321 Proprietary Limited***	indirect	–	124 677 237	–	–	124 677 237	–	–	Non-beneficial
Mistral Trust◊	indirect	2 735 008	32 992	–	–	2 768 000	–	–	Non-beneficial
Richard Brasher	direct	463 578	230 000	(693 578)	–	–	–	–	Beneficial
	direct – FSP	1 630 000	–	(230 000)	–	1 400 000	(280 000)	1 200 000	Beneficial
Lerena Olivier∆	direct	8 100	–	–	–	8 100	–	–	Beneficial
	direct – FSP	80 000	100 000	–	–	180 000	–	–	Beneficial
Richard van Rensburg	direct	291 439	45 000	(336 439)	–	–	–	–	Beneficial
	direct – FSP	215 000	150 000	(45 000)	–	320 000	(98 000)	–	Beneficial
Suzanne Ackerman-Berman	direct	120 528	25 000	(25 000)	–	120 528	–	–	Beneficial
	direct – FSP	120 000	15 000	(25 000)	–	110 000	(56 000)	–	Beneficial
	indirect	598 609	13 500	–	–	612 109	–	–	Beneficial
Jonathan Ackerman	direct	122 888	25 000	(25 000)	–	122 888	–	–	Beneficial
	direct – FSP	73 000	8 000	(25 000)	–	56 000	(28 000)	–	Beneficial
	indirect	726 686	39 200	–	–	765 886	–	21 533	Beneficial
	indirect	11 039	3 456	–	–	14 495	–	–	Non-beneficial
Aboubakar Jakoet@	direct	758 764	185 000	(185 000)	–	758 764	–	–	Beneficial
	direct – FSP	215 000	–	(185 000)	(30 000)	–	–	–	Beneficial
	indirect	13 059	–	–	–	13 059	–	–	Non-beneficial
David Friedland	indirect	36 688	5 000	–	–	41 688	–	2 500	Beneficial
David Robins	direct	975	–	–	–	975	–	–	Beneficial
	indirect	90 436	–	–	–	90 436	–	–	Non-beneficial
Hugh Herman	direct	30 000	–	–	–	30 000	–	–	Beneficial
	indirect	256	–	–	–	256	–	–	Beneficial
Alex Mathole	direct	86	1 700	(1 786)	–	–	–	–	Beneficial

* *Direct interests represent a holding in the director's personal capacity. Indirect interests represent a holding by a trust (of which the director is a trustee), a spouse or minor children of directors.*

** *The indirect non-beneficial interest in the Ackerman Pick n Pay Foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman in their capacities as trustees.*

*** *In order to ring fence its Pick n Pay shareholding, Ackerman Investment Holdings Proprietary Limited (AIH) transferred its shareholding to a wholly-owned subsidiary of AIH, namely Newshelf 1321 Proprietary Limited. The indirect non-beneficial interest in Newshelf 1321 Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

◊ *The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees and/or potential beneficiaries.*

∆ *Lerena Olivier was appointed as an executive director of Pick n Pay Stores Limited on 6 September 2019. The balance as at 3 March 2019 reflects the interest in shares prior to the executive director appointment.*

@ *Effective 6 September 2019, Aboubakar Jakoet retired as an executive director and was appointed as a non-executive director of Pick n Pay Stores Limited. As a result of his retirement, 30 000 of his forfeitable shares were forfeited.*

\# *The remuneration committee has forfeited approximately 70% of the FSP shares awarded to executives in 2017, as the three-year cumulative growth target of 10% set for Group headline earnings per share was not met. In line with the discretion provided within the scheme rules, the remuneration committee will allow approximately 30% of the allocation to be available for take-up in June 2020 in recognition of the South African division's market leading performance over the past three years.*

^ *Beneficial interest represents an interest in shares in which a person is entitled to receive income payable in respect of that shareholding and obtain any benefit as a result of holding those shares. Non-beneficial interest represents an interest in shares in which a person will not benefit directly as a result of holding those shares.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

4 DIRECTORS' REMUNERATION AND INTEREST IN SHARES (CONTINUED)

4.2 Directors' interest in ordinary shares (continued)

2019	How held*	Balance held at 25 February 2018	Additions/ grants	Disposals	Balance held at 3 March 2019	Beneficial/ non-beneficial interest^
Gareth Ackerman	direct	309	–	–	309	Beneficial
	indirect	1 653 200	34 000	–	1 687 200	Beneficial
	indirect	19 762	–	–	19 762	Non-beneficial
Ackerman Pick n Pay Foundation**	indirect	101 900	–	–	101 900	Non-beneficial
Ackerman Investment Holdings Proprietary Limited***	indirect	124 677 238	–	–	124 677 238	Non-beneficial
Mistral Trust◊	indirect	2 720 008	15 000	–	2 735 008	Non-beneficial
Richard Brasher	direct	604 770	220 000	(361 192)	463 578	Beneficial
	direct – FSP	850 000	1 000 000	(220 000)	1 630 000	Beneficial
Aboubakar Jakoet	direct	758 764	–	–	758 764	Beneficial
	direct – FSP	220 000	30 000	(35 000)	215 000	Beneficial
	indirect	13 059	–	–	13 059	Non-beneficial
Richard van Rensburg	direct	291 439	35 000	(35 000)	291 439	Beneficial
	direct – FSP	220 000	30 000	(35 000)	215 000	Beneficial
Suzanne Ackerman-Berman	direct	120 528	–	–	120 528	Beneficial
	direct – FSP	125 000	15 000	(20 000)	120 000	Beneficial
	indirect	554 356	53 313	(9 060)	598 609	Beneficial
Jonathan Ackerman	direct	122 888	–	–	122 888	Beneficial
	direct – FSP	85 000	8 000	(20 000)	73 000	Beneficial
	indirect	655 190	80 556	(9 060)	726 686	Beneficial
	indirect	11 039	–	–	11 039	Non-beneficial
David Friedland	direct	31 688	5 000	–	36 688	Beneficial
David Robins	direct	975	–	–	975	Beneficial
	indirect	90 436	–	–	90 436	Non-beneficial
Hugh Herman	direct	30 000	–	–	30 000	Beneficial
	indirect	256	–	–	256	Beneficial
Alex Mathole	direct	86	–	–	86	Beneficial

* *Direct interests represent a holding in the director's personal capacity. Indirect interests represent a holding by a trust (of which the director is a trustee), a spouse or minor children of directors.*

** *The indirect non-beneficial interest in the Ackerman Pick n Pay Foundation represents the holdings of Gareth Ackerman and Suzanne Ackerman-Berman in their capacities as trustees.*

*** *The indirect non-beneficial interest in the Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

◊ *The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees and/or potential beneficiaries.*

^ *Beneficial interest represents an interest in shares in which a person is entitled to receive income payable in respect of that shareholding and obtain any benefit as a result of holding those shares. Non-beneficial interest represents an interest in shares in which a person will not benefit directly as a result of holding those shares.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

4 DIRECTORS' REMUNERATION AND INTEREST IN SHARES (CONTINUED)

4.3 Directors' interest in B shares

2020	How held*	Balance held at 3 March 2019	Additions	Disposals	Balance held at 1 March 2020@	Beneficial/ non-beneficial interest^
Gareth Ackerman	direct	522	–	–	522	Beneficial
	indirect	3 227 861	–	–	3 227 861	Beneficial
	indirect	39 140	–	–	39 140	Non-beneficial
Ackerman Investment Holdings Proprietary Limited**	indirect	246 936 847	–	(246 936 847)	–	Non-beneficial
Newshelf 1321 Proprietary Limited**	indirect	–	246 936 847	–	246 936 847	Non-beneficial
Mistral Trust***	indirect	5 349 559	–	–	5 349 559	Non-beneficial
Suzanne Ackerman-Berman	direct	233 767	–	–	233 767	Beneficial
	indirect	926 084	–	–	926 084	Beneficial
Jonathan Ackerman	direct	243 307	–	–	243 307	Beneficial
	indirect	1 135 009	–	–	1 135 009	Beneficial
	indirect	21 862	–	–	21 862	Non-beneficial
David Robins	direct	1 931	–	–	1 931	Beneficial
	indirect	179 118	–	–	179 118	Non-beneficial

* *Direct interests represent a holding in the director's personal capacity. Indirect interests represent a holding by a trust (of which the director is a trustee), a spouse or minor children of directors.*

** *In order to ring fence its Pick n Pay shareholding, Ackerman Investment Holdings Proprietary Limited (AIH) transferred its shareholding to a wholly-owned subsidiary of AIH, namely Newshelf 1321 Proprietary Limited. The indirect non-beneficial interest in Newshelf 1321 Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

*** *The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees and/or potential beneficiaries.*

@ *There have been no changes in the directors' interest in B shares since 1 March 2020 up to the date of approval of the 2020 audited Group annual financial statements.*

^ *Beneficial interest represents an interest in shares in which a person is entitled to receive income payable in respect of that shareholding and obtain any benefit as a result of holding those shares. Non-beneficial interest represents an interest in shares in which a person will not benefit directly as a result of holding those shares.*

2019	How held*	Balance held at 25 February 2018	Balance held at 3 March 2019	Beneficial/ non-beneficial interest^
Gareth Ackerman	direct	522	522	Beneficial
	indirect	3 227 861	3 227 861	Beneficial
	indirect	39 140	39 140	Non-beneficial
Ackerman Investment Holdings Proprietary Limited**	indirect	246 936 847	246 936 847	Non-beneficial
Mistral Trust***	indirect	5 349 559	5 349 559	Non-beneficial
Suzanne Ackerman-Berman	direct	233 767	233 767	Beneficial
	indirect	926 084	926 084	Beneficial
Jonathan Ackerman	direct	243 307	243 307	Beneficial
	indirect	1 135 009	1 135 009	Beneficial
	indirect	21 862	21 862	Non-beneficial
David Robins	direct	1 931	1 931	Beneficial
	indirect	179 118	179 118	Non-beneficial

* *Direct interests represent a holding in the director's personal capacity. Indirect interests represent a holding by a trust (of which the director is a trustee), a spouse or minor children of directors.*

** *The indirect non-beneficial interest in Ackerman Investment Holdings Proprietary Limited represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman.*

*** *The indirect non-beneficial interest in Mistral Trust represents a portion of the holdings of Gareth Ackerman, Suzanne Ackerman-Berman and Jonathan Ackerman in their capacity as trustees and/or potential beneficiaries.*

^ *Beneficial interest represents an interest in shares in which a person is entitled to receive income payable in respect of that shareholding and obtain any benefit as a result of holding those shares. Non-beneficial interest represents an interest in shares in which a person will not benefit directly as a result of holding those shares.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

4 DIRECTORS' REMUNERATION AND INTEREST IN SHARES (CONTINUED)

4.4 Share awards granted to directors

2020	Calendar year granted	Award grant price R	Balance held at 3 March 2019	Forfeits	Granted/ (exercised)	Exercise price R	Balance held at 1 March 2020	Grant/ (forfeits) sub-sequent to 1 March 2020**	Available for take-up
Richard Brasher									
Forfeitable shares	2016	Nil	230 000	–	(230 000)	69.30	–	–	n/a
	2017	Nil	400 000	–	–	–	400 000	(280 000)	June 2020
	2018	Nil	1 000 000	–	–	–	1 000 000	–	June 2021
	2020	Nil	–	–	–	–	–	1 200 000	March 2022
			1 630 000	–	(230 000)		1 400 000	920 000	
Lerena Olivier									
Share options	2019	58.05	–	–	80 000	–	80 000	–	September 2022
	2019	58.05	–	–	60 000	–	60 000	–	September 2024
	2019	58.05	–	–	60 000	–	60 000	–	September 2026
Forfeitable shares	2017	Nil	60 000	–	–	–	60 000	–	June 2020
	2018	Nil	20 000	–	–	–	20 000	–	June 2021
	2019	Nil	–	–	100 000	–	100 000	–	June 2022
			80 000	–	300 000		380 000	–	
Richard van Rensburg									
Share options	2016	31.14	487 464	–	–	–	487 464	–	Now
Forfeitable shares	2016	Nil	45 000	–	(45 000)	69.30	–	–	n/a
	2017	Nil	140 000	–	–	–	140 000	(98 000)	June 2020
	2018	Nil	30 000	–	–	–	30 000	–	June 2021
	2019	Nil	–	–	150 000	–	150 000	–	June 2022
			702 464	–	105 000		807 464	(98 000)	
Suzanne Ackerman-Berman									
Forfeitable shares	2016	Nil	25 000	–	(25 000)	69.30	–	–	n/a
	2017	Nil	80 000	–	–	–	80 000	(56 000)	June 2020
	2018	Nil	15 000	–	–	–	15 000	–	June 2021
	2019	Nil	–	–	15 000	–	15 000	–	June 2022
			120 000	–	(10 000)		110 000	(56 000)	
Jonathan Ackerman									
Forfeitable shares	2016	Nil	25 000	–	(25 000)	69.30	–	–	n/a
	2017	Nil	40 000	–	–	–	40 000	(28 000)	June 2020
	2018	Nil	8 000	–	–	–	8 000	–	June 2021
	2019	Nil	–	–	8 000	–	8 000	–	June 2022
			73 000	–	(17 000)		56 000	(28 000)	
Aboubakar Jakoet*									
Share options	2008	26.14	150 000	–	(150 000)	70.35	–	–	n/a
	2011	41.70	226 458	–	(226 458)	70.35	–	–	n/a
	2011	41.70	273 542	–	(273 542)	65.69	–	–	n/a
Forfeitable shares	2016	Nil	45 000	–	(45 000)	69.30	–	–	n/a
	2017	Nil	140 000	–	(140 000)	69.78	–	–	n/a
	2018*	Nil	30 000	(30 000)	–	–	–	–	n/a
			865 000	(30 000)	(835 000)		–	–	

* *Effective 6 September 2019, Aboubakar Jakoet retired as an executive director and was appointed as a non-executive director of Pick n Pay Stores Limited. As a result of his retirement, 30 000 of his forfeitable shares were forfeited.*

** *The remuneration committee has forfeited approximately 70% of the FSP shares awarded to executives in 2017, as the three-year cumulative growth target of 10% set for Group headline earnings per share was not met. In line with the discretion provided within the scheme rules, the remuneration committee will allow approximately 30% of the allocation to be available for take-up in June 2020 in recognition of the South African division's market leading performance over the past three years.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

4 DIRECTORS' REMUNERATION AND INTEREST IN SHARES (CONTINUED)

4.4 Share awards granted to directors (continued)

2019	Calendar year granted	Award grant price R	Balance held at 25 February 2018	Granted/ (exercised)	Exercise price R	Balance held at 3 March 2019	Available for take-up
Richard Brasher							
Share options	2012	42.24	1 000 000	(1 000 000)	74.05	–	n/a
	2012	42.24	1 000 000	(1 000 000)	74.05	–	n/a
Forfeitable shares	2015	Nil	220 000	(220 000)	78.38	–	n/a
	2016	Nil	230 000	–	–	230 000	June 2019
	2017	Nil	400 000	–	–	400 000	June 2020
	2018	Nil	–	1 000 000	–	1 000 000	June 2021
			2 850 000	(1 220 000)		1 630 000	
Richard van Rensburg							
Share options	2016	31.14	487 464	–	–	487 464	Now
Forfeitable shares	2015	Nil	35 000	(35 000)	78.38	–	n/a
	2016	Nil	45 000	–	–	45 000	June 2019
	2017	Nil	140 000	–	–	140 000	June 2020
	2018	Nil	–	30 000	–	30 000	June 2021
			707 464	(5 000)		702 464	
Aboubakar Jakoet							
Share options	2003	12.00	250 000	(250 000)	80.67	–	n/a
	2005	23.59	195	(195)	80.67	–	n/a
	2007	31.15	5 779	(5 779)	80.67	–	n/a
	2008	23.24	293	(293)	80.67	–	n/a
	2008	26.55	7 907	(7 907)	80.67	–	n/a
	2008	26.14	150 000	–	–	150 000	Now
	2009	28.20	12 413	(12 413)	80.67	–	n/a
	2010	32.82	195	(195)	80.67	–	n/a
	2010	42.28	1 799	(1 799)	80.67	–	n/a
	2011	41.70	500 000	–	–	500 000	Now
	2014	46.44	195	(195)	80.67	–	n/a
Forfeitable shares	2015	Nil	35 000	(35 000)	78.38	–	n/a
	2016	Nil	45 000	–	–	45 000	June 2019
	2017	Nil	140 000	–	–	140 000	June 2020
	2018	Nil	–	30 000	–	30 000	June 2021
			1 148 776	(283 776)		865 000	
Suzanne Ackerman-Berman							
Share options	2008	26.14	100 000	(100 000)	66.27	–	n/a
	2016	58.10	196	(196)	66.27	–	n/a
	2015	Nil	20 000	(20 000)	78.38	–	n/a
Forfeitable shares	2016	Nil	25 000	–	–	25 000	June 2019
	2017	Nil	80 000	–	–	80 000	June 2020
	2018	Nil	–	15 000	–	15 000	June 2021
			225 196	(105 196)		120 000	
Jonathan Ackerman							
Share options	2008	26.14	100 000	(100 000)	66.27	–	n/a
Forfeitable shares	2015	Nil	20 000	(20 000)	78.38	–	n/a
	2016	Nil	25 000	–	–	25 000	June 2019
	2017	Nil	40 000	–	–	40 000	June 2020
	2018	Nil	–	8 000	–	8 000	June 2021
			185 000	(112 000)		73 000	

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

5 SHARE-BASED PAYMENTS

The Group operates an employee share incentive scheme, the 1997 Employee Share Option Scheme (the Scheme), for the benefit of its executive directors, senior management and employees. The Scheme incentivises its executive directors, senior management and employees by providing them with an opportunity to acquire shares in Pick n Pay Stores Limited (PIK), thereby aligning interests with shareholders and encouraging employee retention.

The Scheme is administered by the Employee Share Purchase Trust (the share trust) and its board of trustees. All options are granted in accordance with the rules of the Scheme, which have been approved by shareholders and the Johannesburg Stock Exchange (JSE).

All share options are granted at the volume-weighted average market price (VWAP) for the 20 trading days preceding the option grant date. No discount is applied.

The directors have received shareholder approval to utilise up to 63 892 844 (2019: 63 892 844) shares of the issued share capital of Pick n Pay Stores Limited for settling obligations under the employee share schemes.

The following share options have been issued to employees:

Status share options – are granted to employees who attain manager grade and further options are granted at each promotion to higher levels of management. In order to encourage employee retention, status shares vest in three instalments (vesting periods) as follows:

- 40% after three years
- 30% after five years
- 30% after seven years

There are no performance conditions attached to these share options. Vesting is only dependent on the employee meeting the service requirement of remaining in the employ of the Group over the specified vesting period. If the employee leaves before the vesting period is complete, all the unvested share options will lapse.

Performance top-up options – employees may be eligible for a performance "top-up", as recognition of their valuable contribution to the Group. These options vest in the same manner as status share options.

Forfeitable share plan – The forfeitable share plan (FSP) recognises those key senior management who have a significant role to play in delivering the Group's strategy and ensuring the growth and sustainability of the business in the future.

The award of shares under the FSP recognises the valuable contribution of existing senior management or the potential of prospective employees, and through the attachment of performance conditions, incentivises management to deliver earnings growth in the future.

Shares awarded under the FSP will have performance conditions attached as well as a three-year service period. Performance conditions include a three-year compound annual growth rate of the Group's comparable headline earnings per share (HEPS), on a 52-week basis. Vesting is dependent on service and performance conditions being met, subject to the discretion of the Group's remuneration committee, within the FSP scheme rules.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

	52 weeks to 1 March 2020 Number of options 000's	53 weeks to 3 March 2019 Number of options 000's
5 SHARE-BASED PAYMENTS (CONTINUED)		
5.1 Outstanding share options		
Reconciliation of the total number of share options granted:		
At beginning of period	27 772.6	29 597.7
New options granted	3 373.1	6 473.3
Options taken up	(3 458.8)	(6 824.2)
Options forfeited	(4 185.0)	(1 474.2)
At end of period	23 501.9	27 772.6
The weighted average grant price of outstanding share options are as follows:		
At beginning of period	R53.43	R46.14
New options granted	R66.56	R69.66
Options taken up	R37.54	R36.61
Options forfeited	R60.01	R56.37
At end of period	R56.48	R53.43
Outstanding share options may be taken up during the following financial periods:	000's	000's

Year	Average grant price	2020	2019
2021	R44.85	11 416.3	11 830.5
2022	R68.20	3 188.5	2 294.2
2023	R63.79	2 564.6	2 217.7
2024	R70.44	2 242.5	3 251.5
2025 and thereafter	R67.55	4 090.0	8 178.7
		23 501.9	27 772.6
Number of outstanding options as a percentage of issued shares		4.8%	5.6%

	52 weeks to 1 March 2020 Number of forfeitable shares 000's	53 weeks to 3 March 2019 Number of forfeitable shares 000's
5.2 Outstanding forfeitable shares		
Movement in the total number of forfeitable shares granted is as follows:		
At beginning of period	8 494.0	6 853.5
Share awards granted	1 989.5	3 180.0
Shares delivered to participants (note 20)	(1 662.5)	(1 081.0)
Share awards forfeited	(1 191.0)	(458.5)
At end of period	7 630.0	8 494.0

Rights to FSP shares are issued with a grant price of zero. The fair value of these rights is the market price of the share on grant date.

Outstanding forfeitable shares vest during the following financial periods:

Year	2020	2019
2020	–	1 531.5
2021*	3 415.5	3 797.5
2022	2 260.0	3 165.0
2023	1 954.5	–
	7 630.0	8 494.0
Number of forfeitable shares as a percentage of issued shares	1.5%	1.7%

* *Subsequent to 1 March 2020, approximately 70% of this FSP award (2.5 million shares) will be forfeited by share scheme participants as the required performance hurdles were not met. These forfeited shares will be retained as treasury shares by the Group. The remaining approximate 30% of the award will vest on 25 June 2020 on the completion of the required service period.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

	52 weeks to 1 March 2020 Number of share awards 000's	53 weeks to 3 March 2019 Number of share awards 000's
5 SHARE-BASED PAYMENTS (CONTINUED)		
5.3 Total outstanding share awards		
Share options (note 5.1)	23 501.9	27 772.6
Forfeitable shares (note 5.2)	7 630.0	8 494.0
Total	31 131.9	36 266.6
Number of share awards as a percentage of issued shares	6.3%	7.3%
	000's	000's
Total shares authorised to be utilised, from issued share capital, for settling obligations under the employee share schemes	63 892.8	63 892.8
Shares remaining for utilisation under current authorisations	32 760.9	27 626.2

Refer to note 4 for details of share options held by directors and forfeitable share plan shares issued to directors.

5.4 Fair value – equity-settled share options

The fair value of equity-settled share options granted to employees are 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 granted in PIK 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 period are as follows:

Financial period of grant	Number of options granted 000's	Expected life of options years	Share price at grant date	Grant price	Expected volatility*	Expected dividend yield**	Risk-free rate***
2019	6 473.3	0 – 7	R64.44 – R80.70	R53.07 – R80.70	21.9 – 27.4	1.8 – 4.8	6.4 – 8.8
2020	**3 373.1**	**0 – 7**	**R43.09 – R79.36**	**R42.23 – R78.42**	**18.8 – 33.4**	**1.8 – 4.8**	**5.0 – 10.8**

* *The expected volatility is determined based on the rolling historical volatility over the expected option term that prevailed at the grant date.*

** *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 two year period preceding the grant, equal to the vesting period of the grant. For the forfeitable share plan the expected dividend yield is zero as all participants have an unforfeitable right to future dividends.*

*** *The risk-free rate is the yield on the zero-coupon Swap Curve, as compiled by the JSE, with a term corresponding with the estimated lifetime of the option.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
6	**INCOME TAX**		
6.1	**Tax recognised in profit or loss**		
	Normal tax	515.9	622.7
	– current period	569.6	650.6
	– prior period over provision	(53.7)	(27.9)
	Deferred tax (note 13)	25.4	(158.9)
		541.3	463.8
6.2	**Tax paid**		
	Owing – beginning of period	19.1	213.7
	Recognised in profit or loss	515.9	622.7
	Owing – end of period	(47.9)	(19.1)
	Total tax paid	487.1	817.3
		%	%
6.3	**Reconciliation of effective tax rate**		
	South African statutory tax rate	28.0	28.0
	Exempt income – tax free allowances received and other tax free income	(1.4)	(2.4)
	Impact of foreign tax rates	2.3	(0.2)
	Impact of fair value adjustments	(0.3)	(0.1)
	Non-deductible impairment loss on intangible assets	0.1	0.1
	Non-deductible leasehold improvement and property depreciation	3.4	2.7
	Impact of share options expense	1.0	(3.2)
	Other non-deductible expenditure	0.5	0.6
	Net prior period over provisions	(2.4)	(1.2)
	Effective tax rate	31.2	24.3

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Cents per share	Restated* 53 weeks to 3 March 2019 Cents per share
7	**BASIC, HEADLINE AND DILUTED EARNINGS PER SHARE****		
	Basic earnings per share	250.90	304.04
	Diluted earnings per share	249.60	300.26
	Headline earnings per share	287.89	300.58
	Diluted headline earnings per share	286.39	296.83
		Rm	Rm
7.1	**Reconciliation between basic and headline earnings**		
	Profit for the period – basic earnings for the period	1 194.7	1 444.6
	Adjustments:	176.1	(16.5)
	Loss/(profit) on sale of property, plant and equipment	18.8	(11.0)
	Tax effect of (loss)/profit on sale of property, plant and equipment	(5.3)	1.6
	Profit on termination of leases	(26.5)	(19.7)
	Tax effect of profit on termination of leases	7.4	5.5
	Impairment loss on property, plant and equipment	8.2	–
	Tax effect of impairment loss on property, plant and equipment	(2.3)	–
	Impairment loss on intangible assets	3.8	5.3
	Tax effect of impairment loss on intangible assets	(1.1)	–
	Impairment loss on investment in associate	173.6	–
	Impairment loss on property, plant and equipment of associate	–	2.8
	Tax effect of impairment loss on property, plant and equipment of associate	–	(0.9)
	Profit on sale of property, plant and equipment of associate	(0.5)	(0.1)
	Headline earnings for the period	1 370.8	1 428.1
		000's	000's
7.2	**Number of ordinary shares**		
	Number of ordinary shares in issue (note 19)	493 450.3	493 450.3
	Weighted average number of ordinary shares (excluding treasury shares)	476 161.6	475 126.9
	Diluted weighted average number of ordinary shares in issue	478 647.8	481 116.5
	Reconciliation of weighted average number of ordinary shares to diluted weighted average number of ordinary shares:		
	Weighted average number of ordinary shares (excluding treasury shares)	476 161.6	475 126.9
	Dilutive effect of share awards	2 486.2	5 989.6
	Diluted weighted average number of ordinary shares in issue	478 647.8	481 116.5

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

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

** *Refer to the Appendices for more information on the Group's 52-week comparable earnings performance and comparable headline and diluted headline earnings per share.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Cents per share	53 weeks to 3 March 2019 Cents per share
8	**DIVIDENDS**		
8.1	**Dividends paid**		
	Number 102 – declared 25 April 2019 – paid 10 June 2019 (2019: Number 100 – declared 18 April 2018 – paid 11 June 2018)	192.0	155.4
	Number 103 – declared 21 October 2019 – paid 9 December 2019 (2019: Number 101 – declared 15 October 2018 – paid 10 December 2018)	42.8	39.1
	Total dividends per share for the period	234.8	194.5
8.2	**Dividends declared**		
	Interim dividend – number 103 (2019: number 101)	42.8	39.1
	Final dividend (2019: number 102)*	–	192.0
		42.8	231.1

* *In light of the current economic upheaval from the COVID-19 pandemic, the Board has decided that it would be prudent not to declare a dividend at this time but rather to preserve cash. It is anticipated that a formal dividend declaration will be considered and communicated once the full impact of the COVID-19 pandemic on the Group's operations can reasonably be known and assessed. But for the pandemic, the Board would have declared a final dividend of 173.06 cents per share, maintaining the Group's dividend cover of 1.3 times Comparable Headline Earnings per Share on a 52-week basis.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		Goodwill Rm	Systems development Rm	Licences* Rm	Total Rm
9	**INTANGIBLE ASSETS**				
	52 weeks to 1 March 2020				
	Carrying value	444.1	396.6	24.7	865.4
	Cost	480.3	1 232.8	89.8	1 802.9
	Accumulated amortisation and impairment losses	(36.2)	(836.2)	(65.1)	(937.5)
	Reconciliation of carrying value				
	Carrying value at beginning of period	428.5	452.4	28.9	909.8
	Additions	–	90.7	0.8	91.5
	Expansion of operations	–	57.9	0.8	58.7
	Maintaining operations	–	32.8	–	32.8
	Amortisation	–	(146.0)	(5.0)	(151.0)
	Impairment	(3.8)	–	–	(3.8)
	Disposals	–	(0.3)	–	(0.3)
	Purchase of operations (note 30)	19.4	–	–	19.4
	Foreign currency translations	–	(0.2)	–	(0.2)
	Carrying value at end of period	444.1	396.6	24.7	865.4
	53 weeks to 3 March 2019*				
	Carrying value	428.5	452.4	28.9	909.8
	Cost	460.9	1 250.9	105.2	1 817.0
	Accumulated amortisation and impairment losses	(32.4)	(798.5)	(76.3)	(907.2)
	Reconciliation of carrying value				
	Carrying value at beginning of period	425.1	485.0	34.0	944.1
	Additions	–	132.1	5.8	137.9
	Expansion of operations	–	65.4	5.8	71.2
	Maintaining operations	–	66.7	–	66.7
	Amortisation	–	(164.5)	(10.9)	(175.4)
	Impairment	(5.3)	–	–	(5.3)
	Disposals	–	(0.3)	–	(0.3)
	Purchase of operations (note 30)	8.7	–	–	8.7
	Foreign currency translations	–	0.1	–	0.1
	Carrying value at end of period	428.5	452.4	28.9	909.8

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

Cash-generating units (CGUs) to which goodwill has been allocated have been identified as trading sites or clusters. The recoverable amount for each CGU was determined based on value-in-use calculations. The value-in-use calculations discount cash flow forecasts at an appropriate pre-tax rate that reflects the specific risks of the relevant CGU. Cash flow forecasts are based on financial budgets (informed by past experience and the expected performance on the retail market in the relevant areas) approved by management.

Goodwill that is significant to the Group's total carrying amount of goodwill, with a carrying value of R135.0 million (2019: R135.0 million), relates to the acquisition of the CGU trading as Boxer. The value-in-use was determined based on cash flow projections approved by management covering a two-year reporting period. Cash flows beyond these planning periods were extrapolated using an estimated growth rate of 7.0% (2019: 7.0%), derived from average industry retail sales growth. The growth rate does not exceed the long-term average growth rate for the business units in which this CGU operates in. The pre-tax discount rate applied to cash flow projections was 11.3% (2019: 12.4%). Management believes that any reasonably possible change in the key assumptions on which this CGU recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The remaining goodwill, with a carrying value of R309.1 million (2019: R293.5 million), relates to various acquisitions or conversions of franchise stores to owned stores, none of which is significant in comparison to the Group's total carrying amount of goodwill. Of the remaining goodwill, R61.8 million (2019: R42.4 million) relates to goodwill recognised by the Boxer CGU. The value-in-use was determined based on cash flow projections approved by management covering the relevant CGU's refurbishment cycles, which averages between five and seven years. Cash flows beyond these planning periods were not extrapolated as significant cash investments in the CGUs would likely be required to generate future cash inflows. The pre-tax discount rate applied to these cash flow projections was 15.0% (2019: 15.0%). Management believes that any reasonable possible change in key assumptions on which these CGU's recoverable amounts are based would not result in any additional significant impairment losses.

The impairment charge in the current financial year of R3.8 million (2019: R5.3 million) arose in one (2019: one) CGU in the South Africa operating segment. The CGU is an individual owned store, which is not material to the Group's overall portfolio of stores. This impairment was as a result of a significant reduction in the future expected revenue of the CGU due to a weakening in the general economic conditions in which the CGU operates.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

	Property Rm	Furniture, fittings, equipment and vehicles Rm	Leasehold improvements Rm	Aircraft Rm	Total Rm
10 PROPERTY, PLANT AND EQUIPMENT					
52 weeks to 1 March 2020					
Carrying value	**1 352.7**	**4 189.6**	**1 014.8**	**65.3**	**6 622.4**
Cost	1 748.6	9 068.3	1 750.4	78.3	12 645.6
Accumulated depreciation and impairment losses	(395.9)	(4 878.7)	(735.6)	(13.0)	(6 023.2)
Reconciliation of carrying value					
Carrying value at beginning of period	1 352.5	3 871.6	930.1	35.1	6 189.3
Additions	31.5	1 275.2	288.8	58.2	1 653.7
Expansion of operations	–	523.0	–	–	523.0
Maintaining operations	31.5	752.2	288.8	58.2	1 130.7
Depreciation	(32.9)	(899.1)	(195.0)	(5.9)	(1 132.9)
Impairment	–	(4.6)	(3.6)	–	(8.2)
Disposals	–	(54.0)	(3.9)	(22.1)	(80.0)
Purchase of operations (note 30)	–	3.1	–	–	3.1
Reclassifications	1.6	(0.2)	(1.4)	–	–
Foreign currency translations	–	(2.4)	(0.2)	–	(2.6)
Carrying value at end of period	**1 352.7**	**4 189.6**	**1 014.8**	**65.3**	**6 622.4**
53 weeks to 3 March 2019					
Carrying value	1 352.5	3 871.6	930.1	35.1	6 189.3
Cost	1 715.3	8 081.4	1 573.4	59.5	11 429.6
Accumulated depreciation and impairment losses	(362.8)	(4 209.8)	(643.3)	(24.4)	(5 240.3)
Reconciliation of carrying value					
Carrying value at beginning of period	1 357.3	3 706.5	953.2	37.4	6 054.4
Additions	30.3	1 118.6	162.7	0.9	1 312.5
Expansion of operations	–	518.3	–	–	518.3
Maintaining operations	30.3	600.3	162.7	0.9	794.2
Depreciation	(23.5)	(816.6)	(182.8)	(3.2)	(1 026.1)
Disposals	(0.7)	(151.1)	(5.4)	–	(157.2)
Reclassifications	(10.9)	8.6	2.3	–	–
Foreign currency translations	–	5.6	0.1	–	5.7
Carrying value at end of period	1 352.5	3 871.6	930.1	35.1	6 189.3

Property includes land with an indefinite useful life, with a carrying value of R269.4 million (2019: R269.4 million).

Non-current asset held for sale

Land with a carrying value of R217.2 million, previously classified as a non-current asset held for sale, was sold during the prior period. The property formed part of the South Africa operating segment.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

11 RIGHT-OF-USE ASSETS

The Group enters into various lease agreements as the lessee of property, equipment and vehicles. Where leases convey the right to control the use of the underlying leased assets, the Group classifies these leases as right-of-use assets in a consistent manner to its property, plant and equipment. Refer to note 32 for further information on the Group's adoption of IFRS 16 *Leases*.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Reconciliation of carrying value of right-of-use assets		
Carrying value at beginning of period	10 102.9	9 765.6
Additions	1 596.0	1 992.1
Depreciation	(1 646.9)	(1 561.5)
Property	(1 349.5)	(1 276.2)
Equipment and vehicles	(297.4)	(285.3)
Other movements*	(139.5)	(87.8)
Foreign currency translations	(31.9)	(5.5)
Carrying value at end of period	9 880.6	10 102.9
Comprising of:		
Property	8 313.8	8 168.3
Equipment and vehicles	1 566.8	1 934.6

* *Includes lease incentives received, remeasurements and termination of leases.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

12 NET INVESTMENT IN LEASE RECEIVABLES

In addition to its primary property lease portfolio, the Group holds head leases over strategic franchise sites. These sites are sub-let to franchisees, with the franchisees holding the right to control the use of leased assets. Where the Group does not retain the right to control the use of leased assets due to the leased asset being subjected to a sub-lease, right-of-use assets are not recognised on the statement of financial position. The Group recognises the present value of future lease payments under head leases as lease liabilities (note 24), and capitalises the present value of future lease receivables under sub-leases as net investment in lease receivables. Future lease receivables are discounted at an average borrowing rate of 8.9% (2019: 8.8%). Refer to note 32 for further information on the Group's adoption of IFRS 16 *Leases*.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
12.1 Reconciliation of net investment in lease receivables		
At beginning of period	2 109.7	2 010.4
New leases	480.1	259.0
Lease receipts	(403.3)	(387.4)
Principal lease receipts	(220.0)	(231.8)
Interest received	(183.3)	(155.6)
Finance income (note 2)	196.1	186.7
Other movements*	(31.7)	41.0
At end of period	2 350.9	2 109.7
Net investment in lease receivables are presented in the statement of financial position as follows:		
Current	221.0	248.9
Non-current	2 129.9	1 860.8

* *Includes remeasurements and terminations of leases.*

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
12.2 Lease receipts		
Lease receipts included in the measurement of net investment in lease receivables	403.3	387.4
Variable lease receipts not included in the measurement of net investment in lease receivables	4.4	5.0
	407.7	392.4

Certain property sub-leases contain variable receipts terms linked to sales generated from franchise stores, referred to as turnover rent. Turnover rent income averages 1.5% of turnover (2019: 1.5% of turnover) of franchise stores.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
12.3 Maturity analysis		
The undiscounted contractual maturities of lease receivables are as follows:		
Less than one year	414.8	406.8
One to two years	437.8	366.1
Two to three years	428.7	380.0
Three to four years	406.5	365.4
Four to five years	388.4	340.4
More than five years	1 273.2	1 178.3
Total undiscounted lease receivables	3 349.4	3 037.0
Unearned finance income	(998.5)	(927.3)
Net investment in lease receivables	2 350.9	2 109.7

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

	52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
13 DEFERRED TAX		
Deferred tax assets	753.1	785.4
Deferred tax liabilities	(3.1)	(14.2)
Net deferred tax assets	750.0	771.2
The movement in net deferred tax assets are as follows:		
At beginning of period	771.2	576.6
Recognised in profit or loss (note 6)	(25.4)	158.9
Property, plant and equipment and intangible assets	(81.0)	(58.0)
Net operating lease assets	(0.1)	(0.8)
Retirement benefits and actuarial gains	(0.8)	(1.4)
Prepayments	(1.0)	(8.0)
Allowance for impairment losses	(1.5)	(6.8)
Accumulated tax losses	–	(2.6)
Deferred revenue	6.6	(6.7)
Income received in advance	3.8	(0.5)
Investment in associate	2.2	(5.4)
Leases	109.7	119.1
Income and expense accruals	(63.3)	130.0
Recognised in other comprehensive income	4.2	23.9
Tax effect on items that will not be reclassified to profit or loss	1.7	8.5
Tax effect on items that may be reclassified to profit or loss	2.5	15.4
Recognised in statement of changes in equity on the adoption of IFRS 9**	–	11.8
At end of period	750.0	771.2
Comprising of:		
Property, plant and equipment and intangible assets	(501.1)	(421.0)
Net operating lease assets	(3.7)	(3.6)
Retirement benefits and actuarial gains	(19.2)	(20.2)
Prepayments	(10.4)	(9.4)
Allowance for impairment losses	25.8	27.3
Deferred revenue	31.0	24.4
Income received in advance	17.5	13.7
Investment in associate	–	(3.6)
Leases	1 003.0	893.3
Income and expense accruals	207.1	270.3
	750.0	771.2

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

** *Prior period amounts restated for the adoption of IFRS 9 Financial Instruments, refer to the 2019 published audited annual financial statements.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the period ended 1 March 2020

14 INVESTMENT IN ASSOCIATE

14.1 Accounting for investment in associate

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

On 11 October 2019, Zimbabwe was classified as a hyperinflationary economy in accordance with the provisions of IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29), applicable to entities operating in Zimbabwe with financial periods ended on or after 1 July 2019.

The equity accounted results of TM Supermarkets included in this Group result have therefore been prepared in accordance with IAS 29 as if the economy had been hyperinflationary from 1 October 2018 , with the following key accounting principles applied within the results of TM Supermarkets:

- All previously published financial information was restated to reflect the current buying power of the Zimbabwe dollar, and
- All assets and liabilities were revalued to reflect current values, which resulted in a net monetary gain recognised in the statement of comprehensive income of TM Supermarkets, driven by the upwards revaluation of property, right-of-use assets and other store assets.

As the Group's presentation currency is not that of a hyperinflationary economy, the comparative information of the Group's financial results relating to TM Supermarkets is not restated. Any difference between our share of TM Supermarkets adjusted equity balance after applying IAS 29 and the balance previously recorded by the Group as at 3 March 2019 is recognised in other comprehensive income in the current period, as part of foreign currency translations.

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

During the prior reporting period:

- Since the adoption of multiple currencies by the Zimbabwean Government in 2009, entities in Zimbabwe were operating in a multi-currency regime. As a result of this regime, and prior to 1 October 2018, the US dollar was designated as the functional and presentation currency of TM Supermarkets. The Group applied official average and closing US dollar (USD) to rand (ZAR) exchange rates during this period.
- On 1 October 2018, following the directive issued by the Reserve Bank of Zimbabwe (RBZ), the Real Time Gross Settlement (RTGS) dollar was adopted as the functional and presentation currency of TM Supermarkets. The application of the change in functional currency was applied prospectively.
- The share of associate's income and net asset value of TM Supermarkets were translated into the Group's presentation currency, at the average and closing rates respectively, in accordance with the provisions of IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21). As disclosed in the 2019 Group annual financial statements, significant judgement was applied in the estimation and application of exchange rates used when translating the results of TM Supermarkets for the 2019 financial year. As tabled below, closing and average RTGS to ZAR exchange rates were calculated using the official USD to ZAR exchange rate divided by the management estimated USD to RTGS exchange rate. For comparative informational purposes, exchange rates have been presented based on the USD to RTGS official interbank exchange rates.

	1.0 RTGS : 1.0 ZAR	1.0 USD : 1.0 ZAR	1.0 USD : 1.0 RTGS
Closing rates at 3 March 2019			
Exchange rates used by management	**4.28**	**14.12**	**3.30**
Official interbank exchange rate	5.65	14.12	2.50
Average rates for the period 1 October 2018 to 3 March 2019			
Exchange rates used by management	**4.29**	**14.15**	**3.30**
Official interbank exchange rate	5.66	14.15	2.50

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the period ended 1 March 2020

14 INVESTMENT IN ASSOCIATE (CONTINUED)

14.2 Exchange rates applied in translating the results of investment in associate (continued)

During the current reporting period:

- On 24 June 2019, the RBZ introduced statutory instrument 142 of 2019 resulting in the renaming of the RTGS dollar to the Zimbabwe dollar (ZWL$) and resulting in the ZWL$ being the only form of legal tender in the country. The ZWL$ was therefore adopted as the functional and presentation currency of TM Supermarkets prospectively from this date.
- Significant judgement was applied in the estimation and application of the ZWL$ to ZAR exchange rate. These judgements and assessments are in line with those applied during the 2019 financial year. Management assessed that the official interbank exchange rate is not available for immediate settlement as shortages of foreign currency results in the official exchange rate not being liquid. Estimated exchange rates were therefore used when translating the result of TM Supermarkets. Inputs considered in this estimate includes the official inflation rate and the premium at which Old Mutual and PPC Ltd. shares trade on the Zimbabwe Stock Exchange compared to trades on the Johannesburg Stock Exchange (Old Mutual implied exchange rate).
- The share of associate's income and net asset value of TM Supermarkets have been translated into the Group's presentation currency at the closing rate in accordance with the hyperinflationary provisions of IAS 21. As tabled below, the closing ZWL$ to ZAR exchange rate was calculated using the official USD to ZAR exchange rate divided by the management estimated USD to ZWL$ exchange rate. For comparative informational purposes, exchange rates have been presented based on the USD to ZWL$ official interbank exchange rates.

	1.0 ZWL$: 1.0 ZAR	1.0 USD : 1.0 ZAR	1.0 USD : 1.0 ZWL$
Closing rates at 1 March 2020			
Exchange rates used by management	**0.51**	**15.61**	**30.80**
Official interbank exchange rate	0.87	15.61	17.95

14.3 Reconciliation of investment in associate

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
At beginning of period	**184.4**	365.6
Share of associate's income	**66.3**	109.0
Share of associate's earnings excluding net monetary gain	**23.1**	109.0
Share of associate's net monetary gain as a result of hyperinflation accounting	**43.2**	–
Foreign currency translations	**(26.7)**	(290.2)
Impairment loss on investment in associate	**(173.6)**	–
At end of period	**50.4**	184.4

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
14.4 Related party transactions		
Sale of inventory During the prior period, the Group sold inventory to its associate, with the same terms and conditions as those entered into by other Group customers.	**–**	57.8
Trade receivable balances outstanding at the end of the period The outstanding balances are priced on an arm's length basis and are to be settled in cash. No expense has been recognised in the current or prior period for bad or doubtful debts in respect of amounts owing by the associate.*	**14.7**	109.9
Dividend receivable from associate During the 2018 financial year, TM Supermarkets declared a US dollar denominated dividend to its shareholders. The dividend was subject to a withholding dividend tax of 5%.	**25.4**	23.0

* *All outstanding balances attracted interest at an average rate of 7.5% (2019: 7.7%), amounting to R10.5 million (2019: R8.7 million).*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

14 INVESTMENT IN ASSOCIATE (CONTINUED)

14.5 Impairment of investment in associate

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

- The devaluation and illiquidity of currency in Zimbabwe and the resultant impact on the Zimbabwean economy – the jurisdiction in which TM Supermarkets trades in,
- Currency shortages and currency devaluation which led to high levels of food and other inflation, and shortages of fuel and other staple goods in the country,
- The rapid increase in year-on-year Zimbabwe inflation rates, from 21% in October 2018 to 540% in February 2020, as published by the RBZ,
- Exposure to ZAR denominated debt by TM Supermarkets and, as a result, TM Supermarkets incurred significant foreign exchange losses during the period, and
- Furthermore, the application of IAS 29 resulted in the upward valuation of the assets of TM Supermarkets.

Impairment reviews were performed and the Group concluded that the carrying value of its investment in associate exceeded its recoverable amount, resulting in an impairment loss of R173.6 million recognised by the Group.

The recoverable amount of TM Supermarkets was determined based on value-in-use calculations. The calculation discounts future cash flow forecasts at an appropriate pre-tax rate that reflects the specific risks and challenges relating to TM Supermarkets. Management approved future cash flow forecasts over a period of five years were based on past experience and the expected performance of the retail market in Zimbabwe. Cash flows beyond this period were extrapolated by applying a nil growth rate. The pre-tax discount rate applied to cash flow projections was 52.8%.

Management believes that the carrying value of the Group's investment in associate of R50.4 million remains reflective of the value of its investment in TM Supermarkets and that any reasonable possible change in key assumptions on which the recoverable amounts are based would not result in any additional significant impairment losses. Refer to note 14.6.

14.6 Sensitivity analysis

The following tables represent the sensitivity analysis performed by management on the significant judgements applied in the accounting of the Group's investment in associate for the 52 weeks ended 1 March 2020.

14.6.1 Exchange rates applied in the translation of the financial results of our investment in associate

If either the Old Mutual implied exchange rate or the official interbank exchange rate was applied, with all other variables held constant, the impact on the statement of comprehensive income and statement of financial position would have been as follows:

	Old Mutual implied exchange rate* 1.0 ZWL$: 0.3 ZAR	**Exchange rate applied by management 1.0 ZWL$: 0.5 ZAR**	Official interbank exchange rate** 1.0 ZWL$: 0.9 ZAR
Impact on statement of comprehensive income			
Share of associate's income (Rm)	43.7	66.3	115.9
Impairment on investment in associate (Rm)	117.2	173.6	297.9
Impact on statement of financial position			
Investment in associate (Rm)	34.1	50.4	86.5

* *Calculated by applying the Old Mutual implied rate of 1 USD to 45.62 ZWL$*

** *Calculated by applying the official interbank exchange rate of 1 USD to 17.95 ZWL$*

14.6.2 Discount rate applied in the assessment of the recoverable amount of our investment in associate

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

	+10% 62.8%	**As reported 52.8%**	-10% 42.8%
Impact on statement of comprehensive income			
Impairment on investment in associate (Rm)	181.7	173.6	160.3
Impact on statement of financial position			
Investment in associate (Rm)	42.3	50.4	63.7

14.6.3 Growth rate applied in the assessment of the recoverable amount of our investment in associate

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

14 INVESTMENT IN ASSOCIATE (CONTINUED)

14.7 Summary financial information of associate

The summary financial information has been presented in South African rand, the presentation currency of the Group.

	52 weeks to 1 March 2020 Rm	53 weeks to* 3 March 2019 Rm
Statement of comprehensive income (100%)		
Revenue	3 128.6	6 534.3
Profit for the period	136.5	223.4
Attributable to other owners of the Company	69.0	113.4
Attributable to the Group	66.3	109.0
Non-controlling interest	1.2	1.0
Statement of financial position (100%)		
Total assets	916.1	1 012.6
Current assets	292.1	466.1
Non-current assets	624.0	546.5
Total liabilities	414.6	613.6
Current liabilities	255.1	419.2
Non-current liabilities	159.5	194.4
Net assets (100%)	501.5	399.0
Attributable to other owners of the Company	233.1	191.9
Attributable to the Group	224.0	184.4
Non-controlling interest	44.4	22.7

* *Previously published information restated for the adoption of IFRS 16 Leases.*

15 LOANS

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Employees	60.5	79.5
Executive directors	0.2	0.4
Other employees	60.3	79.1
Other	26.1	22.5
	86.6	102.0

Loans to directors and employees bear interest at varying rates averaging at a rate of 4.4% (2019: 4.4%) per annum and have varying repayment terms. At period end, R39.2 million (2019: R46.1 million) of employee loans were secured.

Other loans relates to bridging finance for landlords and other trading partners with repayment terms between two and five years and average interest rates linked to the South African prime rate.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
16	**INVENTORY**		
	Merchandise for resale	6 658.4	5 831.2
	Provision for shrinkage, obsolescence and mark down of inventory	(198.2)	(201.2)
	Consumables	59.6	63.4
		6 519.8	5 693.4

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

		52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
17	**TRADE AND OTHER RECEIVABLES**		
	Gross trade and other receivables	4 396.4	4 499.3
	Trade receivables from contracts with customers	4 045.4	4 035.5
	Prepayments	122.7	299.9
	Other receivables	228.3	163.9
	Allowance for impairment losses	(134.3)	(115.6)
	Trade receivables from contracts with customers	(117.2)	(107.8)
	Other receivables	(17.1)	(7.8)
	Net trade and other receivables	4 262.1	4 383.7
	Disclosed as:		
	Non-current	93.6	82.3
	Current	4 168.5	4 301.4

Current trade and other receivables are interest-free unless overdue and have payment terms ranging between 7 and 35 days (2019: 7 and 35 days). The carrying value approximates its fair value due to the short-term nature of the receivables.

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

17.1 Allowance for impairment losses

Set out below is the movement in the allowance for impairment on trade and other receivables.

	Trade and other receivables Rm	Trade receivables from contracts with customers Rm	Other receivables Rm
52 weeks to 1 March 2020			
Balance at the beginning of the period	115.6	107.8	7.8
Irrecoverable debts written off	(88.0)	(88.0)	–
Additional impairment losses recognised	128.0	117.6	10.4
Prior allowances for impairment reversed	(21.3)	(20.2)	(1.1)
At end of period	134.3	117.2	17.1
53 weeks to 3 March 2019			
Balance at the beginning of the period	91.6	82.2	9.4
Adoption of IFRS 9 *Financial Instruments**	42.0	42.0	–
Irrecoverable debts written off	(85.6)	(79.1)	(6.5)
Additional impairment losses recognised	76.1	70.1	6.0
Prior allowances for impairment reversed	(8.5)	(7.4)	(1.1)
At end of period	115.6	107.8	7.8

* *Prior period amounts restated for the adoption of IFRS 9 Financial Instruments, refer to the 2019 published audited annual financial statements.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

17.2 Credit risk exposure

Set out below is the credit risk exposure on the Group's trade and other receivables. The expected credit loss (ECL) relating to trade and other receivables within payment terms is insignificant as a result of the credit quality of these debtors, the stringent credit-granting policies and the various forms of security and collateral held by the Group. Refer to note 29.2 for the Group's credit risk management disclosure.

	Gross receivables Rm	Within payment terms Rm	Exceeding payment terms by less than 14 days Rm	Exceeding payment terms by more than 14 days Rm
52 weeks to 1 March 2020	4 273.7	3 181.8	118.5	973.4
Trade receivables from contracts with customers	4 045.4	3 073.7	118.5	853.2
Other receivables	228.3	108.1	–	120.2
53 weeks to 3 March 2019	4 199.5	3 185.9	127.8	885.7
Trade receivables from contracts with customers	4 035.6	3 093.4	127.8	814.4
Other receivables	163.9	92.5	–	71.3

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
18	**CASH AND CASH EQUIVALENTS**		
	Cash and cash equivalents	1 947.3	1 503.2
	Overnight borrowings	(2 050.0)	(1 800.0)
	Cash and cash equivalents at end of period	(102.7)	(296.8)

Cash and cash equivalents

Cash and cash equivalents includes cash floats at stores as well as the Group's current account balances. The Group's primary banker, which at period-end, had a long-term credit rating of zaAA, facilitates the collection of cash at stores, provides general banking facilities and facilitates the payment of suppliers via an electronic banking platform. The interest rate on the current account varied between 5.6% and 7.8% per annum (2019: 5.8% and 6.1% per annum). Refer to note 29.3.2.

Overnight borrowings

The Group utilised overnight borrowings during the period. Interest rates varied between 6.9% and 7.9% per annum (2019: 7.1% and 8.8% per annum). Refer to note 29.3.2.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
19	**SHARE CAPITAL**		
19.1	**Ordinary share capital**		
	Authorised		
	800 000 000 (2019: 800 000 000) ordinary shares of 1.25 cents each	10.0	10.0
	Issued		
	493 450 321 (2019: 493 450 321) ordinary shares of 1.25 cents each	6.0	6.0
		000's	000's
	The number of ordinary shares in issue at end of period is made up as follows:		
	Treasury shares	16 115.2	18 070.5
	Shares held outside the Group	477 335.1	475 379.8
	Total shares in issue at end of period	493 450.3	493 450.3

The Company can issue new shares to settle the Group's obligations under its employee share schemes, but issues in this regard are limited, in aggregate, to 5% of total issued share capital or 24 672 516 (2019: 24 672 516) shares. To date, 15 743 000 (2019: 15 743 000) shares have been issued, resulting in 8 929 516 (2019: 8 929 516) shares remaining for this purpose.

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

Certain ordinary shares are stapled to B shares and are subject to restrictions upon disposal. Refer to note 19.2.

Refer to note 4 for details of directors' interest in shares.

Refer to note 5 for details of share based payments granted by the Group.

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
19.2	**B share capital**		
	Authorised		
	1 000 000 000 (2019: 1 000 000 000) unlisted, non-convertible, non-participating, no par value B shares	–	–
	Issued		
	259 682 869 (2019: 259 682 869) unlisted, non-convertible, non-participating, no par value B shares	–	–

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

The holders of B shares are entitled to the same voting rights as holders of ordinary shares, but are not entitled to any rights to distributions by the Company or any other economic benefits. Refer to note 19.1.

Refer to note 4 for details of directors' interest in shares.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
20	**TREASURY SHARES**		
	At beginning of period	993.7	863.4
	Shares purchased during the period	87.6	311.2
	Settlement of employee share awards	(119.6)	(180.9)
	At end of period	961.7	993.7
		000's	000's
	The movement in the number of treasury shares held is as follows:		
	At beginning of period	18 070.5	13 508.4
	Shares purchased during the period	1 306.5	4 249.6
	Shares sold during the period pursuant to the take-up of share options by employees	(1 599.3)	(3 606.5)
	Shares delivered to participants of forfeitable share plan (note 5.2)	(1 662.5)	(1 081.0)
	Shares issued	–	5 000.0
	At end of period	16 115.2	18 070.5
		R	R
	Average purchase price of shares purchased during the period	67.1	73.2

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
21	**BORROWINGS**		
	Unsecured borrowings		
	Three month short-term loan bearing interest at 7.1% and repayable between 11 May 2020 to 28 May 2020.	935.0	–
	Three month short-term loan bearing interest ranging between 7.6% – 7.7% and repaid on 8 May 2019.	–	825.0
	One month short-term loan bearing interest at 7.6% and repaid on 4 March 2019.	–	500.0
	Total borrowings at end of period	935.0	1 325.0
	Less: Current portion (repayable within one year)	(935.0)	(1 325.0)
	Non-current portion (repayable after one year)	–	–
21.1	**Reconciliation of carrying value of borrowings**		
	At beginning of period	1 325.0	528.8
	Non-cash movements for the period	91.0	7.4
	Finance costs	91.0	7.4
	Cash movements for the period	(481.0)	788.8
	Borrowings raised	12 760.0	4 700.0
	Borrowing repaid	(13 150.0)	(3 903.8)
	Interest paid	(91.0)	(7.4)
	At end of period	935.0	1 325.0

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

22 RETIREMENT BENEFITS

The Group, through its trading and employer subsidiaries, provides post-retirement benefits to its employees in accordance with local benchmarks in the countries in which it operates. These benefits are mainly provided through the Pick n Pay Retirement schemes which incorporates the Pick n Pay Paid-up Pension Fund and The Pick n Pay Contributory Provident Fund defined contribution plans.

The Group's largest defined contribution fund is the Pick n Pay Contributory Provident Fund. Certain members of this fund 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 latter. Due to this guarantee, and the fact that the pensioners are paid by the Pick n Pay Paid-up Pension Fund, the Retirement scheme's liabilities may be broken down between those which are defined contribution in nature and those which are defined benefit in nature and for which the employer has an obligation to make additional contributions to ensure this element of the scheme is fully funded. The defined benefit and defined contribution plans are regulated by the Pensions Funds Act, 1956 (of South Africa) and is governed by a board of trustees of the Pick n Pay Contributory Provident Fund and Pick n Pay Paid-up Pension Fund, in line with governance policies set in terms of the PF130 circulars. The board of trustees of the Pick n Pay Contributory Provident Fund comprises 6 employer-appointed and 6 member-elected trustees and for the Pick n Pay Paid-up Pension Fund it comprises of 2 employer-appointed and 2 member-elected trustees.

	Pensioners' defined-benefit guarantee Rm	Retirement defined-benefit guarantee Rm	Total obligation 2020 Rm	Total obligation 2019 Rm
22.1 Defined-benefit obligations				
The amount recognised in the statement of financial position is as follows:				
Present value of funded obligations	514.4	348.7	863.1	873.1
Fair value of assets	(514.4)	(417.4)	(931.8)	(945.3)
Effect of asset ceiling	–	–	–	–
	–	(68.7)	(68.7)	(72.2)
Amounts recognised in the statement of comprehensive income are as follows:				
Current service cost	–	11.1	11.1	12.2
Net interest on the obligation	–	(6.4)	(6.4)	(8.5)
Total included in employee costs	–	4.7	4.7	3.7
Asset ceiling				
Refund (employer surplus account)	–	84.6	84.6	82.5
	–	84.6	84.6	82.5
Effect of asset ceiling – beginning of period	–	–	–	11.1
Interest cost	–	–	–	0.9
Remeasurement	–	–	–	(12.0)
Effect of asset ceiling – end of period	–	–	–	–
Movement in the asset recognised on the statement of financial position is as follows:				
Net asset – beginning of period	–	(72.2)	(72.2)	(97.6)
Total included in employee costs in profit or loss	–	4.7	4.7	3.7
Amount recognised in other comprehensive income	–	6.2	6.2	29.9
Contributions	–	(7.4)	(7.4)	(8.2)
Net asset – end of period	–	(68.7)	(68.7)	(72.2)
Remeasurement recognised in other comprehensive income				
Actuarial loss/(gain) – liabilities	6.8	(8.1)	(1.3)	(34.1)
Actuarial (gain)/loss – assets	(6.8)	14.3	7.5	76.0
Effect of asset ceiling	–	–	–	(12.0)
Remeasurement recognised in other comprehensive income (before tax)	–	6.2	6.2	29.9

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

22 RETIREMENT BENEFITS (CONTINUED)

	Pensioners' defined-benefit guarantee Rm	Retirement defined-benefit guarantee Rm	Total obligation 2020 Rm	Total obligation 2019 Rm
22.1 Defined-benefit obligations (continued)				
Movement in the fund's obligations and plan assets recognised on the statement of financial position is as follows:				
Liability – beginning of period	508.8	364.3	873.1	873.3
Service cost	–	11.1	11.1	12.2
Interest cost	44.8	31.9	76.7	76.8
Actuarial loss/(gain) from experience	6.8	(8.1)	(1.3)	(34.1)
Benefits paid	(46.0)	(50.5)	(96.5)	(55.1)
Liability – end of period	514.4	348.7	863.1	873.1
Plan assets – beginning of period	508.8	436.5	945.3	982.0
Expected return	44.8	38.3	83.1	86.2
Actuarial gain/(loss) from experience	6.8	(14.3)	(7.5)	(76.0)
Contributions	–	7.4	7.4	8.2
Benefits paid	(46.0)	(50.5)	(96.5)	(55.1)
Plan assets – end of period	514.4	417.4	931.8	945.3
	%	%	%	%
Estimated return on plan assets	7.6	9.3	8.4	8.4
Composition of plan assets				
Equities	3.2	43.8	21.4	24.6
Fixed interest – bonds	77.9	16.2	50.3	46.8
Fixed interest – cash	2.0	–	1.1	2.8
Property	–	4.1	1.8	2.3
Global Absolute	–	2.8	1.2	1.3
Global Balanced	16.9	33.1	24.2	22.2
	100.0	100.0	100.0	100.0

The value of contributions expected to be paid in the next financial period is R7.6 million (2019: R8.4 million).

The weighted-average duration of the defined benefit obligation is 7 years (2019: 8 years)

The principal actuarial assumptions at the last valuation date are:	2020 % per annum Pensioners	2020 % per annum Executives	2020 % per annum Combined	2019 % per annum Combined
Discount rate	9.0	9.0	9.0	9.0
Future salary increases	n/a	6.0	6.0	6.5
Future pension increases	5.0	n/a	5.0	5.5

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the period ended 1 March 2020

22 RETIREMENT BENEFITS (CONTINUED)

22.1 Defined-benefit obligations (continued)

Sensitivity analysis

At 1 March 2020, if either the discount rate, salary inflation or pension increase had been 1% higher or 1% lower (with all other variables held constant), the impact on the financial statements would have been as follows:

	Discount rate effect			Salary inflation effect			Pension increase effect		
	-1% 8.0% Rm	As reported 9.0% Rm	+1% 10.0% Rm	-1% 5.0% Rm	As reported 6.0% Rm	+1% 7.0% Rm	-1% 4.0% Rm	As reported 5.0% Rm	+1% 6.0% Rm
Statement of comprehensive income									
Employee costs	5.3	4.7	4.5	4.5	4.7	5.3	n/a	n/a	n/a
Statement of financial position									
Asset at end of period	50.5	68.7	68.7	68.7	68.7	51.7	68.7	68.7	68.7

The following assumptions were used in the sensitivity analysis:

- The effect of a 1% change in the discount rate and a 1% change in the salary inflation rate were assessed independently of each other;
- As the minimum guarantee is applicable to Pick n Pay Non-contributory Provident Fund members, the liability is unaffected by changes in the pension increase rate or by changes in mortality;
- The pension liability is also similarly unaffected by changes in the pension increase rate or by changes in mortality as the value of the notional pensioner account is much higher than the pensioner liability.

The above assumptions are limited in that they do not cater for extreme events.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
22.2 Defined current contribution benefits		
Current contributions (refer to note 3.1)	284.3	266.1

	52 weeks to 1 March 2020 Rm	Restated* 53 weeks to 3 March 2019 Rm
23 TRADE AND OTHER PAYABLES		
Trade and other payables	11 255.2	10 346.3

Trade and other payables are settled within 60 days. Included in trade and other payables are leave pay obligations, smart shopper liabilities, gift card liabilities and value-added tax (VAT) which are not considered to be financial instruments. Refer to note 29 for more information.

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the period ended 1 March 2020

24 LEASE LIABILITIES

The Group enters into various lease agreements as the lessee of property, equipment and vehicles. Where leases convey the right to control the use of underlying leased assets, the Group recognises the present value of future lease payments under the lease as lease liabilities. Future lease payments are discounted at an average borrowing rate of 8.9% (2019: 8.8%). Refer to note 32 for further information on the Group's adoption of IFRS 16 *Leases*.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
24.1 Reconciliation of lease liabilities		
At beginning of period	15 311.9	14 620.5
New leases	2 076.1	2 251.1
Lease payments	(2 799.5)	(2 947.1)
Principal lease liability payments	(1 487.4)	(1 668.5)
Interest paid	(1 312.1)	(1 278.6)
Finance costs (note 3)	1 382.5	1 377.1
Other movements*	(76.7)	(29.8)
Foreign currency translations	10.9	40.1
At end of period	15 905.2	15 311.9
Lease liabilities are presented in the financial statements as follows:		
Current	1 716.7	1 676.8
Non-current	14 188.5	13 635.1

* *Includes remeasurements and terminations of leases*

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
24.2 Lease payments		
Lease payments included in the measurement of lease liabilities	2 799.5	2 947.1
Variable lease payments not included in the measurement of lease liabilities	30.3	25.3
Short-term and low value lease payments	23.1	20.2
	2 852.9	2 992.6

Certain property head leases contain variable payment terms linked to sales generated from retail owned stores, referred to as turnover rent. Turnover rent expense averages 1.5% of turnover (2019: 1.5% of turnover).

24.3 Maturity analysis

The undiscounted contractual maturities of lease liabilities are as follows:

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Less than one year	2 952.9	2 901.1
One year to five years	10 985.4	9 782.8
Five to ten years	7 872.8	7 733.7
More than ten years	1 444.5	1 770.2
Total undiscounted lease liabilities	23 255.6	22 187.8
Finance costs to be incurred in future	(7 350.4)	(6 875.9)
Lease liabilities	15 905.2	15 311.9

Lease terms include any non-cancellable periods and reasonably certain extension or termination options. Approximately 60% of the Group's portfolio of property leases contain extension options and approximately 30% contain termination options. The majority of extension and termination options held are exercisable by the Group and not by the respective lessor.

	2020	2019
The average lease term of the Group's portfolio of qualifying leases are:		
Property	10 years	10 years
Equipment and vehicles	7 years	7 years

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
25 DEFERRED REVENUE		
Prepaid gift card liability	152.6	136.1
Smart Shopper loyalty programme liability	122.9	96.9
Refund liability	23.3	23.2
	298.8	256.2

Prepaid gift card liability

Gift cards can be redeemed as cash against future purchases, are redeemable on demand and expire three years after last date used. The balance outstanding at period end represents the fair value of the revenue received in advance, adjusted for an expected forfeiture rate of 5.4% (2019: 5.4%).

Smart Shopper loyalty programme liability

Customers are rewarded with Smart Shopper loyalty points (reward credits) and personal Smart Shopper discounts which are effectively redeemed as cash against future purchases. Smart Shopper loyalty points and discounts are redeemable on demand and expire on average 12 months after its award date. The balance outstanding at period end represents the stand-alone selling prices of points and discounts granted and yet to be redeemed, adjusted for an expected forfeiture rate of 17.5% (2019: 17.5%).

Refund liability

Customers are entitled to return goods purchased within a specified period of time, for a full or partial refund of the amount paid. The refund liability represents the amount of consideration that the Group does not expect to be entitled to because it will be refunded to customers within the next financial period. In addition, the Group recognised a right-of-return asset of R20.7 million (2019: R20.6 million) for its right to recover goods returned by the customer.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
26 COMMITMENTS		
Capital commitments		
All capital expenditure will be funded from internal cash flows and through unlimited borrowing powers.		
Authorised capital expenditure		
Contracted for	181.8	41.4
Furniture, fittings, equipment and vehicles	181.0	39.9
Intangible assets	0.8	1.5
Not contracted for	1 818.2	1 958.6
Property	46.0	39.5
Furniture, fittings, equipment and vehicles	1 680.6	1 829.2
Intangible assets	91.6	89.9
Total commitments	2 000.0	2 000.0

27 OPERATING SEGMENTS

Operating segments are identified based on financial information regularly reviewed by the Chief Operating Decision Maker (CODM) of the Group, for performance assessments and resource allocations. The Group annually performs a detailed review of the executive, or group of executives, that could be considered the appropriate and relevant CODM of the Group. During the current and prior period under review, the CODM of the Group consisted of the Group executive committee, consisting of the Chief Executive Officer, Chief Finance Officer and Chief Information Systems Officer.

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

South Africa – operates in various formats under the Pick n Pay and Boxer brands in South Africa.

Rest of Africa – responsible for the Group's expansion into the rest of Africa.

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

27 OPERATING SEGMENTS (CONTINUED)

	South Africa Rm	Rest of Africa Rm	Total operations Rm
52 weeks to 1 March 2020			
Total segment revenue	87 641.1	4 666.1	92 307.2
Revenue from contracts with customers (note 2)	87 045.8	3 665.2	90 711.0
Operating lease income (note 2)	137.1	3.6	140.7
Finance income (note 2)	458.2	13.5	471.7
Direct deliveries*	–	983.8	983.8
Segment external turnover	85 628.3	3 653.2	89 281.5
Profit before tax before capital items and before net monetary gain^	1 780.6	90.1	1 870.7
Profit before tax	1 781.0	(45.0)	1 736.0
Other information			
Statement of comprehensive income			
Finance costs (note 3)	1 753.5	18.6	1 772.1
Depreciation and amortisation on property, plant and equipment and intangible assets	1 240.8	43.1	1 283.9
Depreciation of right-of-use assets (note 11)	1 595.5	51.4	1 646.9
Loss on sale of property, plant and equipment	18.8	–	18.8
Impairment loss on property, plant and equipment	3.5	4.7	8.2
Impairment loss on intangible assets	3.8	–	3.8
Profit on termination of leases	26.5	–	26.5
Impairment loss on investment in associate (note 14)	–	173.6	173.6
Share of associate's income (note 14)	–	66.3	66.3
Statement of financial position			
Total assets	32 160.9	1 344.4	33 505.3
Total liabilities	29 638.1	857.1	30 495.2
Investment in associate (note 14)	–	50.4	50.4
Additions to non-current assets	3 281.0	82.7	3 363.7
53 weeks to 3 March 2019#			
Total segment revenue	86 316.1	4 835.4	91 151.5
Revenue from contracts with customers (note 2)	85 774.5	3 903.9	89 678.4
Operating lease income (note 2)	108.3	4.4	112.7
Finance income (note 2)	433.3	12.2	445.5
Direct deliveries*	–	914.9	914.9
Segment external turnover	84 401.4	3 891.8	88 293.2
Profit before tax before capital items and before net monetary gain**	1 658.8	224.2	1 883.0
Profit before tax	1 684.9	223.5	1 908.4
Other information			
Statement of comprehensive income			
Finance costs (note 3)	1 705.3	21.1	1 726.4
Depreciation and amortisation on property, plant and equipment and intangible assets	1 157.6	43.9	1 201.5
Depreciation of right-of-use assets (note 11)	1 500.3	61.2	1 561.5
Profit on sale of property, plant and equipment	11.0	–	11.0
Impairment loss on intangible assets	4.6	0.7	5.3
Profit on termination of leases	19.7	–	19.7
Share of associate's income (note 14)	–	109.0	109.0
Statement of financial position			
Total assets	30 482.5	1 625.2	32 107.7
Total liabilities	28 266.1	806.6	29 072.7
Investment in associate (note 14)	–	184.4	184.4
Additions to non-current assets	3 356.5	94.7	3 451.2

* *Included in segmental revenue, as reviewed by the Chief Operating Decision Maker of the Group, are direct deliveries by in-country suppliers to foreign franchisees, in countries where the Group does not have a statutory presence. These deliveries do not qualify as revenue in terms of IFRS but are included in segmental revenue for the purposes of the Group's review of operating segments. In countries where the Group has a statutory presence, including South Africa, direct deliveries are included in the Group's reported revenue.*

** *"Segmental profit before tax" and "segmental profit before tax before capital items and before net monetary gain" (together referred to as "segmental profit") are reported measures used for evaluating the performance of the Group's operating segments. On an overall basis, the segmental profit is equal to the Group's reported profit before tax, and profit before tax before capital items and before net monetary gain, respectively. The Rest of Africa segment's segmental profit comprises the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental costs incurred by the South Africa segment relating to the Rest of Africa segment.*

^ *Calculated as profit before tax before capital items, excluding our share of the net monetary gain recognised by our associate as a result of IAS 29. This is not a defined term under IFRS; however, it is a key measure of the comparable performance of our operations in Rest of Africa. Refer to note 14 and the Appendices for more information.*

\# *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

28 RELATED PARTY TRANSACTIONS

28.1 Transactions between Group subsidiaries

During the period, in the ordinary course of business, certain companies within the Group entered into transactions with each other. These inter-group transactions and related balances are eliminated on consolidation.

The Pick n Pay Stores Group comprise of the following noteworthy wholly-owned subsidiaries:

- Pick n Pay Retailers Proprietary Limited, incorporated in South Africa
- Boxer Superstores Proprietary Limited, incorporated in South Africa
- Pick n Pay Zambia Limited, incorporated in Zambia
- Pick n Pay Namibia Proprietary Limited, incorporated in Namibia

28.2 Transactions with equity accounted associate

Refer to note 14 for further information.

28.3 Loans to executive directors

Loans to directors amount to R0.2 million at the end of the period (2019: R0.4 million). These loans are unsecured and interest free. For further information refer to note 15.

28.4 Key management personnel

Key management personnel remuneration is set out below. Key management personnel had no interest in any contract with any Group company during the period under review.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Key management personnel remuneration comprises:		
Fees for board meetings, committee and other work	9.7	8.8
Base salary	68.9	73.5
Retirement and medical aid contributions	7.7	7.4
Fringe and other benefits	12.1	11.8
Fixed remuneration	98.4	101.5
Bonus and gratuity	8.3	62.7
Total remuneration	106.7	164.2
Expense relating to share awards granted	0.3	105.9

29 FINANCIAL INSTRUMENTS

Overview

The Group's principal financial liabilities comprise lease liabilities, borrowings, trade and other payables, refund liabilities and derivatives designated as hedging instruments. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include net investment in lease receivables, loans, trade and other receivables and cash and short-term deposits that derive directly from its operations. The Group also holds fair value through profit or loss financial instruments and enters into derivative transactions.

The Group is exposed to credit, market and liquidity risk due to the effects of changes in debt, exchange rates and interest rates experienced in the normal course of business. The Group's objective is to effectively manage each of the risks associated with its financial instruments in order to minimise the potential adverse effect on the financial performance and position of the Group.

The Board is ultimately responsible for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor financial risks. A treasury committee, appointed by the Board, comprising executive directors and senior executives, sets and monitors the adherence to appropriate risk limits and controls. Risk management is carried out by a central treasury department in line with the overall treasury policy as reviewed and approved by the Board on a regular basis.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

29 FINANCIAL INSTRUMENTS (CONTINUED)

29.1 Financial assets and financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

52 weeks to 1 March 2020	Financial assets at amortised cost Rm	Financial assets at fair value through profit and loss Rm	Derivatives designated as hedging instruments Rm	Financial liabilities at amortised cost Rm	Total Rm
Financial assets					
Net investment in lease receivables (note 12)	2 350.9	–	–	–	2 350.9
Loans (note 15)	86.6	–	–	–	86.6
Trade receivables from contracts with customers (note 17)	3 928.2	–	–	–	3 928.2
Other receivables (note 17)	211.2	–	–	–	211.2
Cash and cash equivalents (note 18)	1 947.3	–	–	–	1 947.3
Investment in insurance cell captive	–	54.9	–	–	54.9
Derivative financial instruments – forward exchange contracts (FEC)	–	–	9.4	–	9.4
	8 524.2	54.9	9.4	–	8 588.5
Financial liabilities					
Overnight borrowings (note 18)	–	–	–	2 050.0	2 050.0
Unsecured borrowings (note 21)	–	–	–	935.0	935.0
Trade and other payables	–	–	–	10 913.6	10 913.6
Lease liabilities (note 24)	–	–	–	15 905.2	15 905.2
Refund liability (note 25)	–	–	–	23.3	23.3
	–	–	–	29 827.1	29 827.1

53 weeks to 3 March 2019*	Financial assets at amortised cost Rm	Financial assets at fair value through profit and loss Rm	Derivatives designated as hedging instruments Rm	Financial liabilities at amortised cost Rm	Total Rm
Financial assets					
Net investment in lease receivables (note 12)	2 109.7	–	–	–	2 109.7
Loans (note 15)	102.0	–	–	–	102.0
Trade receivables from contracts with customers (note 17)	3 927.7	–	–	–	3 927.7
Other receivables (note 17)	156.1	–	–	–	156.1
Cash and cash equivalents (note 18)	1 503.2	–	–	–	1 503.2
Investment in insurance cell captive	–	35.2	–	–	35.2
Derivative financial instruments – Forward exchange contracts (FEC)	–	–	3.1	–	3.1
	7 798.7	35.2	3.1	–	7 837.0
Financial liabilities					
Overnight borrowings (note 18)	–	–	–	1 800.0	1 800.0
Unsecured borrowings (note 21)	–	–	–	1 325.0	1 325.0
Trade and other payables*	–	–	–	9 865.9	9 865.9
Lease liabilities (note 24)	–	–	–	15 311.9	15 311.9
Refund liability (note 25)	–	–	–	23.2	23.2
	–	–	–	28 326.0	28 326.0

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the period ended 1 March 2020

29 FINANCIAL INSTRUMENTS (CONTINUED)

29.2 Credit risk
Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. Financial assets, which potentially subject the Group to credit risk, consist principally of net investment in lease receivables, loans, trade and other receivables and cash and cash equivalents.

Net investment in lease receivables and trade and other receivables
Net investment in lease receivables and trade and other receivables mainly relate to amounts owing by franchisees and are presented net of impairment losses (refer to note 12 and 17). Rigorous credit granting procedures are applied to assess the credit quality of the debtors, taking into account their financial position and credit rating. The Group obtains various forms of security from its 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. Consequently, the Group does not consider there to be any significant concentration or exposure to credit risk.

Loans
Loans mainly comprise employee loans granted in line with the Group's remuneration policy. Loans are granted after reviewing the affordability of each employee and, where appropriate, suitable forms of security are obtained. Majority of loans are secured and considered to have low credit risk. Refer to note 15.

Cash and cash equivalents
The Group's cash is placed with major South African and international financial institutions, which at period end had a high credit standing and had a long-term credit rating of zaAA (refer to note 18).

29.3 Market risk management
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk (such as equity price risk). Financial instruments affected by market risk include loans, lease liabilities, borrowings, deposits, fair value through profit or loss financial instruments and derivative financial instruments. The objective of market risk management is to manage and control exposure to market risk, while optimising the return on the risk.

29.3.1 Currency risk management
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities and the Group's net investment in foreign subsidiaries.

Transactional currency risk – FECs
The Group has transactional currency exposures arising from the acquisition of goods and services in currencies other than its functional currency. The Group operates internationally and is exposed to currency risk through the importation of merchandise, however it does not have material foreign creditors as inventory imports are mostly prepaid. Investments in foreign operations and master franchise agreements with international counter parties do not contribute to transactional currency risk as the related transactions and balances are denominated in South African rand.

The Group imports inventory from foreign countries and is exposed to fluctuations in foreign exchange rates. The Group uses FECs to mitigate its foreign exchange risks from the import of inventory. It is the Group's policy to cover all foreign inventory purchases via a derivative contract (FEC). The Group does not use derivatives for speculative purposes.

The Group's FECs have been designated as cash flow hedges of firm commitments in US dollar, GBP and Euro. All firm commitments are expected to be realised within 12 months.

An economic relationship exists between the hedged items and the hedging instruments. The Group has established a hedge ratio of 1:1, as the terms of the FECs match the terms of the firm commitments. To test hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve. During the period under review, R5.0 million was reclassified to cost of sales in the statement of comprehensive income.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the period ended 1 March 2020

29 FINANCIAL INSTRUMENTS (CONTINUED)

29.3 Market risk management (continued)
29.3.1 Currency risk management (continued)

	Average spot rate		Closing rate	
The following significant foreign exchange rates applied during the period:	2020	2019	2020	2019
USD/ZAR	14.6	13.5	15.7	14.2
Euro/ZAR	16.2	15.8	17.3	16.2
GBP/ZAR	18.6	17.8	20.1	18.8

Forward exchange contract assets	Contract foreign currency m	Rand equivalent Rm	Average forward rate R	Fair value Rm
2020				
US dollars	10.9	154.9	14.2	7.8
Euro	2.3	39.0	16.9	1.3
British pound	0.3	5.7	19.6	0.3
		199.6		9.4
2019				
US dollars	7.3	102.1	14.0	2.0
Euro	3.2	50.5	15.9	0.5
British pound	0.7	12.9	18.2	0.6
		165.5		3.1

Transactional currency risk – Foreign cash balances, trade and other receivables, trade and other payables and lease liabilities
The Group has exposure to foreign currency translation risk through its foreign cash balances, trade and other receivables, trade and other payables and lease liabilities included in the net assets and liabilities of foreign subsidiaries denominated in currencies other than the South African rand. These balances are immaterial in relation to the total of the line items they are included in. These risks are not hedged.

Sensitivity of the Group's exposure to material foreign currencies is estimated by assessing the impact of a reasonable expected movement of the currencies on the statement of comprehensive income, statement of financial position and statement of changes in equity of the Group. A sensitivity analysis is not presented as the estimated impact of the expected movement in currencies is not material.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

29 FINANCIAL INSTRUMENTS (CONTINUED)

29.3 Market risk management (continued)

29.3.2 Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from borrowings, cash and cash equivalents and loans. Variable-rate interest-bearing borrowings, loans and cash and cash equivalents results in cash flow interest rate risk. The exposure to interest rate risk is managed through the Group's cash management system taking into account expected movements in interest rates when funding or investing decisions are made.

	52 weeks to 1 March 2020 %	53 weeks to 3 March 2019 %
The effective weighted average interest rates on financial instruments at end of period are:		
Financial assets		
Variable-rate interest-bearing financial assets		
Cash and cash equivalents (note 18)	5.6 – 7.8	5.8 – 6.1
Fixed-rate interest-bearing financial assets		
Net investment in lease receivables (note 12)	8.9	8.8
Loans (note 15)	4.4	4.4
Financial liabilities		
Variable-rate interest bearing liabilities		
Overnight borrowings (note 18)	6.9 – 7.9	7.1 – 8.8
Fixed-rate interest-bearing liabilities		
Lease liabilities (note 24)	8.9	8.8
Unsecured borrowings (note 21)	7.1	7.6 – 7.8

Sensitivity of the Group's exposure to interest rate risk is estimated by assessing the impact of a reasonable expected movement in the relevant interest rates on the statement of comprehensive income and statement of changes in equity of the Group. A sensitivity analysis is not presented as the estimated impact of the expected movement in the relevant interest rates is not material.

29.4 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 manages this risk by maintaining adequate reserves and borrowing facilities and by continuously monitoring forecasted and actual cash flows, ensuring that the maturity profiles of financial assets and liabilities do not expose the Group to liquidity risk. In terms of the Company's Memorandum of Incorporation, the Group's borrowing powers are unlimited, however, the treasury committee maintains strict control over the acceptance and draw-down of any loan facility.

On average, trade and other receivables and inventory are realised within 30 days and trade and other payables are settled within 60 days. To the extent that the Group requires short-term funds, it utilises the banking facilities available. Long-term borrowings are used to fund long-term assets where it is considered appropriate, excluding new store assets and store refurbishments. Lease liabilities are used to fund right-of-use assets and net investment in lease receivables. Liquidity risk has been mitigated by substantial unutilised borrowing facilities as illustrated below.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Total available facilities	9 183.7	7 635.0
Total actual borrowings	(2 985.0)	(3 125.0)
Utilisation of FEC	(186.3)	(165.5)
Unutilised borrowing facilities	6 012.4	4 344.5

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

29 FINANCIAL INSTRUMENTS (CONTINUED)

29.4 Liquidity risk (continued)

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

	Carrying amount Rm	Contractual cash flows Rm	Within 1 year Rm	Within 2 – 5 years Rm	Within 6 – 10 years Rm	More than 10 years Rm
52 weeks to 1 March 2020						
Overnight borrowings	2 050.0	2 050.0	2 050.0	–	–	–
Unsecured borrowings	935.0	950.4	950.4	–	–	–
Trade and other payables	10 913.6	10 913.6	10 913.6	–	–	–
Lease liabilities	15 905.2	23 255.6	2 952.9	10 985.4	7 872.8	1 444.5
Refund liabilities	23.3	23.3	23.3	–	–	–
Total financial obligations	29 827.1	37 192.9	16 890.2	10 985.4	7 872.8	1 444.5
53 weeks to 3 March 2019						
Overnight borrowings	1 800.0	1 800.0	1 800.0	–	–	–
Unsecured borrowings	1 325.0	1 337.2	1 337.2	–	–	–
Trade and other payables*	9 865.9	9 865.9	9 865.9	–	–	–
Lease liabilities	15 311.9	22 187.8	2 901.1	9 782.8	7 733.7	1 770.2
Refund liabilities	23.2	23.2	23.2	–	–	–
Total financial obligations	28 326.0	35 214.1	15 927.4	9 782.8	7 733.7	1 770.2

* *Prior period amounts restated for the adoption of IFRS 16 Leases, refer to note 32.*

29.5 Fair value of financial instruments

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

Financial instruments measured at fair value are classified using a 3 level hierarchy to rank inputs used in measuring fair value. The levels are explained below:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair values of financial assets are as follows:

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Financial assets at fair value through profit or loss		
Investment in insurance cell captive – Level 2	54.9	35.2
Derivative financial instruments (designated as hedging instruments)		
Forward exchange contract assets – Level 2	9.4	3.1

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

29 FINANCIAL INSTRUMENTS (CONTINUED)

29.5 Fair value of financial instruments (continued)

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

The fair value of the investment in insurance cell captive is determined based on the net asset value of the underlying cell captive at the reporting date.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using a forward pricing model utilising present valuation techniques, allowing for counterparty credit risk.

The carrying value of all other financial instruments held at amortised cost approximate their fair value.

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

29.6 Capital management

The Group's strategy is to maintain a strong capital base (represented by total shareholders' equity) so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of directors is ultimately responsible for capital management and have the following responsibilities in this regard:

- provide an adequate return to shareholders;
- ensure that the Group has adequate capital to continue as a going concern;
- ensure that the Group complies with the solvency and liquidity requirements for any share repurchase or dividend payment per the Companies Act of South Africa; and
- maintain a balance between debt and equity so as to leverage return on equity whilst maintaining a strong capital base.

The Group assesses the effectiveness of the use of capital in providing a return to shareholders using the ratio of return on capital employed which is calculated as comparable headline earnings divided by average shareholders' equity plus secured borrowings (excluding lease liabilities):

	2020	2019
Return on capital employed	43.9%	43.7%

The Group purchases its own shares on the market from time to time, in order to cover share awards granted under the Pick n Pay Employee share scheme. All share purchases are done in accordance with an official mandate and levels of authority laid down by the Board.

The Group's objective is to maintain a dividend cover based on comparable headline earnings per share of 1.3 times (2019: 1.3 times) to ensure that sufficient capital is retained for expansion of the business, refer to the Appendices for more information. The dividend cover has been recalibrated to include the impact of the adoption of IFRS 16.

Under normal circumstances, the Group maintains a dividend cover of 1.3 times Comparable Headline Earnings per Share, on a 52-week basis. The dividend cover ensures that sufficient capital is retained for expansion of the business. The Group has not yet formally declared a final dividend for the 2020 financial period, electing to preserve cash in light of the current economic upheaval from the COVID-19 pandemic. A formal dividend declaration will be considered and communicated once the full impact of the COVID-19 pandemic on the Group's operations can reasonably be known and assessed.

There were no changes in the Group's approach to capital management during the period.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

30 PURCHASE OF OPERATIONS

During the current and prior period, the Group acquired various retail operations in South Africa, none of which are individually material to the Group. These acquisitions had no significant impact on the Group's results.

The goodwill arising from these acquisitions represent the acquired customer base and the value creation the Group expects to realise as a result of integration with the Group.

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
The net assets arising from these acquisitions were as follows:		
Identifiable net assets		
Property, plant and equipment (note 10)	3.1	–
Inventory	0.3	1.8
Total identifiable net assets at fair value	3.4	1.8
Goodwill		
Cash paid in respect of acquisitions	22.8	10.5
Less: total identifiable net assets at fair value	(3.4)	(1.8)
Goodwill acquired (note 9)	19.4	8.7
Net cash paid in respect of acquisitions		
Cash paid in respect of acquisitions	22.8	10.5
Less cash and cash equivalents acquired	–	–
Net cash paid	(22.8)	(10.5)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

31 SUBSEQUENT EVENTS

31.1 COVID-19 pandemic

In terms of IAS 10 *Events after the Reporting Period*, management have applied judgement and assessed that the impact of the COVID-19 pandemic is a non-adjusting subsequent event. The first COVID-19 case in South Africa was confirmed 4 days after the period end, and the pandemic does not affect the economic assumptions and estimates made at 1 March 2020 for measurement purposes.

In the subsequent event period, trading has been significantly disrupted as a result of the COVID-19 outbreak, and sales and earnings growth is negative relative to Group expectations under normal circumstances. The pandemic is also expected to impact certain financial risks arising from inherent business exposures as well as its use of financial instruments. These include market, interest rate, currency exchange rate, credit and liquidity risk.

Refer to Section C of the Review of Operations for information on the Group's trading conditions subsequent to the financial period end.

It is anticipated that the COVID-19 pandemic will have a negative impact on the Group's trading and profitability for the following financial year. Consequently, subsequent to year-end, the Group has considered the impact of the COVID-19 pandemic, the State of Disaster and lockdown announced by the South African government, and the reduction of 250bps in the repo rate announced by the South African Reserve Bank on the business performance for the 2021 year to date and considered a range of future scenarios to estimate the potential financial impact on aspects of the Group's financial position where forward looking assumptions are used.

The aspects assessed include impairment of goodwill, property, plant and equipment, retirement scheme assets, investment in associate, deferred tax asset recognition, impairment of trade and other receivables, net investment in lease receivables, inventory net realisable value allowances, forward exchange contract assets and operating lease liabilities.

Further information is set out below for each category.

Solvency and liquidity

It is currently not possible to accurately predict the full financial impact on the Group of the COVID-19 pandemic, and the future measures taken by the South African Government to tackle it. There are too many uncertainties at this time, including the extent and duration of the COVID-19 outbreak, the extent and duration of the nationwide lockdown and global and local Government fiscal policy response. As such, the Board of directors have considered a range of scenario forecasts to understand the potential outcomes on the Group. In line with standard governance practice, the Board of directors have made an assessment of the Group's solvency and liquidity by applying these forecast scenarios and evaluated the scenarios in light of borrowing facilities available to the Group and is satisfied of the Group's ability to continue as a going concern for the foreseeable future.

Impairment of intangible assets, right-of-use assets and property, plant and equipment (PPE)

The carrying amount of assets are reviewed annually to determine whether there is any indication of impairment. If such indication exists, or if the asset has an indefinite useful life and is not subject to depreciation and amortisation, such as goodwill, the asset's recoverable amount is estimated and tested for impairment. An impairment loss is recognised when the carrying amount of an asset, or its cash-generating unit (CGU) to which it belongs, exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value-in-use. In assessing the value-in-use, 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 risks specific to the asset. The majority of the Group's intangible assets, right-of-use assets and PPE do not generate largely independent cash inflows. The recoverable amount of these assets are therefore, in most instances, based on the cash-generating unit to which the asset belongs, which have been identified as retail stores or store clusters.

Estimates and assumptions applied in these value-in-use calculations include discount rates, long term growth rates and expected changes to future cash flows.

Subsequent to the period end date, the Group carried out further sensitivity analysis for its portfolio of store cash-generating units taking into account the negative impact of South Africa's nationwide COVID-19 lockdown on trade, and the additional and any further costs incurred in implementing substantive hygiene and social distancing measures across its operations. The full financial impact of the COVID-19 pandemic is impossible to predict with any level of certainty.

Retirement scheme assets

Subsequent to the period end date, a further review of the key financial assumptions relating to the Group's retirement scheme assets indicate that market movements still fall within the range of sensitivities performed at period end date. It is too early to assess the impact of COVID-19 upon the Group's long term life expectancy assumptions. The fair value of plan assets is expected to be volatile in the short-term due to uncertain market conditions, however it is expected to remain stable over the longer term.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

31 SUBSEQUENT EVENTS (CONTINUED)

31.1 COVID-19 pandemic (continued)

Investment in associate (TM Supermarkets)

Subsequent to the period end date, and on review of the potential impact of the COVID-19 pandemic on Zimbabwe and the Group's associate, TM Supermarkets that trades in Zimbabwe, management reassessed the key financial assumptions considered when assessing the recoverable amount of the Group's investment in associate. For more information on sensitivities refer to note 14.

Deferred tax assets recognition

Deferred tax assets can only be recognised to the extent it is probable there will be future related taxable profits. Subsequent to the period end date, the Group has reviewed the current impact of COVID-19 on those future taxable profits and has concluded that there is no impact on the recognition of deferred tax assets.

Impairment of trade and other receivables and net investment in lease receivables

The Group recognises an allowance for the lifetime expected credit losses (ECLs) of its trade receivables and net investment in lease receivables (NIL), which mainly comprise of amounts owing by franchisees and future lease receipts expected to be received from franchisee sublease agreements. To measure lifetime ECLs, trade receivables and NILs are assessed on an individual basis using rates based on historical credit loss experienced, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the franchisees to settle their receivables.

Inventory net realisable value allowances

The Group evaluates its inventory to ensure that it is carried at the lower of cost and net realisable value. Allowances are made for slow moving, obsolete and damaged items.

The nationwide lockdown in South Africa, as a result of the COVID-19 pandemic, has been negative for Group trading relative to how the Group would have expected to trade under normal circumstances. Restrictions imposed during the different levels of lockdown, by the South African Government has prohibited the Group from selling certain items of inventory, including liquor, tobacco and many clothing and general merchandise categories.

Subsequent to the period end date, management has reassessed the key assumptions used in estimating the net realisable value of inventory on hand. As many categories of inventory are either being sold under current lockdown conditions, or will be sold once lockdown restrictions have been lifted, management concluded that the Group is exposed to additional allowances in future for slow moving or obsolete inventory on categories that are currently restricted from being traded.

Forward exchange contract assets

The Group commercially hedges its foreign currency exposure through the utilisation of forward exchange contracts (FECs) over the purchase of inventory from all foreign suppliers. South African rand (ZAR) weakness over the last few months of the financial year resulted in an FEC asset for the Group. Subsequent to the period end date, the ZAR weakened further driven by uncertainty in global currency markets as a result of the COVID-19 pandemic, and compounded by deteriorating domestic economic conditions and the decision by international credit ratings agencies to down-grade South Africa's credit rating to below investment grade. The Group's policy to cover foreign purchases with FECs continues to protect the Group from foreign exchange currency weakness. The Group's FEC asset will continue to reflect volatility in currency markets, however the majority of inventory is purchased locally.

Lease liabilities

Subsequent to the period end date, and as a result of the COVID-19 nationwide lockdown, certain retail stores within the Group have been prohibited from trading. As such, the Group may consider negotiating future concessions with its lessors. It is currently not possible to predict the outcome of these negotiations, however it is likely that any concessions received will be short-term in nature.

Whilst each category has been assessed in different reasonable scenarios, as the pandemic's infection rate and the impact on economic conditions remain fluid, it is not currently possible to make a reasonable estimate of the financial effect of the subsequent event.

31.2 Voluntary severance programme (VSP)

Companies within the Pick n Pay Stores Limited Group formalised and communicated a voluntary severance programme (VSP) during March 2020. Participation in the scheme is entirely voluntary, and acceptance of applications is at the Group's discretion. The VSP and the financial consequences thereof, including the cost of severance packages, are expected to be finalised by the end of June 2020.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the period ended 1 March 2020

32 ADOPTION OF NEW ACCOUNTING STANDARDS

There are a number of new standards, amendments to standards and interpretations which became effective and applicable to the Group during the current year and have been applied in the preparation of these audited annual financial statements. Noteworthy standards and interpretations adopted by the Group include IFRS 16 *Leases* (IFRS 16) and IFRIC 23 *Uncertainty Over Income Tax Treatments* (IFRIC 23).

Refer to the notes below for the impact of the adoption of IFRS 16.

The IFRIC 23 interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*, and did not have a significant impact on the Group.

32.1 Adoption of IFRS 16 *Leases*

IFRS 16 *Leases* (IFRS 16) is applicable to the Group for the 2020 annual financial period and replaces IAS 17 *Leases* (IAS 17). The Group implemented the standard using the full retrospective approach and accordingly, the comparative information in these audited annual financial statements have been restated. The purpose of the new standard is to largely align the accounting of operating leased assets with the accounting of owned and finance leased assets. The new standard therefore brings the majority of the Group's long-term leases onto the statement of financial position, with the exception of short-term, low-value and variable-in-nature leases.

The key impacts of IFRS 16 include the recognition of a lease liability and corresponding right-of-use asset at the commencement date of each lease. The value of the lease liability reduces over the lease term by rental payments, net of implied interest charges, while the right-of-use asset reduces over the lease term by straight-lined depreciation charges. IFRS 16 therefore substitutes the straight-line rent cost previously recognised in respect of operating leases under IAS 17 with the cost of interest charges on outstanding lease liabilities and depreciation charged on right-of-use assets. The net impact on the statement of comprehensive income is the same under IAS 17 and IFRS 16, but the timing of the impact is different over the lease term.

In addition to its primary property lease portfolio, the Group holds head leases over strategic franchise sites. These sites are sub-let to franchisees, with the franchisees holding the right to control the use of the leased assets. Where the Group does not retain the right to control the use of the leased assets due to the assets being subjected to a sub-lease, right-of-use assets are not recognised on the statement of financial position. IFRS 16 requires the recognition of the present value of future lease payments under the head lease as a lease liability, and to capitalise the present value of future lease receivables under the sub-lease as net investment in lease receivables. In most instances, the accounting for the head lease and the sub-lease under IFRS 16 has an equal and opposite impact on the statement of comprehensive income and statement of financial position, similar to the net impact under IAS 17. Previously, the Group recognised rent paid to landlords under head lease agreements, with an equal and opposite rent received from its franchisees. IFRS 16 replaces this rent paid and rent received, with interest charged on lease liabilities and interest earned on net investment in lease receivables.

At the date of initial application, the Group elected to use the practical expedient provided by IFRS 16, which allows the Group to apply IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The Group also elected to account for non-lease components together with the lease components to which it relates. The lease and non-lease components will therefore be accounted for as a single lease component. In addition, the Group further elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The new standard had a significant impact on the Group's statement of financial position, statement of comprehensive income and the classification of cash flows relating to lease contracts, as well as several key reporting metrics such as earnings per share, headline earnings per share, and net asset value. This impact has been detailed in the notes that follow.

For further details on the impact of IFRS 16, refer to the Group's unaudited "Implementation of IFRS 16: *Leases*" SENS announcement which was published on 25 September 2019, available on the Group's website at www.picknpayinvestor.co.za.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the period ended 1 March 2020

32 ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

32.2 Impact of the adoption of IFRS 16 *Leases* on the statement of comprehensive income for the 53 weeks ended 3 March 2019

Audited	Restated 53 weeks to 3 March 2019 Rm	Impact of IFRS 16 Rm	As reported 53 weeks to 3 March 2019 Rm
Revenue	90 236.6	(228.4)	90 465.0
Turnover	88 293.2	–	88 293.2
Cost of merchandise sold	(71 436.7)	102.6	(71 539.3)
Gross profit	16 856.5	102.6	16 753.9
Other income	1 497.9	(415.1)	1 913.0
Franchise fee income	399.1	–	399.1
Operating lease income	112.7	(415.1)	527.8
Commissions and other income	986.1	–	986.1
Trading expenses	(15 299.5)	1 191.8	(16 491.3)
Employee costs	(7 238.9)	–	(7 238.9)
Occupancy	(2 088.7)	1 238.1	(3 326.8)
Operations	(3 515.1)	0.4	(3 515.5)
Merchandising and administration	(2 456.8)	(46.7)	(2 410.1)
Trading profit	3 054.9	879.3	2 175.6
Finance income	445.5	186.7	258.8
Finance costs	(1 726.4)	(1 377.1)	(349.3)
Share of associate's income	109.0	–	109.0
Profit before tax before capital items	1 883.0	(311.1)	2 194.1
Profit on capital items	25.4	19.7	5.7
Profit on sale of property, plant and equipment	11.0	–	11.0
Impairment loss on intangible assets	(5.3)	–	(5.3)
Profit on termination of leases	19.7	19.7	–
Profit before tax	1 908.4	(291.4)	2 199.8
Tax	(463.8)	86.5	(550.3)
Profit for the period	1 444.6	(204.9)	1 649.5
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss	(21.4)	–	(21.4)
Remeasurement in retirement scheme assets	(29.9)	–	(29.9)
Tax on items that will not be reclassified to profit or loss	8.5	–	8.5
Items that may be reclassified to profit or loss	(256.5)	6.6	(263.1)
Foreign currency translations	(275.0)	6.6	(281.6)
Movement in cash flow hedge	3.1	–	3.1
Tax on items that may be reclassified to profit or loss	15.4	–	15.4
Total comprehensive income for the period	1 166.7	(198.3)	1 365.0
Headline earnings	1 428.1	(219.1)	1 647.2
Earnings per share	Cents	Cents	Cents
Basic earnings per share	304.04	(43.13)	347.17
Diluted earnings per share	300.26	(42.59)	342.85
Headline earnings per share	300.58	(46.11)	346.69
Diluted headline earnings per share	296.83	(45.54)	342.37

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

32 ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

32.3 Impact of the adoption of IFRS 16 *Leases* on the statement of financial position as at 3 March 2019

Audited	Restated As at 3 March 2019 Rm	Impact of IFRS 16* Rm	As reported As at 3 March 2019 Rm
ASSETS			
Non-current assets			
Intangible assets	909.8	(60.8)	970.6
Property, plant and equipment	6 189.3	–	6 189.3
Right-of-use assets	10 102.9	10 102.9	–
Net investment in lease receivables	1 860.8	1 860.8	–
Deferred tax assets	785.4	482.0	303.4
Investment in associate	184.4	–	184.4
Loans	102.0	–	102.0
Retirement scheme assets	72.2	–	72.2
Investment in insurance cell captive	35.2	–	35.2
Operating lease assets	12.8	(239.3)	252.1
Trade and other receivables	82.3	–	82.3
	20 337.1	12 145.6	8 191.5
Current assets			
Inventory	5 693.4	(3.8)	5 697.2
Trade and other receivables	4 301.4	(137.3)	4 438.7
Cash and cash equivalents	1 503.2	–	1 503.2
Net investment in lease receivables	248.9	248.9	–
Right-of-return assets	20.6	–	20.6
Derivative financial instruments	3.1	–	3.1
	11 770.6	107.8	11 662.8
Total assets	32 107.7	12 253.4	19 854.3
EQUITY AND LIABILITIES			
Equity			
Share capital	6.0	–	6.0
Treasury shares	(993.7)	–	(993.7)
Retained earnings	4 331.9	(1 315.5)	5 647.4
Other reserves	(6.0)	–	(6.0)
Foreign currency translation reserve	(303.2)	33.7	(336.9)
Total equity	3 035.0	(1 281.8)	4 316.8
Non-current liabilities			
Lease liabilities	13 635.1	13 635.1	–
Operating lease liabilities	–	(1 719.4)	1 719.4
Deferred tax liabilities	14.2	–	14.2
	13 649.3	11 915.7	1 733.6
Current liabilities			
Trade and other payables	10 346.3	(57.3)	10 403.6
Lease liabilities	1 676.8	1 676.8	–
Deferred revenue	256.2	–	256.2
Overnight borrowings	1 800.0	–	1 800.0
Borrowings	1 325.0	–	1 325.0
Current tax liabilities	19.1	–	19.1
	15 423.4	1 619.5	13 803.9
Total equity and liabilities	32 107.7	12 253.4	19 854.3
Net asset value (property value based on directors' valuation) – cents per share	786.7	(269.6)	1 056.3

* *The impact of IFRS 16 differs from the unaudited information previously published on implementation of the new standard. Subsequent to the Group's external auditor's review thereof, amendments to deferred tax assets (R37.9 million), retained earnings (R77.6 million) and lease liabilities (R115.5 million) were made to the previous publication.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

32 ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

32.4 Impact of the adoption of IFRS 16 *Leases* on the statement of cash flows for the 53 weeks ended 3 March 2019

Audited	Restated 53 weeks to 3 March 2019 Rm	Impact of IFRS 16* Rm	As reported 53 weeks to 3 March 2019 Rm
Cash flows from operating activities			
Trading profit	3 054.9	879.3	2 175.6
Adjusted for non-cash items	3 001.0	1 482.6	1 518.4
Depreciation on property, plant and equipment	1 026.1	–	1 026.1
Depreciation on right-of-use-assets	1 561.5	1 561.5	–
Amortisation on intangible assets	175.4	–	175.4
Share-based payments expense	216.4	–	216.4
Movements in operating lease assets	(2.6)	(125.6)	123.0
Movements in retirement scheme assets	(4.5)	–	(4.5)
Fair value and foreign exchange adjustments	28.7	46.7	(18.0)
Cash generated before movements in working capital	6 055.9	2 361.9	3 694.0
Movements in working capital	(708.5)	142.2	(850.7)
Movements in trade and other payables and deferred revenue	(152.3)	8.5	(160.8)
Movements in inventory and right-of-return assets	238.6		238.6
Movements in trade and other receivables	(794.8)	133.7	(928.5)
Cash generated from trading activities	5 347.4	2 504.1	2 843.3
Other interest received	258.8	–	258.8
Other interest paid	(349.3)	–	(349.3)
Interest received on net investment in lease receivables	155.6	155.6	–
Interest paid on lease liabilities	(1 278.6)	(1 278.6)	–
Cash generated from operations	4 133.9	1 381.1	2 752.8
Dividends paid	(938.0)	–	(938.0)
Tax paid	(817.3)	–	(817.3)
Cash generated from operating activities	2 378.6	1 381.1	997.5
Cash flows from investing activities			
Investment in intangible assets	(137.9)	13.6	(151.5)
Investment in property, plant and equipment	(1 312.5)	–	(1 312.5)
Proceeds on sale of non-current asset held for sale	217.2	–	217.2
Purchase of operations	(10.5)	–	(10.5)
Proceeds on disposal of intangible assets	0.3	–	0.3
Proceeds on disposal of property, plant and equipment	168.2	–	168.2
Principal net investment in lease receipts	231.8	231.8	–
Lease incentives received	36.7	36.7	–
Loans advanced	(22.7)	–	(22.7)
Cash utilised in investing activities	(829.4)	282.1	(1 111.5)
Cash flows from financing activities			
Principal lease liability payments	(1 668.5)	(1 668.5)	–
Borrowings raised	4 700.0	–	4 700.0
Repayment of borrowings	(3 903.8)	–	(3 903.8)
Share purchases	(311.2)	–	(311.2)
Proceeds from employees on settlement of share awards	0.3	–	0.3
Cash (utilised in)/ generated from financing activities	(1 183.2)	(1 668.5)	485.3
Net increase in cash and cash equivalents	366.0	(5.3)	371.3
Net cash and cash equivalents at beginning of period	(670.9)	–	(670.9)
Foreign currency translations	8.1	5.3	2.8
Net cash and cash equivalents at end of period	(296.8)	–	(296.8)
Consisting of:			
Cash and cash equivalents	1 503.2	–	1 503.2
Overnight borrowings	(1 800.0)	–	(1 800.0)

* *In line with amendments made to the previously published impact of IFRS 16 on the statement of financial position as detailed on the previous page, the previously published impact of IFRS 16 on the statement of cash flows has been amended.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

32 ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

32.5 Impact of the adoption of IFRS 16 *Leases* on the statement of financial position as at 25 February 2018

Audited	Restated As at 25 February 2018 Rm	Impact of IFRS 16* Rm	As reported As at 25 February 2018 Rm
ASSETS			
Non-current assets			
Intangible assets	944.1	(47.2)	991.3
Property, plant and equipment	6 054.4	–	6 054.4
Right-of-use assets	9 765.6	9 765.6	–
Net investment in lease receivables	1 778.8	1 778.8	–
Deferred tax assets	590.1	395.3	194.8
Investment in associate	365.6	–	365.6
Loans	79.3	–	79.3
Retirement scheme assets	97.6	–	97.6
Investment in insurance cell captive	25.7	–	25.7
Operating lease assets	10.2	(217.1)	227.3
Trade and other receivables	105.4	–	105.4
	19 816.8	11 675.4	8 141.4
Current assets			
Inventory	5 940.3	(3.8)	5 944.1
Trade and other receivables	3 525.5	(3.6)	3 529.1
Cash and cash equivalents	1 129.1	–	1 129.1
Net investment in lease receivables	231.6	231.6	–
Right-of-return assets	19.6	–	19.6
	10 846.1	224.2	10 621.9
Non-current asset held for sale	217.2	–	217.2
Total assets	30 880.1	11 899.6	18 980.5
EQUITY AND LIABILITIES			
Equity			
Share capital	6.0	–	6.0
Treasury shares	(863.4)	–	(863.4)
Retained earnings	3 841.1	(1 110.6)	4 951.7
Foreign currency translation reserve	(43.6)	27.1	(70.7)
Total equity	2 940.1	(1 083.5)	4 023.6
Non-current liabilities			
Lease liabilities	13 100.1	13 100.1	–
Operating lease liabilities	–	(1 571.6)	1 571.6
Deferred tax liabilities	13.7	–	13.7
Borrowings	79.5	–	79.5
	13 193.3	11 528.5	1 664.8
Current liabilities			
Trade and other payables	10 473.5	(65.8)	10 539.3
Lease liabilities	1 520.4	1 520.4	–
Deferred revenue	281.3	–	281.3
Overnight borrowings	1 800.0	–	1 800.0
Borrowings	449.3	–	449.3
Current tax liabilities	213.7	–	213.7
Derivative financial instruments	8.5	–	8.5
	14 746.7	1 454.6	13 292.1
Total equity and liabilities	30 880.1	11 899.6	18 980.5
Net asset value (property value based on directors' valuation) – cents per share	738.1	(228.1)	966.2

* *The impact of IFRS 16 differs from the unaudited information previously published on implementation of the new standard. Subsequent to our external auditor's review thereof, amendments to deferred tax assets (R37.9 million), retained earnings (R77.6 million) and lease liabilities (R115.5 million) were made to the previous publication.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

33 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

International Financial Reporting Standards (IFRS)

The following new or amended standards are not expected to have a significant impact on the Group's financial statements:

- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *The Conceptual Framework for Financial Reporting*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*

03

COMPANY ANNUAL FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

for the period ended

	Note	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Revenue			
Finance income		0.3	0.2
Dividend income	8	1 207.0	973.4
		1 207.3	973.6
Administration expenses	2	(15.9)	(15.2)
Profit before tax		1 191.4	958.4
Tax	3	(0.1)	(0.1)
Profit for the period		1 191.3	958.3
Other comprehensive income net of tax		–	–
Total comprehensive income for the period		1 191.3	958.3

STATEMENT OF FINANCIAL POSITION

	Note	As at 1 March 2020 Rm	As at 3 March 2019 Rm
ASSETS			
Non-current assets			
Investments in subsidiaries	5	5.1	5.1
		5.1	5.1
Current assets			
Loan to subsidiary	8	944.5	901.8
Trade and other receivables		0.2	0.2
Cash and cash equivalents	6	5.2	3.7
		949.9	905.7
Total assets		955.0	910.8
EQUITY AND LIABILITIES			
Equity			
Share capital	7	6.2	6.2
Share premium		835.5	835.5
Retained earnings		105.4	61.1
Total equity		947.1	902.8
Current liabilities			
Trade and other payables	9	7.9	8.0
		7.9	8.0
Total equity and liabilities		955.0	910.8

STATEMENT OF CHANGES IN EQUITY

for the period ended

	Note	Share capital Rm	Share premium Rm	Retained earnings Rm	Total equity Rm
At 25 February 2018		6.1	465.7	54.8	526.6
Total comprehensive income for the period		–	–	958.3	958.3
Profit for the period		–	–	958.3	958.3
Other comprehensive income		–	–	–	–
Ordinary shares issued	7.1	0.1	369.8	–	369.9
Dividends paid	4.1	–	–	(952.0)	(952.0)
At 3 March 2019		**6.2**	**835.5**	**61.1**	**902.8**
Total comprehensive income for the period		**–**	**–**	**1 191.3**	**1 191.3**
Profit for the period		**–**	**–**	**1 191.3**	**1 191.3**
Other comprehensive income		**–**	**–**	**–**	**–**
Dividends paid	4.1	**–**	**–**	**(1 147.0)**	**(1 147.0)**
At 1 March 2020		**6.2**	**835.5**	**105.4**	**947.1**

STATEMENT OF CASH FLOWS

for the period ended

	Note	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Cash flows from operating activities			
Profit before tax		**1 191.4**	958.4
Adjusted for dividend income	8.1	**(1 207.0)**	(973.4)
Cash utilised before movements in working capital		**(15.6)**	(15.0)
Movements in working capital		**(0.1)**	0.9
Movements in trade and other payables		**(0.1)**	0.9
Cash utilised in operations		**(15.7)**	(14.1)
Dividends received	8.1	**1 207.0**	973.4
Dividends paid	4.1	**(1 147.0)**	(952.0)
Tax paid	3	**(0.1)**	(0.1)
Cash generated from operating activities		**44.2**	7.2
Cash flows from investing activities			
Loan advanced to subsidiary	8	**(42.7)**	(376.0)
Cash utilised in investing activities		**(42.7)**	(376.0)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	7	**–**	369.9
Cash generated from financing activities		**–**	369.9
Net movement in cash and cash equivalents		**1.5**	1.1
Cash and cash equivalents at beginning of period		**3.7**	2.6
Cash and cash equivalents at end of period	6	**5.2**	3.7

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the period ended 1 March 2020

1 ACCOUNTING POLICIES

Except as presented below, the accounting policies and notes to the Company annual financial statements are identical to those disclosed in note 1 of the Pick n Pay Stores Limited Group (referred to as "the Group") annual financial statements.

1.1 Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa.

1.2 Basis of preparation

The Company's financial statements are prepared on the historical cost basis except where stated otherwise in the accounting policies below.

The accounting policies have been consistently applied to all periods presented.

1.3 Foreign currency transactions and translations

The financial statements are presented in South African rand, which is the Company's functional currency. All transactions are in South African rand.

1.4 Revenue

Revenue is recognised when the Company satisfies its performance obligations relating to revenue transactions, at an amount that reflects the consideration that the Company expects to be entitled to.

Revenue is measured based on the amount which the Company expects to be entitled to and is allocated to each specific performance obligation. Depending on whether certain criteria are met, revenue is recognised either over time or at a point in time. Revenue is measured at the fair value of consideration received or receivable.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

Finance income

Finance income is recognised over time as it accrues in the statement of comprehensive income, using the effective interest method, by reference to the principal amounts outstanding and at the interest rate applicable.

1.5 Investments in subsidiaries

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

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

2 ADMINISTRATION EXPENSES

Administration expenses are stated after taking into account the following expenses:

2.1 Directors' remuneration*

Directors' remuneration paid by Pick n Pay Stores Limited is detailed below.

	Fees for board meetings R 000	Fees for committee and other work R'000	Total remuneration R'000
2020			
Non-executive directors			
Gareth Ackerman	4 660.0	–	4 660.0
David Friedland	435.0	235.0	670.0
Hugh Herman	435.0	532.0	967.0
Alex Mathole	435.0	184.5	619.5
Audrey Mothupi	435.0	371.5	806.5
Aboubakar Jakoet**	217.5	115.5	333.0
David Robins	435.0	94.5	529.5
Jeff van Rooyen	435.0	601.5	1 036.5
Total remuneration	7 487.5	2 134.5	9 622.0
2019			
Non-executive directors			
Gareth Ackerman	4 438.0	–	4 438.0
David Friedland	413.0	223.0	636.0
Hugh Herman	413.0	497.0	910.0
Alex Mathole	413.0	90.0	503.0
Audrey Mothupi	413.0	268.0	681.0
Lorato Phalatse***	206.5	149.0	355.5
David Robins	413.0	–	413.0
Jeff van Rooyen	413.0	470.0	883.0
Total remuneration	7 122.5	1 697.0	8 819.5

* *Executive directors salaries are paid by a subsidiary company. Refer to note 4 of the Group annual financial statements.*

** *Effective 6 September 2019, Aboubakar Jakoet retired as an executive director and was appointed as a non-executive director of the Company.*

*** *Lorato Phalatse resigned, in the prior period, as a director of Pick n Pay Stores Limited on 31 August 2018.*

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
3	**TAX**		
3.1	**Tax recognised in the statement of comprehensive income:**		
	Normal tax – current period	0.1	0.1
3.2	**Tax paid**		
	Owing – beginning of period	–	–
	Recognised in statement of comprehensive income	0.1	0.1
	Owing – end of period	–	–
	Total tax paid	0.1	0.1
3.3	**Reconciliation of effective tax rate**	%	%
	South African statutory tax rate	28.0	28.0
	Exempt income – dividends received	(28.4)	(28.4)
	Non-deductible holding company expenses	0.4	0.4
	Effective tax rate	–	–

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Cents per share	53 weeks to 3 March 2019 Cents per share
4	**DIVIDENDS**		
4.1	**Dividends paid**		
	Number 102 – declared 25 April 2019 – paid 10 June 2019 (2019: Number 100 – declared 18 April 2018 – paid 11 June 2018)	192.0	155.4
	Number 103 – declared 21 October 2019 – paid 9 December 2019 (2019: Number 101 – declared 15 October 2018 – paid 10 December 2018)	42.8	39.1
	Total dividends per share for the period	234.8	194.5
		Rm	Rm
	Total value of dividends paid by the Company	1 147.0	952.0
		Cents per share	Cents per share
4.2	**Dividends declared**		
	Interim dividend – number 103 (2019: number 101)	42.8	39.1
	Final dividend (2019: number 102)*	–	192.0
		42.8	231.1

* *In light of the current economic upheaval from the COVID-19 pandemic, the Board has decided that it would be prudent not to declare a dividend at this time but rather to preserve cash. It is anticipated that a formal dividend declaration will be considered and communicated once the full impact of the COVID-19 pandemic on the Group's operations can reasonably be known and assessed. But for the pandemic, the Board would have declared a final dividend of 173.06 cents per share, maintaining the Group's dividend cover of 1.3 times Comparable Headline Earnings per Share on a 52-week basis. Refer to the Review of operations for more detail.*

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
5	**INVESTMENTS IN SUBSIDIARIES**		
	Shares at cost	5.1	5.1
		5.1	5.1

All subsidiaries owned by the Company are wholly-owned, with the most note-worthy investment being Pick n Pay Retailers Proprietary Limited.

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
6	**CASH AND CASH EQUIVALENTS**		
	Cash and cash equivalents	5.2	3.7

Cash and cash equivalents represents a current bank account for administrative purposes, held at an institution which is in line with those used by the Group. Refer to note 18 and note 29 of the Group annual financial statements.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
7	**SHARE CAPITAL**		
7.1	**Ordinary share capital**		
	Authorised		
	800 000 000 (2019: 800 000 000) ordinary shares of 1.25 cents each	10.0	10.0
	Issued		
	493 450 321 (2019: 493 450 321) ordinary shares of 1.25 cents each	6.2	6.2

The Company can issue new shares to settle the Group's obligations under its employee share schemes, but issues in this regard are limited, in aggregate, to 5% of total issued share capital or 24 672 516 (2019: 24 672 516) shares. To date, 15 743 000 (2019: 15 743 000) shares have been issued, resulting in 8 929 516 (2019: 8 929 516) shares remaining for this purpose.

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

During the prior period, the Company issued 5 000 000 shares to cover obligations under the Group's employee share scheme.

Certain ordinary shares are stapled to B shares and are subject to restrictions upon disposal. Refer to note 7.2.

Refer to note 8.3 and 8.4 for details of directors' interest in shares.

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
7.2	**B share capital**		
	Authorised		
	1 000 000 000 (2019: 1 000 000 000) unlisted, non-convertible, non-participating, no par value B shares	–	–
	Issued		
	259 682 869 (2019: 259 682 869) unlisted non-convertible, non-participating, no par value B shares	–	–

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

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

Refer to note 8.3 and 8.4 for details of directors' interest in shares.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

		52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
8	**RELATED PARTY TRANSACTIONS**		
8.1	**Dividends received**		
	Pick n Pay Retailers Proprietary Limited	1 186.0	953.0
	Pick n Pay Employee Share Purchase Trust	21.0	13.3
	Pick n Pay Holdings Proprietary Limited	–	7.1
	Total dividends received from related parties	1 207.0	973.4
8.2	**Loan to subsidiary**		
	Pick n Pay Retailers Proprietary Limited	944.5	901.8
		944.5	901.8

This loan is unsecured, interest-free and repayable on demand. The fair value of the loan approximates its carrying value.

8.3 Ordinary shares held by directors

The percentage of ordinary shares held by directors of Pick n Pay Stores Limited at the reporting date are as disclosed below. This percentage is their effective direct shareholding in the Company (excluding treasury shares), which includes shares held under the Group's forfeitable share plan. Refer to note 4.2 of the Group annual financial statements.

	52 weeks to 1 March 2020 %	53 weeks to 3 March 2019 %
Beneficial	1.3	1.5
Non-beneficial	26.3	26.4
	27.6	27.9

8.4 B shares held by directors

The percentage of B shares held by directors of Pick n Pay Stores Limited at the reporting date are as disclosed below. Refer to note 4.3 in the Group annual financial statements.

	52 weeks to 1 March 2020 %	53 weeks to 3 March 2019 %
Beneficial	2.2	2.2
Non-beneficial	97.2	97.2
	99.4	99.4

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the period ended 1 March 2020

9. FINANCIAL INSTRUMENTS

Overview

The Company has limited exposure to risk in respect of financial instruments, as its only significant financial asset is its loan to a subsidiary. Market risk is negated as financial assets and liabilities have no exposure to changes in exchange rates and have limited exposure to changes in interest rates.

9.1 Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial assets, which potentially subject the Company to credit risk, consist of the loan to a subsidiary. Refer to note 8.2.

The Company applies a general approach for measuring impairment losses on the loan to subsidiary, at an amount equal to expected credit losses, taking into account past experience and future macro-economic factors, including estimated profits and cash forecasts. Based on these factors, the credit risk is considered to be low and no impairment losses have been recognised.

9.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has unlimited access to the funds and facilities of companies within the Group. The Company's liquidity risk is therefore linked to the liquidity of Group companies. Refer to note 29 of the Group annual financial statements.

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

	52 weeks to 1 March 2020 Rm	53 weeks to 3 March 2019 Rm
Financial obligations at carrying value*		
Trade and other payables	7.9	8.0
	7.9	8.0

* *All contractual cash flows repayable within 1 year*

9.3 Capital management

The Company considers the management of capital with reference to Group policy, refer to note 29 of the Group annual financial statements.

9.4 Suretyships

The Company has provided suretyships in the ordinary course of business in respect of its subsidiaries' operations, for certain banking facilities to a maximum of R3.2 billion (2019: R1.0 billion). No losses are expected to be incurred on these suretyships.

04

ADDITIONAL INFORMATION

APPENDIX 1

PICK N PAY STORES LIMITED

PRO FORMA INFORMATION

Certain financial information presented in these audited annual financial statements constitutes pro forma financial information. The pro forma financial information is the responsibility of the Board of directors of the Company and is presented for illustrative purposes only. Because of its nature, the pro forma financial information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows.

1 BASIS OF PREPARATION: PRIOR PERIOD 52-WEEK FINANCIAL INFORMATION

The Group manages its retail operations on a 52-week trading calendar where the reporting period will always end on a Sunday. To ensure calendar alignment, a 53rd week of trading is required approximately every six years and, as a result, a 53rd week of trading was included in the prior period.

In order to provide useful and transparent comparative information, a 52-week result for the prior year ("prior period 52-week financial information") is presented for comparison against the current year 52-week result. The prior period 52-week financial information constitutes pro forma financial information.

The prior period 52-week financial information is presented for illustrative purposes only and is the responsibility of the Board of directors of the Group. Due to its nature, the prior period 52-week financial information may not fairly represent the Group's financial position, changes in equity, results of operations and cash flows.

The prior period 52-week financial information has been extracted from the 52-week financial information included in the 2019 Group annual financial statements, which has been restated for the Group's adoption of IFRS 16. Refer to the Group's "Implementation of IFRS 16: *Leases*" SENS announcement which was published on 25 September 2019, available on the Group's website at www.picknpayinvestor.co.za, for more information on the IFRS 16 restatement impact on the prior period 52-week financial information and the prior period 53rd week.

2 CONSTANT CURRENCY DISCLOSURES

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

The constant currency pro forma information has been presented to illustrate the impact of changes in the Group's major foreign currencies, namely the Zambia kwacha and the Botswana pula, and has been presented on a comparable 52-week basis.

The Group's comparable turnover growth in constant currency is calculated by translating the prior 52-week period local currency comparable turnover at the current period average exchange rates on a country-by-country basis and then comparing that against the current period comparable turnover translated at current period average exchange rates. Refer to Appendix 2 for information on comparable turnover.

The segmental revenue growth in constant currency is calculated by translating the prior 52-week period local currency segmental revenue at the current period average exchange rates on a country-by-country basis and then comparing that against the current period segmental revenue translated at the current period average exchange rates.

The average Zambia kwacha exchange rate to the South African rand for the 52 weeks ended 1 March 2020 is 0.91 (52 weeks ended 24 February 2019: 0.79) and the average Botswana pula exchange rate to the South African rand for the 52 weeks ended 1 March 2020 is 0.73 (52 weeks ended 24 February 2019: 0.76).

The constant currency pro forma information is presented in accordance with JSE Listings Requirements, is presented for illustrative purposes only and is the responsibility of the Board of directors of the Group. Due to its nature, the constant currency pro forma information may not fairly represent the Group's financial position, changes in equity or results of operations.

The Group's external auditor has issued a reporting accountant's report on the constant currency pro forma information. The reporting accountant's report on the constant currency pro forma information is available for inspection at the company's (Pick n Pay Stores Limited) registered office.

52 weeks ended 1 March 2020	% (decrease)/ increase reported currency	% increase constant currency
Rest of Africa segmental revenue	(1.7)	2.8
Group comparable turnover	4.7	5.0

APPENDIX 2

PICK N PAY STORES LIMITED

ADDITIONAL INFORMATION

In order to provide useful and transparent comparative information, additional information has been presented on a 52-week basis.

1 COMPARABLE TURNOVER GROWTH

Revenue earned on the sale of airtime and data include both those earned on a principal basis and those earned on an agency basis. Revenue earned on a principal basis is recognised as turnover, with related purchases recognised as cost of sales. Revenue earned on an agency basis is recognised, net of related purchase costs, within other income. Historically the Group transacted as both a principal and an agent when selling airtime and data.

After a strategic change in our arrangements with airtime and data providers this year, the Group now only transacts on an agency basis in accordance with IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). Airtime and data sales and related purchases previously recognised on a principal or gross basis within turnover and cost of sales are now recognised on an agency or net basis within other income. As a result of this strategic change, all future revenue earned on the sale of airtime and data and related purchase costs are now recognised on a net basis within other income.

In order to provide stakeholders with a comparable assessment of year-on-year turnover performance, the Group has eliminated the impact of the change over from principal to agent and has presented a comparable turnover number, with the impact presented below.

	52 weeks to 1 March 2020 Rm	52 weeks to 24 February 2019 Rm	53 weeks to 3 March 2019 Rm
Comparable turnover	89 186.5	85 190.8	87 212.8
Turnover from airtime sales recognised on a principal basis	95.0	1 080.4	1 080.4
Reported turnover	89 281.5	86 271.2	88 293.2

2 COMPARABLE YEAR-ON-YEAR EARNINGS PERFORMANCE, EXCLUDING THE IMPACT OF HYPERINFLATION ACCOUNTING

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

	52 weeks to 1 March 2020 Rm	52 weeks to 24 February 2019 Rm
Share of associate's earnings excluding net monetary gain	23.1	109.0
Share of associate's net monetary gain as a result of hyperinflation accounting	43.2	–
Reported share of associate's earnings	66.3	109.0

Profit before tax and headline earnings reported under IAS 29 includes a hyperinflation accounting net monetary gain. In management's view, this impact of hyperinflation accounting does not provide stakeholders with an accurate assessment of the Group's comparable year-on-year earnings performance. As a result, the Group has presented its earnings for the current period on a comparable basis excluding the Group's share of associates net monetary gain of R43.2 million (with no impact on tax). Refer to Appendix 3. The table below presents the key changes to items presented.

52 weeks to 1 March 2020	As reported Rm	Remove Impact of IAS 29 Rm	Comparable Rm
Rest of Africa profit before tax before capital items	133.3	(43.2)	90.1
Group profit before tax before capital items	1 913.9	(43.2)	1 870.7
Group headline earnings	1 370.8	(43.2)	1 327.6
	cents	cents	cents
Headline earnings per share	287.89	(9.08)	278.81
Diluted headline earnings per share	286.39	(9.03)	277.36

Refer to note 14 of the Group audited annual financial statements for more information.

3 LIKE-FOR-LIKE TURNOVER AND EXPENSE GROWTH COMPARISONS

Like-for-like turnover and expense growth comparisons remove the impact of store openings and closures in the current and prior reporting periods.

APPENDIX 3

PICK N PAY STORES LIMITED

The table below presents the Group's earnings performance for the current and previous annual periods on a comparable 52-week basis.

	52 weeks to 1 March 2020 Rm	% of turnover	% change	Restated* Pro forma 52 weeks to 24 February 2019 Rm	% of turnover
Turnover	89 281.5			86 271.2	
Comparable turnover**	89 186.5		4.7	85 190.8	
Turnover from airtime sales recognised on a principal basis	95.0			1 080.4	
Cost of merchandise sold	(71 679.8)			(69 751.5)	
Gross profit	17 601.7	19.7	6.5	16 519.7	19.1
Other income	1 570.2	1.8	6.5	1 474.8	1.7
Franchise fee income	398.3	0.4	2.2	389.9	0.5
Operating lease income	140.7	0.2	24.8	112.7	0.1
Commissions and other income	1 031.2	1.2	6.1	972.2	1.1
Trading expenses	(16 023.9)	17.9	6.3	(15 078.6)	17.5
Employee costs	(7 368.2)	8.3	3.7	(7 102.0)	8.2
Occupancy	(2 271.5)	2.5	9.5	(2 073.8)	2.4
Operations	(3 836.0)	4.3	10.8	(3 462.6)	4.0
Merchandising and administration	(2 548.2)	2.9	4.4	(2 440.2)	2.8
Trading profit	3 148.0	3.5	8.0	2 915.9	3.4
Net interest paid	(1 300.4)	1.5	2.5	(1 268.5)	1.5
Net interest costs incurred on net funding	(114.0)	0.1	26.0	(90.5)	0.1
Net IFRS 16 interest costs	(1 186.4)	1.3	0.7	(1 178.0)	1.4
Share of associate's earnings excluding net monetary gain***	23.1			109.0	0.1
Profit before tax before capital items and before net monetary gain	1 870.7	2.1	6.5	1 756.4	2.0
Share of associate's net monetary gain as a result of hyperinflation***	43.2			–	
Profit before tax before capital items	1 913.9			1 756.4	
(Loss)/profit on capital items	(177.9)			25.4	
(Loss)/profit on sale of property, plant and equipment	(18.8)			11.0	
Impairment loss on property, plant and equipment	(8.2)			–	
Impairment loss on intangible assets	(3.8)			(5.3)	
Profit on termination of leases	26.5			19.7	
Impairment loss on investment in associate	(173.6)			–	
Profit before tax	1 736.0	1.9	(2.6)	1 781.8	2.1
Tax	(541.3)	0.6	25.3	(432.1)	0.5
Profit for the period	1 194.7	1.3	(11.5)	1 349.7	1.6
South Africa operating segment	Rm			Rm	
Comparable turnover	85 533.3		5.1	81 371.5	
Profit before tax before capital items	1 780.6		15.2	1 545.2	
Rest of Africa operating segment	Rm			Rm	
Total segmental revenue	4 666.1		(1.7)	4 745.9	
Profit before tax before capital items and before net monetary gain	90.1		(57.3)	211.2	
Earnings per share	Cents			Cents	
Basic earnings per share	250.90		(11.7)	284.07	
Diluted earnings per share	249.60		(11.0)	280.53	
Headline earnings per share	287.89		2.6	280.60	
Diluted headline earnings per share	286.39		3.3	277.11	
Comparable headline earnings per share^	Cents			Cents	
Headline earnings per share	278.81		(0.6)	280.60	
Diluted headline earnings per share	277.36		0.1	277.11	

* *Prior period amounts restated for the impact of the adoption of IFRS 16 Leases, refer to note 32 of the Group audited annual financial statements.*

** *Comparable turnover excludes the turnover earned from the sale of airtime, data and related purchases on a principal basis. Refer to Appendix 2.*

*** *To ensure comparability, the share of associate's income as disclosed in note 14 of the audited annual financial statements has been separately disclosed between components including and excluding the net monetary gain of IAS 29 Financial Reporting in Hyperinflationary Economies (IAS 29).*

^ *In order to present the comparable underlying operating performance of the Group, comparable headline and diluted headline earnings per share is presented, excluding the hyperinflation accounting net monetary gain (with no impact on tax), in the current year, and excluding the impact of the 53rd week of trading in the prior year. Refer to Appendix 4.*

APPENDIX 4

PICK N PAY STORES LIMITED

The table below presents the Group's headline earnings for the current and prior period on a comparable 52-week basis

	2020 Rm	Restated* 2019 Rm
Reconciliation between basic and headline earnings		
Profit for the period – basic earnings for the period	1 194.7	1 444.6
Adjustments:	176.1	(16.5)
Loss/(profit) on sale of property, plant and equipment	18.8	(11.0)
Tax effect of (loss)/profit on sale of property, plant and equipment	(5.3)	1.6
Profit on termination of leases	(26.5)	(19.7)
Tax effect of profit on termination of leases	7.4	5.5
Impairment loss on property, plant and equipment	8.2	–
Tax effect of impairment loss on property, plant and equipment	(2.3)	–
Impairment loss on intangible assets	3.8	5.3
Tax effect of impairment loss on intangible assets	(1.1)	–
Impairment loss on investment in associate	173.6	–
Impairment loss on property, plant and equipment of associate	–	2.8
Tax effect of impairment loss on property, plant and equipment of associate	–	(0.9)
Profit on sale of property, plant and equipment of associate	(0.5)	(0.1)
Headline earnings for the period (note 7)	1 370.8	1 428.1
Impact of 53rd week of trading**	–	(94.9)
Non-cash net monetary gain as a result of hyperinflation accounting (note 14)	(43.2)	–
Comparable headline earnings for the 52 weeks	1 327.6	1 333.2

The table below presents the Group's share information:

	2020 000's	2019 000's
Number of ordinary shares in issue (note 19)	493 450.3	493 450.3
Weighted average number of ordinary shares in issue (excluding treasury shares)	476 161.6	475 126.9
Diluted weighted average number of ordinary shares in issue	478 647.8	481 116.5

* *Restated for the adoption of IFRS 16 Leases, refer to note 32 of the Audited Group annual financial statements.*

** *Refer to Appendix 5 for more information.*

APPENDIX 5

PICK N PAY STORES LIMITED

The table below presents the impact of week 53 on the Group's restated statement of comprehensive income of the prior period.

	Restated* Pro forma 52 weeks to 24 February 2019 Rm	Restated* Pro forma Week 53 Rm	Restated* 53 weeks to 3 March 2019 Rm
Turnover	86 271.2	2 022.0	88 293.2
Comparable turnover**	85 190.8	2 022.0	87 212.8
Turnover from airtime sales recognised on a principal basis	1 080.4	–	1 080.4
Cost of merchandise sold	(69 751.5)	(1 685.2)	(71 436.7)
Gross profit	16 519.7	336.8	16 856.5
Other income	1 474.8	23.1	1 497.9
Franchise fee income	389.9	9.2	399.1
Operating lease income	112.7	–	112.7
Commissions and other income	972.2	13.9	986.1
Trading expenses	(15 078.6)	(220.9)	(15 299.5)
Employee costs	(7 102.0)	(136.9)	(7 238.9)
Occupancy	(2 073.8)	(14.9)	(2 088.7)
Operations	(3 462.6)	(52.5)	(3 515.1)
Merchandising and administration	(2 440.2)	(16.6)	(2 456.8)
Trading profit	2 915.9	139.0	3 054.9
Finance income	445.5	–	445.5
Finance costs	(1 714.0)	(12.4)	(1 726.4)
Share of associate's income	109.0	–	109.0
Profit before tax before capital items	1 756.4	126.6	1 883.0
Profit on capital items	25.4	–	25.4
Profit on sale of property, plant and equipment	11.0	–	11.0
Impairment loss on intangible assets	(5.3)	–	(5.3)
Profit on termination of leases	19.7	–	19.7
Profit before tax	1 781.8	126.6	1 908.4
Tax	(432.1)	(31.7)	(463.8)
Profit for the period	1 349.7	94.9	1 444.6
Headline earnings	1 333.2	94.9	1 428.1
South Africa operating segment	Rm	Rm	Rm
Comparable turnover	81 371.5	1 949.5	83 321.0
Profit before tax before capital items	1 545.2	113.6	1 658.8
Rest of Africa operating segment	Rm	Rm	Rm
Total segmental revenue	4 745.9	89.5	4 835.4
Profit before tax before capital items	211.2	13.0	224.2
Earnings per share	Cents	Cents	Cents
Basic earnings per share	284.07	19.97	304.04
Diluted earnings per share	280.53	19.73	300.26
Headline earnings per share	280.60	19.98	300.58
Diluted headline earnings per share	277.11	19.72	296.83

* *Restated for the adoption of IFRS 16 Leases, refer to note 32 of the Audited Group annual financial statements.*

** *Comparable turnover excludes the turnover earned from the sale of airtime, data and related purchases on a principal basis. Refer to Appendix 2.*

APPENDIX 6

PICK N PAY STORES LIMITED

The table below presents the impact of the adoption of IFRS 16 *Leases* on the previously published pro forma Group profit of the prior period, for the 53-week period from 25 February 2019 to 3 March 2019.

	As reported[1] Pro forma Week 53 Rm	Impact[2] of IFRS 16 Pro forma Week 53 Rm	Restated[3] Pro forma Week 53 Rm
Revenue	2 045.1	–	2 045.1
Turnover	2 022.0	–	2 022.0
Cost of merchandise sold	(1 685.2)	–	(1 685.2)
Gross profit	336.8	–	336.8
Other income	23.1	–	23.1
Franchise fee income	9.2	–	9.2
Commissions and other income	13.9	–	13.9
Trading expenses	(233.3)	12.4	(220.9)
Employee costs	(136.9)	–	(136.9)
Occupancy	(27.3)	12.4	(14.9)
Operations	(52.5)	–	(52.5)
Merchandising and administration	(16.6)	–	(16.6)
Trading profit	126.6	12.4	139.0
Finance costs	–	(12.4)	(12.4)
Profit before tax before capital items	126.6	–	126.6
Profit before tax	126.6	–	126.6
Tax	(31.7)	–	(31.7)
Profit for the period	94.9	–	94.9
Headline earnings	94.9	–	94.9
Earnings per share	Cents	Cents	Cents
Basic earnings per share	19.97	–	19.97
Diluted earnings per share	19.73	–	19.73
Headline earnings per share	19.98	–	19.98
Diluted headline earnings per share	19.72	–	19.72

[1] *Presents the reported 53rd week from 25 February 2019 to 3 March 2019.*

[2] *Presents the financial impact of the adoption of IFRS 16: Leases for the 53rd week from 25 February 2019 to 3 March 2019.*

[3] *Presents the restated result for the 53rd week from 25 February 2019 to 3 March 2019 after the impact of IFRS 16 Leases. Refer to note 32 of the Audited Group annual financial statements.*

ANALYSIS OF ORDINARY SHAREHOLDERS as at 1 March 2020

PICK N PAY STORES LIMITED

SHAREHOLDER SPREAD	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	8 523	63.1	2 320 568	0.5
1 001 – 10 000 shares	3 598	26.6	11 727 767	2.4
10 001 – 100 000 shares	1 067	7.9	34 663 892	7.0
100 001 – 1 000 000 shares	247	1.8	71 066 905	14.4
1 000 001 shares and over	67	0.6	373 671 189	75.7
Total	13 502	100.0	493 450 321	100.0

PUBLIC/NON-PUBLIC SHAREHOLDERS	Number of shareholders	%	Number of shares	%
Non-public shareholders	17	0.1	147 965 833	30.0
Newshelf 1321 Proprietary Limited*	1	–	124 677 237	25.3
Ackerman Investment Holdings Pty Ltd	1	–	1	–
Ackerman Pick n Pay Foundation	1	–	101 900	–
Mistral Trust	1	–	2 768 000	0.6
Directors of Pick n Pay Stores Limited	10	0.1	4 303 455	0.9
Shares held on behalf of FSP participants	1	–	7 630 000	1.5
Pick n Pay Retailers Proprietary Limited	1	–	662 978	0.1
Pick n Pay Employee Share Purchase Trust	1	–	7 822 262	1.6
Public shareholders	13 485	99.9	345 484 488	70.0
Total	13 502	100.0	493 450 321	100.0

BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE	Number of shares	%
Newshelf 1321 Proprietary Limited*	124 677 237	25.3
Government Employees Pension Fund	64 084 116	13.0
GIC Private Limited	17 403 304	3.5
Fidelity Series Emerging Markets Opportunities Fund	14 764 156	3.0
Coronation Balanced plus fund	9 218 044	1.9
Pick n Pay Employee Share Purchase Trust	7 822 262	1.6
Alexander Forbes Investments	7 661 977	1.6
Shares held on behalf of FSP participants	7 630 000	1.5
Vanguard Total International Stock Index Fund	5 666 933	1.1
Vanguard Emerging Markets Stock Index Fund	5 573 229	1.1

* *In order to ring fence its Pick n Pay shareholding, Ackerman Investment Holdings Proprietary Limited (AIH) transferred its shareholding to a wholly-owned subsidiary of AIH, namely Newshelf 1321 Proprietary Limited.*

ANALYSIS OF B SHAREHOLDERS as at 1 March 2020

PICK N PAY STORES LIMITED

SHAREHOLDER SPREAD	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	1	3.9	1 100	–
1 001 – 10 000 shares	7	26.9	52 868	–
10 001 – 100 000 shares	8	30.8	223 670	0.1
100 001 – 1 000 000 shares	5	19.2	1 582 276	0.6
1 000 001 shares and over	5	19.2	257 822 955	99.3
Total	26	100.0	259 682 869	100.0

PUBLIC/NON-PUBLIC SHAREHOLDERS	Number of shareholders	%	Number of shares	%
Non-public shareholders	6	23.1	258 295 007	99.5
Newshelf 1321 Proprietary Limited*	1	3.9	246 936 847	95.1
Directors of Pick n Pay Stores Limited	4	15.3	6 008 601	2.3
The Mistral Trust	1	3.9	5 349 559	2.1
Public shareholders	20	76.9	1 387 862	0.5
Total	26	100.0	259 682 869	100.0

BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE	Number of shares	%
Newshelf 1321 Proprietary Limited*	246 936 847	95.1
Mistral Trust	5 349 559	2.1
Gareth Ackerman (Director of Pick n Pay Stores Limited)	3 228 383	1.2

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

* *In order to ring fence its Pick n Pay shareholding, Ackerman Investment Holdings Proprietary Limited (AIH) transferred its shareholding to a wholly-owned subsidiary of AIH, namely Newshelf 1321 Proprietary Limited.*

CORPORATE INFORMATION

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

Board of directors
Executive
Richard Brasher (CEO)
Lerena Olivier (CFO)
Richard van Rensburg (CISO)
Suzanne Ackerman-Berman
Jonathan Ackerman

Non-executive
Gareth Ackerman (Chairman)
Aboubakar Jakoet
David Robins

Independent non-executive
Haroon Bhorat
Mariam Cassim
David Friedland
Hugh Herman
Alex Mathole
Audrey Mothupi
Jeff van Rooyen

Registered office
Pick n Pay Office Park
101 Rosmead Avenue
Kenilworth
Cape Town 7708
Tel: +27 21 658 1000
Fax: +27 21 797 0314

Postal address
PO Box 23087
Claremont
Cape Town 7735

Registrar
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
Tel: +27 11 370 5000
Fax: +27 11 688 5248

Postal address
PO Box 61051
Marshalltown 2107

JSE Limited sponsor
Investec Bank Limited
100 Grayston Drive
Sandton 2196

Auditors
Ernst & Young Inc.

Attorneys
Edward Nathan Sonnenbergs

Principal transactional bankers
Absa Limited
First National Bank

Company Secretary
Debra Muller
Email address: demuller@pnp.co.za

Promotion of Access to Information Act
informationofficer@pnp.co.za

Investor relations
Penny Gerber
Email address: pennygerber@pnp.co.za

Website
Pick n Pay: www.pnp.co.za
Investor relations: www.picknpayinvestor.co.za

Customer careline
Tel: +27 800 11 22 88
Email address: customercare@pnp.co.za

Online shopping
Tel: +27 860 30 30 30
www.pnp.co.za

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