Dis-Chem PHARMACIES

INTEGRATED REPORT **2018**

FOR THE FINANCIAL YEAR ENDED 28 FEBRUARY

Navigation

SIX CAPITALS

- Financial capital
- Manufactured capital
- Human capital
- Intellectual capital
- Natural capital
- Social and relationship capital

Items marked with this icon can be found on our website *www.DischemGroup.com*

ON THE WEB

- Register documenting the assessment of the principles of King IV
- Five-year financial review
- Group and company audited annual financial statements and notes (including independent auditors' report and Audit and Risk Committee's report)
- Year-end results presentation
- Notice to shareholders and proxy form

STRATEGIC OBJECTIVES

- Increasing Dis-Chem's store footprint
- Driving secondary retail opportunities through innovation
- Driving margins by leveraging Dis-Chem's existing head office cost base
- Expanding CJ Distribution

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Dis-Chem PHARMACI
COLD DRINKS
BEAUTY FAIR
click & collect

Increased warehouse space by

> 13 443m²

Improved trading density – now

> R96 118/m²

More than **15 000**
permanent and casual employees

01

THIS IS DIS-CHEM

About this report

It is Dis-Chem's pleasure to present our financial year 2018 Report to our stakeholders. We have a diverse Group of stakeholders including shareholders, employees, customers, government and society, and our suppliers. However, our Integrated Report is aimed primarily at our shareholders, who are the principal providers of financial capital, and the investor community locally and abroad. While other stakeholder groups influence our business, most notably our customers and employees, we address their needs and interest through other communications media.

The scope of the report

The scope of our Integrated Report includes material information relating to the Group's business model, strategy, material risks and related opportunities, financial and operational performance as well as governance and social responsibility of the Group.

It also covers the Group's main operating segments, being Retail and Wholesale. The Retail segment comprises retail stores of pharmaceuticals and household items, e-commerce, corporate wellness clinics and courier services and the Wholesale segment entails the wholesale of pharmaceuticals and front shop to Dis-Chem retail stores and independent pharmacies. Dis-Chem predominately operates in South Africa, with only three stores in Namibia and a first store opening in Botswana, and therefore this report focuses on operations in South Africa.

Where applicable, our report has been prepared according to the King Code of Corporate Governance (King IV), the JSE Listings Requirements and the Companies Act and draws on the international IR Framework of IIRC which was considered (but not adopted) in the preparation of the Integrated Report. We report our financial information according to Internal Financial Reporting Standards (IFRS).

Concerning comparability, all significant items are reported in a consistent manner as if we had prepared an integrated report in the prior year.

The content of the report

Our Integrated Report is our primary report to shareholders with the following content also available on our website.

- Register documenting the assessment of the principles of King IV
- Five-year financial review
- Group and company audited annual financial statements and notes (including independent auditors' report and Audit and Risk Committee's report)
- Year-end results presentation
- Notice to shareholders and proxy form

Materiality

Our Integrated Report aims to provide concise and material information on the Group's strategy, performance and prospects. The Board and management have used their judgement in determining the issues that could substantively affect the Group's ability to create and sustain value for our stakeholders. In determining our material issues, we have considered our top business as well as operational risks identified through interaction with our stakeholders, and consists of both financial and non-financial risks.

Assurance

Dis-Chem applies a combined assurance model which seeks to optimise assurance obtained from management and external assurance providers. The Group's external auditor, Ernst & Young Inc. (EY), provided reasonable assurance on the annual financial statements and expressed an unmodified audit opinion. EY has also reviewed the accuracy of the financial information extracted from the annual financial statements that appear in the Integrated Report. PricewaterhouseCoopers (PwC) was appointed as the internal audit providers to the Group in March 2017 and will provide additional assurance in the years to come. Certain non-financial information was provided by accredited service providers, such as market share statistics.

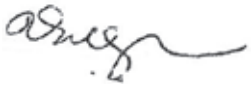
The Dis-Chem Board and management have reviewed the content of the Integrated Report, but it has not been independently assured.

Directors' approval

As part of the Board Charter, the Board is responsible for the integrity of the Integrated Report and acknowledge this responsibility. The Board confirms that they have collectively assessed the content of this report and approves it for release to its stakeholders.

The Audit and Risk Committee which has oversight responsibility for the Integrated Report recommended the report for approval to the Board. The Board approved the Integrated Report on 22 June 2018 and signed on its behalf by:

Larry Nestadt
Independent Non-executive Chairman



Ivan Saltzman
Chief Executive Officer

Forward-looking information

The Dis-Chem Integrated Report contains certain forward-looking information and statements concerning the financial condition and results of operations of the Dis-Chem Group. The Dis-Chem Group has made every reasonable effort to ensure the accuracy of the information in the report, but forward-looking information by their very nature involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Past performance is not indicative of future results.

No assurance can be given that the forward-looking information will prove to be correct and undue reliance should not be placed on such information. Factors that could cause actual results to differ materially from those in the forward-looking information include, but are not limited to: global and local economic conditions; changes in legislation; changes to International Financial Reporting Standards and interpretations; changes in trading space; changes in working capital ratios and changes in margins achieved.

The Dis-Chem Group does not undertake to update or revise any of the forward-looking information, whether to reflect new or future events and no liability is accepted by the Dis-Chem Group whatsoever for any direct or consequential loss arising out of reliance upon all or any part of the information contained in this report.

Highlights for the year

FINANCIAL CAPITAL

Turnover
▲ **13.3%** to
R19.6 bn

Total income
▲ **15.7%**

Adjusted headline earnings
▲ **17.9%** to
R677 m
(2017: R565m)

HEPS at
79.6 cps
(adjusted HEPS at **78.7 cps**)

Return on equity at
50%

Improved trading density

MANUFACTURED CAPITAL

Opened
21 new stores
increasing **store footprint to 129**

Increased warehouse space by
13 443 m^2

Three successful
Dis-Chem store formats

Successfully introduced
Dis-Chem TLC brand

Invested infrastructure to cater for **medium-term retail growth**

HUMAN CAPITAL

Over
13 500
permanent employees

Over
1 500
casual employees

79%
of employees are **black**

64.4%
of employees are **women**

326
employees completed **learnership agreements**

Over
R27.3 m
spent on training and education

INTELLECTUAL CAPITAL

Gained market share
in all key categories

194 years
of experience amongst **eight board members**

Wholesale control of own store stock at
79%

NATURAL CAPITAL

3 234 tons
of recycling

Ethical **waste management**

10 000 m²
of cultivated land for food garden

SOCIAL AND RELATIONSHIP CAPITAL

R548 m
paid back to **loyalty programme** members

Over
R18.3 m
donated to the **Dis-Chem Foundation**

Various social campaigns including:
- **Feeding schemes**
- **Mobile health clinic**
- **Million comforts**

Foundation projects include:
- **Water** donations to **Cape Town**
- **Smile Week**
- **Random Acts** of **Kindness**

About Dis-Chem

Dis-Chem is a leading retail pharmacy group in South Africa with a "Pharmacy First" approach meaning that ALL stores have a dispensary. We have an Everyday Low Price (EDLP) strategy, positioning ourselves as a discount brand.

Dis-Chem operates two main divisions namely Retail and Wholesale. The retail division contributes the majority share to turnover and operating profit. It consists of our store base, clinic services, the courier business known as Dis-Chem Direct, our online business and our ancillary services which include our beauty and hair salons. The wholesale division operates a fine picking wholesale business. It has three contributors to turnover: 1) Dis-Chem, 2) Independent pharmacies and 3) TLC.

Dis-Chem has 129 stores across the country, with its predominant exposure in Gauteng, including three stores in Namibia. The group operates from three store formats: 1) Big box format, 2) Alternative format and 3) Dis-Chem The Local Choice. Dis-Chem is positioned to be a destination store, where consumers can shop a full basket of products from our dispensary, personal care and beauty, healthcare and nutrition, baby care and other categories.

Our history

1978 Dis-Chem founded by Ivan and Lynette Saltzman. Mondeor was the first retail pharmacy store opened

1989 Dis-Chem expands its offering to include non-pharmaceutical/front shop products

2003 Dis-Chem launched its loyalty programme

1984 Second retail pharmacy store opened in Randridge Mall

1997 Dis-Chem began selling its own private label line of non-pharmaceutical products

2004 Opened the first store in Cape Town and so began its national store roll-out

DIS-CHEM IS POSITIONED TO BE A DESTINATIONS STORE, WHERE CONSUMERS CAN SHOP FOR A FULL BASKET OF PRODUCTS.

2006

The Saltzmans established the Dis-Chem Foundation, supporting charitable causes in South Africa

2008

Partner store concept conceived – introduction of The Local Choice (TLC)

2013

Acquired a controlling stake in CJ Group Distribution

Introduced its online shopping platform

2014

Opened first franchise store in Namibia

Voted best Pharmacy by Readers Digest

2016

Listed on the JSE

Acquired remaining stake in CJ Distribution

100th store opened

2017

First Integrated Report issued

Dis-Chem's investment case

Dis-Chem offers a compelling case for investors seeking equity exposure to South Africa's retail market and more specifically the Food and Drug sector.

The directors believe that the Group's competitive strengths consist of:

01 RESILIENT MARKETS

The Group operates in resilient markets which offer protection against a weak consumer environment

02 CUSTOMER CENTRIC STRATEGY

Category-specific customer service excellence is an ethos upon which the company was founded and is embedded into its corporate culture

03 HIGHLY EXPERIENCED FOUNDER-LED MANAGEMENT TEAM

Dis-Chem's founders, Ivan and Lynette Saltzman, are supported by a very experienced management team, as well as very competent and professional regional store and category managers

04 HIGHLY QUALIFIED STAFF

Employees are highly qualified, and Dis-Chem invests in their training to ensure its service standards are continuously improving

05 PROVEN FINANCIAL METRICS AND TRACK RECORD

- Retail leading trading density
- Large pharmacy footfall
- Return on equity average of 56.6% over past three years
- 14% four-year compound growth in profit before tax and headline earnings

06 ORGANIC AND ACQUISITIVE GROWTH

- Strong organic growth complemented by strategic acquisitions to extend retail and wholesale base, with proven ability to integrate acquisitions
- Plan to open 20 stores in FY2019
- Store base to increase to 200 stores by 2021/2022

07 WELL INVESTED ASSET BASE

Capital expenditure of R1 032 million invested over the past four years, mainly through new stores, warehouses and information technology

08 POSITIONING WITHIN AN INDUSTRY POISED TO BENEFIT FROM STRONG FUNDAMENTALS

- The target market of consumers in LSM 6 to 10 has grown significantly in the last ten years
- Pharmacy retail industry positioned to benefit from increased urbanisation, trends and increased awareness of healthy living and inelastic demand for dispensary products

09 MARKET-LEADING POSITION

Recognised brand in the South African retail pharmacy and ability to scale makes it well-positioned to benefit from the market-leading position

10 A WINNING RETAIL BUSINESS MODEL

- Core to the Dis-Chem brand is the "Pharmacy First" approach where every store has a pharmacy so that customers can always depend on there being a pharmacist to serve their pharmaceutical needs whenever they enter a Dis-Chem store
- Extensive range of products at everyday low prices and excellent service

Dis-Chem's business model

Dis-Chem has a "Pharmacy First" approach. This means that all our stores have pharmacies and our customers can always depend on there being a pharmacist to serve the pharmaceutical needs whenever they enter a Dis-Chem store.

The trading hours of our pharmacies are the same as those of the front shop even though we run the dispensary as a separate division from the front shop. The majority of our pharmacists are full-time employees.

We believe that we differentiate ourselves through the wide range of product offerings. Despite having a young store base, our trading densities remain favourable.

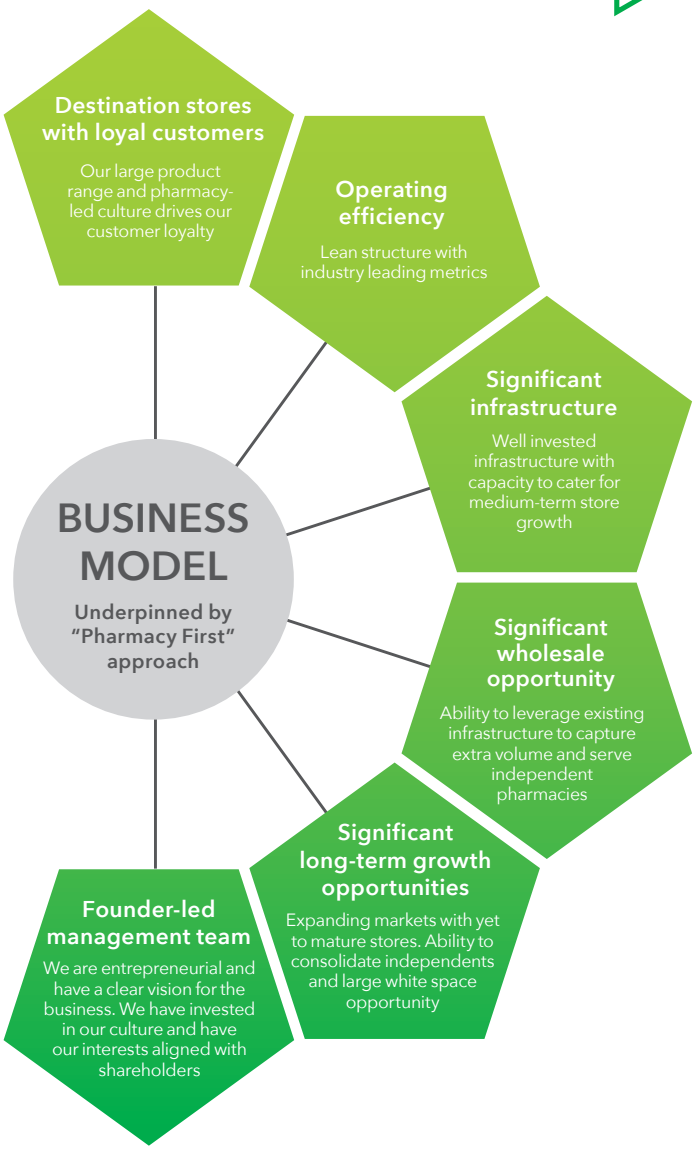
Dis-Chem's strategy

Our strategy consists of four main pillars:

INCREASING OUR STORE FOOTPRINT

- We plan on adding an additional 20 stores in FY2019
- Target to reach 200 stores by FY2021
- Approximately 24 400m² of space to be added
- Three store formats

BUSINESS ACTIVITIES



INPUTS

Financial Capital

Increase revenue and profitability through expansion

- Reinvested cash flow generated from operations
- Efficient systems, controls and process

Manufactured Capital

Retail and Wholesale structure through which we sell our products

- Focused retail stores across South Africa and Namibia
- Wholesale warehouses to facilitate delivery of products across the network
- Pharmacy First approach

Human Capital

Invest in our biggest asset – our people

- Appropriate skills in Retail and Wholesale
- Training and development
- Over 15 000 employees

Intellectual Capital

Lead through innovation (embracing technology and market shifts)

- Wholesale controls majority of own store inventory
- Effective IT solution and innovative offerings

Natural Capital

Our impact on the environment

- Sustainable approach to supply

Social and Relationship Capital

Build and maintain relationships with stakeholders and our commitment to social initiatives

- Engaging with stakeholders
- Being socially responsible

DRIVING SECONDARY RETAIL OPPORTUNITIES THROUGH INNOVATION

- Specialty medicine and oncology
- Dis-Chem Direct
- Corporate Wellness
- e-Commerce

DRIVING MARGINS BY LEVERAGING DIS-CHEM'S EXISTING HEAD OFFICE COST BASE

- Invested in people ahead of growth

EXPANDING THE CJ DISTRIBUTION

- Invested infrastructure to cater for medium term Retail growth
- Identify and engage additional wholesale acquisitions
- Move into the pre-distribution space
- Additional TLC franchise arrangements to bulk up the supply chain

OUTPUTS

Financial Capital

- Cash flow generated from operations amounted to R348 million
- Effective margin management

Manufactured Capital

- 21 new stores opened
- Warehouse space increased by 13 443m^2
- Invested R374m in CAPEX
- Added third Namibian store

Human Capital

- 10 560 employees trained from March 2017 to February 2018 (internal and external)
- Remuneration policy in place with competitive remuneration paid to employees

Intellectual Capital

- e-Commerce growth
- Click and Collect in every store
- Continual improvement on private label

Natural Capital

- Ethical waste management
- Recycling of packaging
- Continual improvement on private label

Social and Relationship Capital

- Social campaigns run through Dis-Chem Foundation
- Programme of engagement including annual stakeholder roadshows and one-on-one meetings

OUTCOMES

Shareholders

- Turnover increased 13.3%
- EBITDA increased by 6.6%
- Return on equity at 50%
- Adjusted headline earnings growth of 19.7%

Employees

- Skilled workforce able to deliver high quality service
- Accredited training programme for pharmacists and store managers
- Low turnover of staff
- Over R2bn paid in employee benefits
- 64% of employees are women
- 79% of employees are black

Customers

- R548 million paid back to loyalty programme members
- Wide range of products that meet our customers' needs
- All stores have pharmacies

Government and society

- R267 million paid in income taxes and R171 million in VAT and PAYE to SARS
- Over 90% of inventory purchased locally
- Social campaigns run include a food garden that donates to 21 feeding schemes and sponsoring a mobile health clinic
- Broadening access to healthcare through 129 stores and more than 225 store clinics
- 82 bursaries to pharmacy students

Suppliers

- R15.7 billion paid to suppliers

Stakeholder engagement

Dis-Chem is committed to engaging with all its stakeholders to ensure we create value for them over the medium- and long-term.

Stakeholders	Main issues, needs and concerns	Engagement platforms	Addressing issues, needs and concerns
Shareholders	• Return on investment • Strong business performance • Growth in Group • Managing margin and costs • Prospects	• Results presentations • Roadshows of results • Integrated Annual Report • Annual General Meeting (AGM) • Our website	• Establishment of investor relations team • Growing online and courier • Strong investment case and performance • Investor days
Employees	• Feeling rewarded • Opportunities for enhancement • Competitive and fair remuneration • Trust in management • Training • Incentives	• Management and team meetings • Internal publications • Performance reviews	• Market remuneration benchmark exercise done annually • Effective intranet to facilitate communication across Group • Staff wellness programme
Customers	• Price competitiveness • Product range • Superior service levels • Quality of products and services • Accessibility • Pharmacy and clinic services • Loyalty program benefits	• Direct engagement with customers • Online and social media interaction • Call centres • Dis-Chem magazines	• Customer complaint line monitored by senior management • Investment in social media teams • Promotional activities including 2-for-1 sale items • Product lines widened • Internal quality check team ensuring product quality and creditability
Government and society	• Giving back to society • Return through taxes (income tax, VAT and employees tax) • Compliance with legislation • Transformation • Pharmacy licenses	• Regular meetings with MCC, South African Pharmacy Council and Department of Health • Engagement with Department of Labour (DOL)	• Internal relations department has effective engagement with DOL • Compliance teams in place to ensure regulation adhered to • Donating to the foundation • Clinic services
Suppliers	• Supply to customers (distribution channel) • Operational practices • Safety and quality • Product availability	• Regular meetings • Site visits • Electronic communication	• Category led business model encouraging engagement with suppliers • Consistent site audits by quality check team to ensure supplier standards are maintained

External environment

Trading environment

South Africa's retail trading environment remains pressured by weak economic conditions, reluctant consumer spend and chronically high unemployment. Consumers face rising costs from utilities and the recent VAT increase, with political volatility further dampening their confidence.

While South Africa's future direction appeared more promising as 2018 commenced, the country's GDP contracted by 2.2% in Q1 2018. Medical aid membership is stagnant and could reduce while the membership profile continues ageing and inevitably drives up claims.

On the upside, Dis-Chem conducts its business in a market segment many consider as recession-proof, though we don't believe any mainstream sector can be completely insulated from economic headwinds. The healthcare market is defensive and thriving in South Africa as an expanding middle class, densifying urbanisation and generally longer life expectancies drive growth in healthcare and related retail such as beauty products.

While our sector is resilient in a muted trading environment, weak fundamentals will inevitably mute earnings. Nevertheless, healthcare and personal wellness offer more growth opportunities than most commercial sectors.

Market trends

Excellent health has become a lifestyle choice as people search for medical information online and take greater responsibility for their own medical welfare. The expanding role that pharmacies play in the lives of people across income groups is driving change.

To remain competitive, retail pharmacies are being compelled to provide simple medical services such as in-store clinics, wellness programmes, health screenings and disease management services. As a consequence, the entire medical industry is being pressured to consolidate due to the quest for cost efficiencies and cheaper products and services.

Competitive landscape

Independent pharmacies are shrinking in numbers yet retain at least a third of the market at this time. Dis-Chem does not view independents as competitors, but rather as wholesale clients or willing partners through buyouts and/or conversion into TLC or Dis-Chem outlets.

For supermarkets, pharmacies are not a focus but rather an add-on for customer convenience. Their in-store pharmacies usually operate on thin margins due to lacking specialist skills and uncompetitive supply lines.

Pharmacy chains such as Dis-Chem hold about a 45% share of the South African market and are distinguished by their loyalty programmes, which aggregates customer data for competitive advantages.

Availability of skills

South Africa requires about 12 000 pharmacists to meet the international benchmark of 50 pharmacists per 100 000 people.

Pharmaceutical skills are scarce and in high demand locally and internationally. South African pharmacies need at least one qualified person to be on duty at all times, meaning that each pharmacy practically requires two qualified pharmacists.

Having qualified sisters stationed at pharmacies is convenient for mothers with young children and the elderly, who gain access to professional services at reasonable cost. However, South Africa is dramatically short of qualified nurses and medical professionals in all categories. Our tertiary and training institutions presently lack the capacity to turn out professionals in sufficient numbers to meet the needs of South Africa's current healthcare environment.

As a major employer of pharmacy and related retail staff in the private sector in South Africa, Dis-Chem competes continually to attract and retain suitable talent.

Regulation

Healthcare markets are highly regulated across the world. In South Africa, legislative and regulatory changes introduced by the Department of Health (DoH), SA Pharmacy Council (SAPC) and SA Health Products Regulatory Agency (SAHPRA, formerly the Medicines Control Council) can impact on Dis-Chem's operation, turnover and margins.

Implementing the Single Exit Price (SEP) for regulated medicines has diminished gross profit margins across the private healthcare sector.

In late December 2017, the DoH announced the single exit price (SEP) increase for 2018 would be just 1.26%. This minimal increase endangers independent pharmacies in particular and are uncoordinated with medical scheme increases, which averaged between 7% and 10.5%.

Recent amendments to the Medicines and Related Substances Act, 1965 (Act No. 101 of 1965) have set new boundaries for the marketing and sales of Complementary and Alternative Medicines (CAMs) in South Africa. CAMs must now be scrutinised for safety, efficacy and quality before being registered.

External environment continued

CAMs regulation impacts on the healthcare and nutrition market, of which Dis-Chem has more than 40% of the market. Regulating this segment is sound in principle, as it will steadily eliminate ineffective or false products, but at the same time hinders innovation in an exciting healthcare category.

Outlook

The future of South Africa's pharmaceutical industry remains bright – despite current handicaps – and is expected to reach a value of R47 billion by 2020.

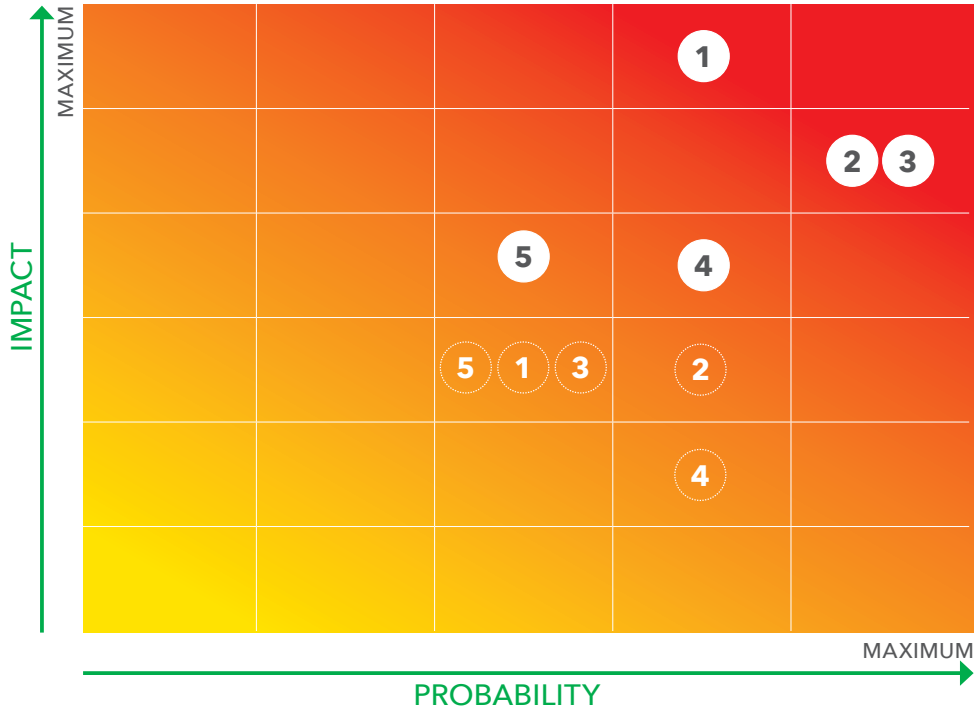
As price increases for much of our inventory is not feasible within the current regulatory framework, over this next year we are challenged to increase sales volumes within the present economic realities.

Material issues

In determining our material issues, we have considered our top business as well as operational risks identified through interaction with our stakeholders and consists of both financial and non-financial risks.

Managing risk is fundamental to ensure the Group continues to create and sustain value for its stakeholders.

The Audit and Risk committee is an integral component of the risk management process of the Group and oversees the development and annual review of the risk policy and plan for risk management. This policy and plan is recommended to and approved by the Board annually. In addition, the Audit and Risk Committee ensures a risk register is maintained by management and ensures management considers and implements appropriate risk responses. The material risks facing the Group (as shown below) have been obtained from this risk register.



Material risk Residual risk (after mitigation)

1 Brand loss
2 Shortage of retail space
3 Competition in independent market
4 Shortage of skills
5 Regulations

Managing our material issues

Managing our material issues, risks and opportunities

Material issue	Principal risk	Mitigation / opportunity
1 Brand loss	Dis-Chem's financial performance is influenced by the image, perception and recognition of the Dis-Chem brand, which, in turn, depends on many factors. These factors include: • the ability to maintain high levels of service in store; • the ability to offer a wide range of products and services responsive to customers' needs; • the quality of its products; • the ability to offer competitive pricing; • the availability of stock in store; • the image of its stores; the perception of its loyalty programme; • and the strength of its communication activities including advertising campaigns. Any failure to maintain favourable brand recognition could have a material adverse effect on Dis-Chem's business, results of operations and financial condition.	• Dis-Chem focuses on having a wide range of products that meet its customers' needs • Deliveries to stores are made on a regular basis to ensure availability of stock in store. This will be further enhanced in areas outside of Johannesburg with the KwaZulu-Natal and Cape Town warehouses that are operational • Dis-Chem prides itself on excellent customer service • Loyalty programme gives benefit back to customers for shopping in the Dis-Chem stores • Dis-Chem has an "Everyday Low Price" strategy
2 Shortage of retail space	Part of Dis-Chem's growth strategy is to increase the number of stores it has by opening new stores or by acquiring existing independent pharmacies and converting them into Dis-Chem pharmacies. Dis-Chem's ability to acquire or open profitable new stores in line with its strategy depends on many factors, including its ability to identify and secure attractive acquisitions, and locations for new stores. If Dis-Chem does not open new stores on a timely or profitable basis, it may not realise its growth strategy.	• 20 new stores have already been identified and secured for FY2019 • Growth in Dis-Chem brand has made it an anchor store in malls • An additional store to be opened in Namibia in FY2019 and the first store in Botswana • Should reach 200 stores by 2021/2022
3 Competition in independent market	The level of competition faced by Dis-Chem's network of retail pharmacy stores and its e-commerce website, its corporate wellness clinics and its courier service is high, particularly with respect to pricing, product range and quality, store location and format, customer service levels and advertising. Dis-Chem competes at the local, regional and national levels with a wide variety of retailers of differing sizes and with differing but competing offerings, including other pharmacy groups, independent pharmacies, courier prescription providers and various other retailers such as grocery stores, convenience stores and online retailers. If Dis-Chem cannot respond adequately to these multiple sources and types of competition, it could have a material adverse effect on Dis-Chem's business, results of operations and financial condition.	• Dis-Chem continues to look for opportunities to be price competitive including 2-plus-1 sale items • Dis-Chem focuses on having a wide range of products that meets its customers' needs • Loyalty programme gives benefit back to customers for shopping in the Dis-Chem stores • Dis-Chem prides itself on excellent customer service • 100% of stores have Click & Collect thereby ensuring convenience for customers • Dis-Chem works closely with key suppliers to optimise supply chain efficiency • Dis-Chem has an "Everyday Low Price" strategy

Material issue	Principal risk	Mitigation / opportunity
4 Shortage of skills	Dis-Chem's operations are dependent on the efforts, ability and experience of the professionals it employs, in particular pharmacists, qualified pharmacy assistants and store managers. Dis-Chem competes with other employers, including other pharmacies, healthcare providers and the government, in recruiting and retaining these professionals. If Dis-Chem is unable to hire qualified personnel when needed, or experiences a higher than normal turnover rate for its employees, it could have a material adverse effect on Dis-Chem's business, results of operations and financial condition.	• Competitive remuneration paid to employees • Short-term and long-term incentives in place including the introduction of a share scheme participation for senior management (refer to Remuneration section) • Implementation of measures to encourage and develop the pharmacy profession, such as through running an undergraduate bursary programme for pharmacy students and by facilitating ways for employees to fulfil continuing professional development requirements • Accredited training programmes for store management
5 Regulations	The healthcare industry in South Africa is subject to extensive government regulation. Dis-Chem is subject to and incurs costs to comply with, numerous laws and regulations, such as the Pharmacy Act, the Medicines Act and the Consumer Protection Act. There is uncertainty regarding the coming into force (either in their current form or at all) of various draft regulations which have been issued by the National Department of Health and the SAPC. Untimely compliance or non-compliance with these laws and regulations could result in increased expenditure or the imposition of civil and criminal penalties that could adversely affect the continued operation of Dis-Chem's business, such as loss of licences, inability to obtain new licences or significant monetary fines. Any changes in the legislation, regulation or healthcare policies in South Africa, or the imposition of further requirements or restrictions on Dis-Chem, could have a material adverse effect on Dis-Chem's business, results of operations and financial condition.	• Dis-Chem actively monitors changes in regulation to ensure they are aware of any upcoming changes. This includes any draft regulations that are issued • Regular meetings held with the National Department of Health and the South African Pharmacy Council • Internal quality check team to administer compliance programme and audit


ADULT WELLNESS
CLINIC
ADMINISTRATION OF MEDICATION
HIV SCREENING TESTING
DIABETIC CARE
WEIGHT LOSS AND DIETARY ADVICE
GENERAL HEALTH AND LIFESTYLE AD
FEMALE HEALTH
ON-SITE SPECIALIZ
SCREENING TEST
TOTAL CHOLESTEROL ANALYSI
(LDL, HDL AND TRIGLYCERIDES
HB TESTING TO CHECK IRON LE
HBA1C - INDICATION OF POSSI
MEASUREMENT AND
MENT ASSESSMENTS.
DULED VACCINATIONS
CE ON
EEDING
CING SOLIDS
ND POSSIBLE ALLERGIES
SLEEPING PATTERNS
ATMENT

Co-founders **Ivan** and **Lynette** won *entrepreneurs of the year* – **Africa award**

CFO **Rui Morais** won the *young CFO of the year* **award**

02

LEADERSHIP

Our Board

LAURENCE MICHAEL NESTADT

IVAN LEON SALTZMAN

LYNETTE FRANCES SALTZMAN

RUI MANUEL MORAIS

MARK BOWMAN

SAUL EYTAN SALTZMAN

ANUSCHKA COOVADIA

JOE MTHIMUNYE

MAHOMED GANI

Board profiles

Laurence Michael Nestadt (67)

Chairman

Larry Nestadt has a long and successful corporate career, both in South Africa and internationally. He is a co-founder and former Executive Director of Investec Bank. In addition, Larry was instrumental in the creation and strategic development of a number of listed companies such as Capital Alliance Holdings, Super Group, HCI, SIB, CorpGro, Reckon and Global Capital, in addition to having served as past chairman on the Boards of these companies. Larry sat on the Boards of Softline, JCI and Abacus Technologies. Larry has acted as Chairman on a number of non-listed company Boards both internationally and locally including Stenham (UK) and Prefsure Life (AUS). He is the current Chairman of Global Capital, Blue Label Telecoms, Universal Partners, National Airways, the Morecorp Group, Melrose Motor Investments and SellDirect Marketing. Larry is a life member of the World Presidents Organisation, Lloyds of London (since 1983) and is an Honorary Colonel in the South African Airforce.

Ivan Leon Saltzman (67)

Chief Executive Officer

Ivan Saltzman is the Co-Founder of the Dis-Chem business and Chief Executive Officer of the company. He has 41 years of experience in the pharmaceutical sector in South Africa and has spent 36 of them at Dis-Chem. He is a qualified pharmacist with a Diploma in Pharmacy.

Lynette Frances Saltzman (65)

Managing Director

Lynette Saltzman is the Co-Founder of the Dis-Chem business and a Managing Director of the company. She is also the Founder and Director of the Dis-Chem Foundation. She has 41 years of experience in the pharmaceutical sector in South Africa and has spent 36 of them at Dis-Chem. She is a qualified pharmacist with a Diploma in Pharmacy.

Rui Manuel Morais (34)

Chief Financial Officer

Rui Morais is the Chief Financial Officer of the company. He has ten years of experience in the retail pharmaceutical sector in South Africa and has been at Dis-Chem for seven years. Before becoming Chief Financial Officer, he served as Group financial executive for 12 months. Before joining Dis-Chem he had senior managerial roles in the audit retail sector at EY, with Dis-Chem included in his portfolio. He is a Chartered Accountant in South Africa and has a Bachelor of Accounting degree from the University of Johannesburg.

Saul Eytan Saltzman (37)

Alternate Executive Director to Lynette Saltzman

Saul Saltzman is an alternate director to Lynette Saltzman. He has 16 years of experience in the pharmaceutical sector all of which has been at Dis-Chem. Before becoming a Group Executive, he served in various executive administration roles. He has a Bachelor of Commerce degree and a Post-Graduate Diploma in Business Administration from the University of Witwatersrand.

Mark Bowman (51)

Independent Non-Executive Director

Mark Bowman has over 23 years of experience in the South African corporate sector. He joined SABMiller's beer division in 1993 and was appointed managing director of SABMiller Africa in 2007. Mark's work led to the consolidation of SABMiller's South Africa beverage business and Africa division into one region for management purposes, and as a result, he was appointed managing director of the enlarged SABMiller Africa region on 1 July 2014. He is also a non-executive director of Tiger Brands, and he holds directorship roles with numerous subsidiary African Breweries. Mark has a Bachelor of Commerce degree from the University of Witwatersrand and a Masters of Business Administration from the University of Cape Town.

Anuschka Coovadia (41)

Independent Non-Executive Director

Dr Anuschka Coovadia is the Head of Healthcare for Africa at KPMG International, a Director on a healthcare investment development fund, Ayurveda Investments, and executive member of community business and social forums and a member of a Global Task Team on Universal Health Coverage, which advises governments and ministries of health in emerging economies on the design, financing and implementation of National Health Insurance schemes. She has more than 15 years of experience in the health and research industry, working with governments, donor funders, payers, providers and private sector organisations across Africa. Previously, Anuschka served as the African lead for Novartis (Coartem), Head of Clinical Advisory Services at the Government Employees Medical Scheme, a Product Development Specialist at Momentum Health's Health in the Health Actuarial Department and in the managed care division of the Metropolitan Group's Durban office. She has a Bachelor of Medicine and Surgery degree and a Masters in Economics (Health) from the University of KwaZulu-Natal, having also completed various management and actuarial courses.

Joe Mthimunye (52)

Independent Non-Executive Director

Joe Mthimunye is one of the founding partners of Gobodo, the accounting and auditing practice that merged with SizweNtsaluba to form SizweNtsalubaGobodo. Joe established the corporate finance and advisory services as a division within Gobodo in 1997. He subsequently led a management buy-out (MBO) of the corporate finance division which was rebranded as aloeCap in 2001. As the leader of the aloeCap team, he has been involved in a number of mergers and acquisitions, restructuring, capital raising, debt issuance and IPO mandates. As the Executive Chairman of aloeCap, he led the team that established aloeCap Private Equity. Joe was a non-executive director at Invicta Holdings and currently serves as an independent non-executive director and the chairman of the audit committee of Blue Label Telecoms. He sits on a number of private company Boards (non-executive) in which aloeCap is an investor. Joe is a Chartered Accountant in South Africa and holds a BCompt Hons/CTA from UNISA.

Mahomed Gani (65)

Independent Non-Executive Director

Mahomed Gani is a Chartered Accountant with over 35 years' experience in the accounting and auditing profession. He was a founding partner of Saboor Gani & Co, MSGM Masuku Jeena Inc and a partner of PwC Inc until his retirement in June 2013. He is a non-executive director on a number of Boards including Basil Read Holdings Limited, Tsogo Sun Holdings Limited and Hosken Consolidated Investments Limited. He is also a member of the Investigations Committee of the Independent Regulatory Board of Auditors.

Chairman's review

> Dis-Chem completed its first full year on the JSE with the business model working as designed. Our only notable setback was a delay in obtaining trading licences for certain newly constructed wholesale operations.
>
> **Larry Nestadt**
> *Independent non-executive Chairman*

Operating environment

South Africa's economy made a promising start to 2017, but investor and business confidence was dashed by an unexpected political decision in March 2017. Within weeks the Fitch and S&P ratings agencies downgraded South Africa's debt to sub-investment grade. Economic activity contracted in the first quarter, but slowly regained momentum and in the fourth quarter grew by 3.1% quarter-on-quarter (seasonally adjusted and annualised) to record a sluggish 1.3% for the year. Further downgrades in November 2017 signalled that substantial economic reforms were required to prevent the country sliding into across-the-board junk status.

Following the major political shift in December 2017, South Africa entered 2018 in a more confident mood, but consumers remain under severe pressure from rising costs from utilities, the recent VAT increase and continuing political volatility.

Although GDP contracted by 2.2% in Q1 2018, most commentators remained confident that our fundamentals remain sound. Early in the year, ratings agency Moody's affirmed South Africa's investment-grade credit rating and revised its credit outlook from negative to stable.

Standard & Poors (S&P) consequently reaffirmed South Africa's rand debt at "BB+" and kept the country's foreign-currency debt unchanged at "BB". These ratings agencies have evidently adopted a "wait and see" stance while the new Presidency installs new leadership teams in government departments and public institutions.

Consumer disposable income will remain constrained until the economy revives, though South Africa's aging medical aid population will inevitably drive up the need for pharmaceuticals. Nevertheless, our strong fundamentals and Dis-Chem's positioning in the resilient healthcare industry bodes well for ongoing expansion in a muted yet stable economy.

Compliance

Many of Dis-Chem's product categories are regulated. Staying abreast of these regulations are written into the KPIs of each category executive.

We are working steadily to remain fully compliant by removing all remedies and products that our testing reveals fall short of current or incoming standards. A quality assurance team screens all new suppliers, their facilities and products before considering these for our catalogue.

New regulations for medical devices and personal care are also in the pipeline.

Constant regulatory amendments have made compliance an operational priority. The Board is establishing a compliance framework that will comprise an overarching set of rules and compliance characteristics that can be applied throughout the business. Management will also utilise this framework for audit and risk purposes.

Dis-Chem presently holds over 40% of the Complementary and Alternative Medicines (CAMs) market, which is being impacted by the roll-out of CAMs legislation that sets new regulations and registration criteria for the category. Government's intention is to eliminate questionable remedies from the market, which we welcome wholeheartedly. On the other hand, this regulatory process could impede the development of new formulations and cutting edge products.

Stakeholder relationships

Following an employee strike in January 2018, Dis-Chem agreed to recognise the involved trade union when it achieves sufficient representation in terms of current labour legislation. Although the union had not reached the required membership threshold, we have considered the issues raised by our employees and taken corrective action where necessary.

As our employee communications seeked improvement, our CEO, Ivan Saltzman, and other senior executives now personally attend in-house work forum meetings, along with representatives from our unionised and non-unionised employees. These discussions have proven invaluable for understanding challenges our employees face and are fundamental to building trust and a more proactive relationship with the workforce.

Sustainable operations

From their early years in business, the Saltzmans have believed that doing good for the community is good business. The Dis-Chem Foundation was launched as their social responsibility enabler and our customer loyalty programme is now 15 years old. Being a good corporate citizen and giving back to the community is built into Dis-Chem's corporate DNA.

This empathetic culture informs our approach to employee training and development, with a particular focus on preparing young adults for productive and fulfilling lives. We have enthusiastically engaged government's tax-based initiative to provide job and learning opportunities for South Africa's underprivileged youth. Where we can, we bring these young people into Dis-Chem or healthcare, as the industry is perennially short of skilled people.

The Group is preparing a comprehensive environmental and waste reduction programme, which we will report on in greater detail in the next reporting cycle. An early part of this process is to assess our emissions, materials used and environmental impacts, so that appropriate measures can be built into the programme.

In the meantime, the wholesale business has equipped our stores with specialised balers that prepare discarded packaging for recycling.

Leadership and corporate governance

Dis-Chem's listing in November 2016 brought with it a fundamental restructuring of the Board. We inducted non-executive directors with the appropriate skills for overseeing a healthcare business and repositioned several previous directors into operational executive roles. I am satisfied that Dis-Chem has an optimum mix of Board members for this time, though we continually look for opportunities to broaden its diversity and introduce individuals who will add value.

The Board approves strategy and sets KPIs across categories, stores and regions. The Group's strategy remains focused on consolidating retail and wholesale healthcare facilities through Dis-Chem's differentiated business model. In our view the business and the brand will continue gaining traction through Dis-Chem's market-leading offering to consumers, independent pharmacies and distributors.

This year, the Board paid close attention to the challenges facing our wholesale business following the major investment into additional wholesale storage and distribution capacity. Obtaining the necessary distribution licences became a drawn-out process that was not sufficiently factored into our planning. These delays hindered new distribution and caused Dis-Chem to pay for salaries and storage capacity that generated no returns. As a consequence, our wholesale business reported a R169 million operating loss, which dampened the Group's year-end results.

Dividend

The Board declared a gross final cash dividend of 12.74 cents per share for the financial year ended 28 February 2018. This figure was based on 40% of adjusted headline earnings.

Prospects

We expect consumer spend to remain muted until the future direction of South Africa's economy becomes clearer. Nevertheless, Dis-Chem operates within a particularly resilient market that is well protected from foreign entrants.

Thank you

The Board and I appreciate the consistent support and encouragement of our shareholders, who understand that Dis-Chem is on a journey to create value for all, year after year.

Dis-Chem's journey is assured by the expert stewardship of CEO, Ivan Saltzman, the executive team and management, who have worked ceaselessly to maintain sustainable growth as a newly listed company under exceptionally tough circumstances.

Dis-Chem is home to exceptional people, who contribute at every level to fulfil the high expectations of our customers. That is how the Dis-Chem promise to all stakeholders is delivered.

Last and by no means least, my sincere thanks to a relatively new Board for quickly merging into an effective team. I am confident that Dis-Chem has the right combination of oversight and leadership to continue unlocking value for all who depend on us.

Thanks

Larry Nestadt
Independent non-executive Chairman

The Food Garden feeds over

10 000

people a month

Donated over

6.5 million

sanitary towels through the

Million Comforts

campaign

03

CORPORATE GOVERNANCE

Governance report

At Dis-Chem we believe that the integration of good corporate governance enables us to continuously improve the way we manage our business and how we communicate information. This ensures that we have a sustainable business incorporating discipline, independence, responsibility, fairness, transparency and accountability to stakeholders.

DIS-CHEM'S GOVERNING BODY LEADS ETHICALLY AND EFFECTIVELY.

The Board of Directors is committed to high standards of corporate governance and it endorses the four governance outcomes set out in King IV, namely an ethical culture, good performance, effective control and legitimacy. The Board is of the opinion that the Group currently complies with the majority of the governance principles in King IV and that the Group complies with all requirements of the JSE Listings Requirements.

Good corporate governance is implicit in our values, culture and processes. Our internal controls promote an awareness of risk, compliance and good governance in every area of the business. Our governance process will be reviewed regularly to align with legislative and regulatory changes and to reflect best practice.

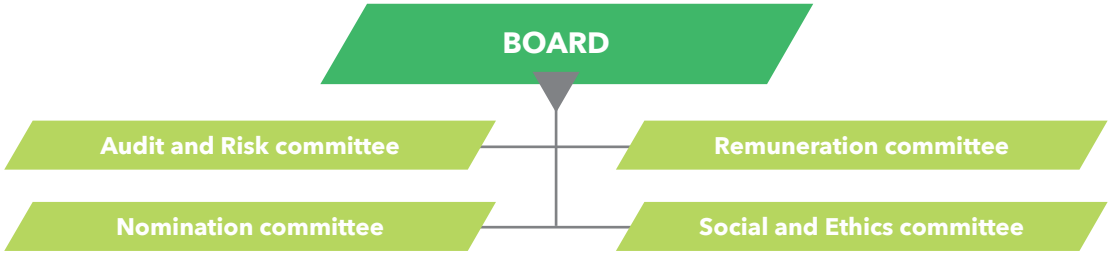
With an increasing regulatory environment, the Group aims to maintain the balance between corporate governance expectations and the expectation to deliver increasing financial returns.

This report sets out the key governance principles adopted by the directors in governing the company.

Governance framework

Our governance framework is structured in such a way to achieve our strategic objectives within compliance requirements and by balancing the interests of our stakeholders, minimising and avoiding conflicts of interest, and practising good corporate behaviour.

The Board is ultimately responsible for the Group's governance structure and is supported by its four sub-committees, as depicted in the framework below.



The Dis-Chem Board

The Board of Dis-Chem has a unitary structure and consists of eight directors, of which five are independent non-executives. Non-executive directors will be re-elected every three years. The Board was elected in October 2016 prior to listing on the JSE.

THE BOARD APPRECIATES THAT DIS-CHEM'S CORE PURPOSE, ITS RISKS AND OPPORTUNITIES, STRATEGY, BUSINESS MODEL, PERFORMANCE AND SUSTAINABLE DEVELOPMENT ARE ALL INSEPARABLE ELEMENTS OF THE VALUE CREATION PROCESS.

The Board is committed to gender diversity and director appointment policies require director appointments to appropriately address gender representation as per the change to the JSE Listings Requirements. Currently 25% of the Board is female and the Board will proactively monitor the company's performance in gender representation which will include an annual review of the objectives set by the Board and its progress in achieving them.

The non-executive directors are required to dedicate sufficient time to the concerns of the Board. They are permitted to serve on other Boards provided that their other duties do not inhibit their commitment to the Dis-Chem Board to add value.

The Board is responsible for the Group's performance, its overall strategic direction, values and governance. It provides the leadership required for the Group to meet its business objectives within the framework of its internal controls.

THE BOARD SERVES AS THE FOCAL POINT AND CUSTODIAN OF CORPORATE GOVERNANCE IN DIS-CHEM.

Our Board of Directors are shown on page 22

Responsibilities of the board

- Providing effective leadership based on an ethical foundation
- Ensuring the sustainability of the business
- Approving strategic plans
- Monitoring operational performance and management
- Ensuring effective risk management and internal controls
- Legislative, regulatory and governance compliance
- Approval of significant accounting policies and annual financial statements
- Selection, orientation and evaluation of directors
- Appropriate remuneration policies and practices
- Monitoring transformation and empowerment
- Balanced and transparent reporting to shareholders
- Oversight of the Group's strategic direction
- Approving major capital projects, acquisitions or divestments
- Exercising objective judgement on the Group's business affairs independent from management
- Ensuring that appropriate governance structures, policies and procedures are in place
- Ensuring the effectiveness of the Group's internal controls
- Reviewing and evaluating the Group's risks
- Approving the annual budget and operating plan
- Approving the annual and interim financial results and shareholder communications
- Approving the senior management structure, responsibilities and succession plans
- Technology governance

Responsibilities of the board continued

The role and duties of the non-executive Chairman are separated from those of the CEO and are clearly defined. The CEO, CFO, and Managing Director are the most senior decision-making executives in the Group. With the help of relevant sub-committees they deliberate, take decisions or make recommendations on all matters of strategy and operations. The decisions are referred to the Board or its relevant committee for final approval when required, while in other cases the power to take decisions is delegated to the CEO, CFO and Managing Director.

The primary function of the Board is to steer and set the company's strategic direction and to exercise prudent control over the company and its affairs. The Board informs and approves strategy, as opposed to being a passive recipient of strategy as proposed by management.

THE BOARD ENSURES THAT THE APPOINTMENT OF, AND DELEGATION TO, MANAGEMENT CONTRIBUTE TO ROLE CLARITY AND THE EFFECTIVE EXERCISE OF AUTHORITY AND RESPONSIBILITIES.

Skills

The Board possesses extensive business experience and specialist skills across a range of sectors including accounting, finance, retail and healthcare. This diversity enables them to provide balanced and independent advice and judgement in the decision-making process.

The Group has a controlling shareholder with direct shareholder representation on the Board.

THE BOARD COMPRISES THE APPROPRIATE BALANCE OF KNOWLEDGE, SKILLS, EXPERIENCE, DIVERSITY AND INDEPENDENCE FOR IT TO DISCHARGE ITS GOVERNANCE ROLE AND RESPONSIBILITIES OBJECTIVELY AND EFFECTIVELY.

The Board is expected to meet at least four times a year. For any specific business issues that may come about between scheduled meetings, additional meetings can be assembled to consider these issues.

Director appointment

Our Board-approved director appointment policy ensures a balance of power and authority within the Board composition. Directors have no fixed term of appointment and will retire by rotation every three years. If available, they are considered for re-appointment at the Annual General Meeting. The appointment of new directors is subject to confirmation by shareholders at the first Annual General Meeting after their appointment.

Directors are entitled to seek independent professional advice at the company's expense after consultation with the Chairman of the Board. No directors exercised this right during the year.

Access to information and professional advice

The directors have unrestricted access to all Group information, records, documents and property. Information is distributed in a timely manner prior to Board meetings, to enable directors to adequately prepare and apply their minds.

Conflict of interest

Directors are required to declare any personal financial interests that pose a conflict of interest through a formal disclosure process. This process will take place on a periodic basis. Where a conflict of interest may exist, directors are required to excuse themselves from the meeting. The directors' share dealing policy also requires a declaration of interest.

THE BOARD ENSURES THAT ITS ARRANGEMENTS FOR DELEGATION WITHIN ITS OWN STRUCTURES PROMOTE INDEPENDENT JUDGEMENT AND ASSIST WITH BALANCE OF POWER AND THE EFFECTIVE DISCHARGE OF ITS DUTIES.

Board and governance committee meetings and attendance

The following meetings (and attendance) were held from 1 March 2017 until 28 February 2018:

Director	Board	Audit and risk	Nomination	Remuneration	Social and ethics
IL Saltzman	4/4	–	–	–	2/2
LF Saltzman	4/4	–	–	–	2/2
RM Morais	4/4	–	–	–	–
LM Nestadt	4/4	–	1/1	1/1	–
JS Mthimunye	4/4	3/3	1/1	1/1	–
MJ Bowman	4/4	2/3	1/1	1/1	–
A Coovadiya	4/4	3/3	–	–	2/2
MSI Gani	4/4	3/3	1/1	1/1	–
Other attendees	–	–	–	–	–

Governance and operating committees

Nomination committee

Current members: LM Nestadt (Chairman), JS Mthimunye, MJ Bowman and MSI Gani

The role of the committee is to assist the Board by:

- making recommendations regarding the appointment of new executive, non-executive and independent directors for its consideration and final approval
- nominating successors to key positions in the Group as part of ensuring that a formal management succession plan is in place
- ensuring that the Board has the appropriate composition for it to execute its duties effectively and to comply with the Code, the Act, the Listings Requirements and other applicable legislation
- ensuring that directors are appointed through a formal and transparent process
- determining whether the services of any director should be terminated
- ensuring that induction and ongoing training and development of directors take place
- carrying out such other functions as the Board may request from time-to-time.

Remuneration committee

Current members: LM Nestadt (Chairman), JS Mthimunye, MJ Bowman and MSI Gani

The role of the committee is to assist the Board to ensure that:

- the Group remunerates directors and senior management fairly and responsibly for their individual contributions and performance
- the disclosure of director and remuneration is accurate, complete and transparent
- the company has a remuneration policy and philosophy that is aligned with its long-term business strategy, its business objectives, its risk appetite and values
- within the terms of the agreed policy, the total individual remuneration package (including bonuses, incentive payments, retention payments, share awards and any other benefits), of the Chief Executive Officer and, in consultation with the Chief Executive Officer, the other members of the Group executive committee and any other executive whose total remuneration is comparable to, or higher than, that of Group executive committee members is determined

Governance and operating committees continued

- contractual terms on termination of the Chief Executive Officer's appointment and other Group executive committee members and any payments made, are fair to the individual and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised
- in determining such packages and arrangements, and in carrying out its duties under these terms of reference, give due regard to any relevant legal requirements, the provisions and recommendations in King IV and the JSE Listings Requirements and the remuneration policy and philosophy is appropriately applied throughout the Group.

THE BOARD ENSURES THAT DIS-CHEM REMUNERATES FAIRLY, RESPONSIBLY AND TRANSPARENTLY SO AS TO PROMOTE THE ACHIEVEMENT OF STRATEGIC OBJECTIVES AND POSITIVE OUTCOMES IN THE SHORT-, MEDIUM- AND LONG-TERM.

Audit and risk committee

Current members: JS Mthimunye (Chairman), A Coovadiya, MSI Gani and MJ Bowman

The role of the committee is to:

- assist the Board in discharging its duties relating to the safeguarding of assets and evaluation of internal control frameworks and to ensure that financial risks are managed
- evaluate and assess the adequacy and effectiveness of the established accounting, financial, compliance and other internal control systems, which are consistent with the nature and complexity of risks inherent in the on and off balance sheet activities of the company
- consider the internal and external audit process and the accounting principles and policies of the company
- ensure the independence and effectiveness of the internal and external audit and compliance functions of the company
- ensure effective communication between internal audit, external audit, the Board, management, regulators and shareholders
- ensure compliance with all applicable legal, regulatory and accounting standards in the preparation of fairly presented financial statements and other required reports in respect of the company
- contribute to a climate of discipline and control
- ensure the integrity of information in the Integrated Report of the company's activities
- evaluate and assist the Board with respect to the governance of risk.

Refer to Audit and risk committee Report in the audited financial statements.

THE BOARD GOVERNS RISK IN A WAY THAT SUPPORTS DIS-CHEM IN SETTING AND ACHIEVING STRATEGIC OBJECTIVES.

Social and ethics committee

Current members: A Coovadiya (Chairman), LF Saltzman, IL Saltzman and RM Morais

The role of the committee is to assist the Board with the oversight of sustainability, social and ethic matters – corporate social responsibility (CSR) – relating to the company.

Refer to Social and Ethics Committee Report on page 42.

THE BOARD ENSURES THAT DIS-CHEM IS AND IS SEEN TO BE A RESPONSIBLE CORPORATE CITIZEN.

Compliance

The Group actively works to comply with relevant laws, regulations and company policies in all territories where it operates.

Governance principles

We are committed to and fully endorse the principle of good corporate governance as recommended by King IV and the JSE Listings Requirements.

We aim to maintain a high standard of reporting and disclosure, keeping in mind the best interests of our stakeholders. The Board is satisfied that the Group has complied with the substance of the King IV principles.

THE BOARD ENSURES THAT REPORTS ISSUED BY DIS-CHEM ENABLE STAKEHOLDERS TO MAKE INFORMED ASSESSMENTS OF THE GROUP'S PERFORMANCE, AND ITS SHORT-, MEDIUM- AND LONG-TERM PROSPECTS.

Reporting frameworks

Reporting frameworks were in line with the requirements of the International Integrated Reporting Framework and the Companies Act of South Africa.

Regulatory compliance

All business units, departments and subsidiaries are required to comply with all applicable legislation and regulations. Compliance risk is monitored by the Audit and Risk Committee and through the compliance framework, which includes compliance reviews.

Legal and regulatory environment

Legal and regulatory compliance is a core part of our corporate governance given the vast regulatory environment in which we operate and the need to follow various legal and licence requirements. Although the outcomes of legal proceedings, claims and actions instituted against the Group cannot be predicted, the Group is suitably resourced to manage this process.

The Group has key management insurance policies that insure against liabilities they may incur in carrying out their duties.

THE BOARD GOVERNS COMPLIANCE WITH APPLICABLE LAWS AND ADOPTED, NON-BINDING RULES, CODES AND STANDARDS IN A WAY THAT SUPPORTS DIS-CHEM BEING ETHICAL AND A GOOD CORPORATE CITIZEN.

The Board is of the opinion that there is no current or pending legal action that will materially affect the operations of the Group.

Company Secretary

All directors have access to the advice and services of the Company Secretary, Mr W Green, who acts as a channel between the Dis-Chem Board and the Group. He is not a director of the Group. The Company Secretary is responsible for the flow of information to the Board and its committees and for ensuring compliance with the Board procedures.

In line with the JSE Listings Requirements, the qualifications and experience of the Company Secretary were formally evaluated by the Nomination Committee and subsequently approved by the Board. The committee specifically evaluated the objective nature of the role of the Company Secretary, confirming that he has no affiliation or association to any single Board member, holds no directorship and provides independent advice to the Board as a whole. The evaluation found that the Company Secretary is suitably qualified, experienced and fit and proper to perform the function of Company Secretary and that an arm's length relationship with the Board is maintained. The appointment and removal of the Company Secretary is a matter for the Board and not the executive management team.

The Company Secretary co-ordinates the induction programme for newly appointed directors as well as the annual Board evaluation process.

THE BOARD ENSURES THAT THE EVALUATION OF ITS OWN PERFORMANCE AND THAT OF ITS COMMITTEES, ITS CHAIR AND ITS INDIVIDUAL MEMBERS, SUPPORTS CONTINUED IMPROVEMENT IN ITS PERFORMANCE AND EFFECTIVENESS.

Share dealings

The directors' dealing policy governs directors' dealings in Dis-Chem shares. All directors and the Company Secretary must receive written approval from the Chairman prior to buying or selling Dis-Chem shares. The Chairman is required to obtain approval from the Chairman of the Audit and Risk Committee before undertaking any share dealings.

It is mandatory for directors to notify the Company Secretary of any dealings in the company's shares. This information is then disclosed on SENS within 24 hours of receipt of such information.

The Group operated a closed period policy in line with the JSE Listings Requirements. During closed period, directors are prohibited from dealing in Dis-Chem shares. Parties who may have access to confidential or price-sensitive information are cautioned against the possibility of insider trading during these periods.

Embargoes can also be placed on share dealings at any other time if directors or executives have access to price sensitive information which is not in the public domain.

Governance and operating committees continued

Stakeholder relationships

The Group's relevance to the market depends on meaningful engagement with all stakeholders to ensure and maintain a good relationship. This in turn assists the Group to understand the expectations of shareholders and minimise reputational risk. Financial and non-financial information is disseminated timeously and accurately to all stakeholders.

IN THE EXECUTION OF ITS GOVERNANCE ROLE AND RESPONSIBILITIES, THE BOARD ADOPTS A STAKEHOLDER-INCLUSIVE APPROACH THAT BALANCES THE NEEDS, INTERESTS AND EXPECTATIONS OF MATERIAL STAKEHOLDERS IN THE BEST INTERESTS OF DIS-CHEM OVER TIME.

Investor relations

The Group ensures effective dialogue with all shareholders, where practicable. Communications around Group strategies and financial performance in a timely, relevant and balanced manner is key to ensuring transparency, objectiveness, and honesty. Regular communication assists the Group to improve shareholder relationships.

Shareholders, potential shareholders, analysts and other relevant parties are invited to presentations by the Group after the announcement of their interim and final results. These presentations are published on the Dis-Chem Group website. Care is exercised to ensure that all price sensitive information is released to all shareholders and relevant parties at the same time in accordance with the JSE Listings Requirements. Shareholders are also encouraged to attend the Annual General Meeting (AGM) which provides an opportunity for shareholders to raise pertinent questions and to interact with directors.

Sustainability

The Board considers not only financial performance, but also the impact of the company's operations on society and the environment.

Dis-Chem's direct impact on the environment is limited and we focus on implementing mechanisms to effectively manage the Group's utilities where applicable. This includes minimising our carbon footprint, energy and water efficiency considerations, and recycling and control of water waste.

Accountability and control

The annual financial statements are based on appropriate accounting policies and the external auditors independently examine the annual financial statements in accordance with International Standards of Auditing. The Board is satisfied that the Group annual financial statements for the 2018 financial year fairly represents the Group's operational results and financial position.

Going concern

The Group's financial statements have been prepared on a going-concern basis. The directors have reviewed the Group's budget and cash flow forecasts, and are satisfied that the Group is in a sound financial position with access to sufficient borrowing facilities to meet its foreseeable cash requirements.

Internal control and internal audit

The Dis-Chem Board is responsible for ensuring that an appropriate system of internal controls is maintained to provide reasonable assurance that:

- Dis-Chem's assets are appropriately safeguarded and managed
- losses arising from fraud and/or other illegal acts are minimised
- accounting records, financial statements and operating information are accurate, complete and fairly presented.

THE BOARD ENSURES THAT ASSURANCE SERVICES AND FUNCTIONS ENABLE AN EFFECTIVE CONTROL ENVIRONMENT, AND THAT THESE SUPPORT THE INTEGRITY OF INFORMATION FOR INTERNAL DECISION-MAKING AND OF DIS-CHEM'S EXTERNAL REPORTS.

PwC was appointed as the Group's internal auditors in March 2017, and will fulfil an assurance and consulting function, and is mandated to provide independent and objective assurance on Dis-Chem's system of internal controls. They will employ a systematic and disciplined approach when evaluating the effectiveness of risk

management, control and governance processes. In addition to highlighting process improvements, Group Internal Audit's activities will provide assurance to Dis-Chem's stakeholders that the organisation operates in a responsible manner.

Group Internal Audit reports to the Audit and risk committee and assists this committee in effectively discharging the responsibilities delegated to it by the Dis-Chem Board. This is achieved through independent financial, IT, compliance and operational process reviews.

THE BOARD GOVERNS TECHNOLOGY AND INFORMATION IN A WAY THAT SUPPORTS DIS-CHEM SETTING AND ACHIEVING ITS STRATEGIC OBJECTIVES.

Governance of IT

IT plays a critical role in achieving the Group's objectives and managing its risks. Integrating good governance into the Group's IT requirements ensures that our business practices are sustainable. IT governance is integrated into the Group's operations.

Ethics

THE BOARD GOVERNS DIS-CHEM'S ETHICS IN A WAY THAT SUPPORTS THE ESTABLISHMENT OF AN ETHICAL CULTURE.

Dis-Chem is committed to a policy of fair dealing and integrity in the conduct of their business. This commitment, which is actively endorsed by the Board of Directors, is based on a fundamental belief that business should be conducted honestly, fairly and legally. The directors expect all employees and other representatives to share its commitment to high moral, ethical and legal standards.

Any employee who has questions regarding conduct in specific situations should obtain guidance from his or her manager, a director or the CEO. Dis-Chem has established a Compliance Committee comprising the General and IT Managers, the Manager: Human Capital and an Operations Manager to implement and monitor education and training programmes for employees, to respond to inquiries from any employee regarding appropriate business practices and to investigate any allegation of possible impropriety.

It is the duty of all directors and all managers in the Group to ensure that the Group's ethical standards and policies are made known to all employees for whom they are responsible. Ultimately, however, it is up to each one of the employees to adhere to Dis-Chem's principles of honesty, integrity and fairness, and to perform their duties in accordance with all laws and regulations.

The Social and ethics committee is tasked with monitoring organisational ethics.

Managing unethical behaviour

As a responsible corporate citizen, Dis-Chem takes a zero-tolerance approach to theft, fraud and corruption. The Group evaluates reported incidents of theft, fraud and corruption to determine the appropriate manner in which these incidents should be investigated. All identified cases are reported to the South African Police Services and, where appropriate, to the applicable registered bodies such as the HPCSA. Civil recoveries are pursued by prejudiced business units where financially appropriate.

A number of mechanisms are in place for stakeholders to report irregularities such as alleged theft or fraudulent, corrupt or unethical behaviour, including unethical medical behaviour. These mechanisms are available to all Dis-Chem employees in South Africa and to the public, including suppliers and consumers.

Political party support

Whilst the Group supports the democracy in South Africa, it does not make financial donations to individual political parties.

Remuneration and Implementation report

Remuneration Governance

Remuneration committee

The role of the committee is to assist the Board to ensure that:

- the Group remunerates directors and senior management fairly and responsibly for their individual contributions and performance;
- the disclosure of director and remuneration is accurate, complete and transparent;
- the company has a remuneration policy and philosophy that is aligned with its long-term business strategy, its business objectives, its risk appetite and values;
- within the terms of the agreed policy, the total individual remuneration package (including bonuses, incentive payments, retention payments, share awards and any other benefits), of the Chief Executive Officer and, in consultation with the Chief Executive Officer, the other members of the Group executive committee and any other executive whose total remuneration is comparable to, or higher than, that of Group executive committee members is determined;
- ensure that contractual terms on termination of the Chief Executive Officer's appointment and other Group executive committee members and any payments made, are fair to the individual and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised; and
- in determining such packages and arrangements, and in carrying out its duties under these terms of reference, give due regard to any relevant legal requirements, the provisions and recommendations in King IV and the JSE Listings Requirements and the remuneration policy and philosophy is appropriately applied throughout the Group.

Non-binding advisory vote

At the July 2017 AGM, the Remuneration policy was put to a separate non-binding advisory vote. We received a 95.78% vote in favour of the policy at the AGM.

In line with the principles set out in King IV, Dis-Chem will table its remuneration and implementation report for two separate non-binding advisory votes at its 2018 AGM. If 25% or more of the shareholders vote against either resolution at the AGM, the Board will invite dissenting shareholders to engage with the Chairman of the Remuneration committee on their concerns. Reasonable concerns and differences will be addressed in the most appropriate manner which may include amendments to the remuneration and implementation report.

Directors' remuneration summary

R'000	2018	2017
Non-executive directors	3 919	951
Executive directors	42 356	43 514
Total	**46 275**	44 465

Remuneration policy

The Group's remuneration policy and philosophy has been designed to ensure that all employees across the Group are rewarded appropriately for their contribution to the overall Group strategy. The Group's philosophy is to attract, motivate and retain the best people to ensure a workforce that is highly capable and motivated.

Remuneration is made up of the following financial elements:

- Guaranteed package
- Short-term incentives
- Long-term incentives (started in 2019 financial year)

Remuneration is made up of the following non-financial elements:

- Leave
- Learning and development
- Diversity and inclusiveness

	Guaranteed package	Short-term incentive (STI)	Long-term incentive	Long-term incentive
	Base and benefits	Bonus	Share appreciation rights (SAR)	Forfeitable Share Plan (FSP)
Design	Attract, motivate and retain the best people to ensure a workforce that is highly capable and motivated	Incentivise and reward employees for the achievement of company and personal short-term performance objectives	Align the long-term interest of employees and shareholders, such that employees are	Encouraged to consider the long-term future of the business. Retain high-performing employees
Nature	Market-related level of remuneration per specific role and includes salary and benefits Benefits include: retirement contribution (based on number of years of service); car or travel allowance; medical aid; staff discounts	13th cheque and/or bonus	Participants share in the growth in the share price between grant price and exercise price, and receive shares to the value of that appreciation	Participants have all shareholders rights (including dividends) from date of award Comprises bonus shares and restricted shares
Basis for determination/ performance conditions	Determined based on role, market value, length of service, company performance and employee's personal performance. Salaries are also compared to external benchmarks Annual assessment is performed and increased are awarded in March each year	All employees receive a 13th cheque All employees from a manager level receive an additional bonus Dispensary/store manager: KPA(4) x TGP in May x number of cheques(5) Head office/ warehouse manager: TGP(1) x Bonus pool %(2) x Manager Tier %(3) Note: individual performance criteria must be met in order to receive a bonus	Annual award to tier 2 managers and upwards. Other permanent employees can benefit at the discretion of the Remuneration Committee CEO: 30% of TGP(1) MD: 25% of TGP CFO: 25% of TGP Exco: 22.5% of TGP T3 managers: 30% of TGP T2 managers: 18% of TGP HEPS threshold of CPI + 1% growth must be reached (performance criteria) and individual performance conditions met (employment condition) before any issue made Three-year vesting period Exercisable for three years after vesting, after which award will lapse	Annual awards of bonus shares are awarded to regional managers and restricted shares to selected pharmacists Bonus shares: 40% to 100% of the bonus earned under STI Restricted shares: 15% of TGP Three year vesting period Exercisable on vesting date

Remuneration policy continued

	Guaranteed package	Short-term incentive (STI)	Long-term incentive	Long-term incentive
	Base and benefits	Bonus	Share appreciation rights (SAR)	Forfeitable Share Plan (FSP)
Method of payment	Monthly payment after deducting contributions to retirement funding and medical scheme	13th cheque is paid in December and annual bonus in June	Shares will be issued from vesting date until they lapse	Shares will be issued on vesting date
Limit	n/a	n/a	Maximum number of shares that can be allocated to one employee is 1% of issued share capital	Maximum number of shares that can be allocated to schemes is 5% of issued share capital

(1) TGP – total guaranteed package

(2) The bonus pool % is the total bonuses earned as a percentage of the total annual packages of all of the regional and store managers. The regional and store managers earnings are structured in a manner which ensures profitability growth and therefore bonus affordability

(3) Three management tiers have been created; each tier is linked to a range of percentages. The placement of employees into the tiers is primarily based on the following two criteria:

– The level of responsibility linked to the employees role

– The ability that the employees have in their current role, to influence the profitability of the Group, through strategic decision making

(4) KPA's, these are based on the following rankings:

– If the employees achieve their net profit budget,their KPA will be set at 3/3, i.e. 100%

– If the employee doesn't achieve their net profit but they achieve their Turnover budget, their KPA will be set at 2/3, i.e. 66.67%

(5) Number of cheques is based on years of achievable targets capped at four years

After the financial year-end, on 1 June 2018, an offer of 276 269 shares on the Forfeitable Share Plan and 2 223 574 options on the Share Appreciation Rights Plan was made to employees. These offers need to be accepted by the employees by 30 June 2018.

Implementation report

Annual salary increase

The average annual performance-linked increase for employees, effective from 1 March 2017, was 8%. This increase was higher than the average increase of the executive directors (being 6%) due to an external benchmarking study performed on a comparative group of JSE listed companies.

Executive directors' remuneration

The Remuneration and Nomination committee has responsibility for the determination of specific remuneration packages for each of the executive directors and the Chairman. The Remuneration committee also considers the bonuses, which are discretionary and based upon general economic variables, the performance of the company and the individual's performance and certain other employee benefits and schemes. No remuneration of any nature shall be paid, increased or varied to any director without the prior approval of the remuneration function of the Remuneration and Nomination committee.

In terms of their respective service agreements, each executive director is entitled to a gross annual remuneration package payable to him which is allocated towards (i) a base salary, (ii) pension fund contributions by the company (iii) travel allowances and (iv) other benefits. In addition they are entitled to consideration for annual incentive bonus payments based on the fulfilment of certain targets set by the Board.

In the current financial year, the directors were awarded a bonus for the first time based on their total guaranteed package multiplied by an on-target %. The on-target % was based on an external benchmark performed of 30% for the CEO, 25% for the managing director and 25% for the CFO.

The service contracts of executive directors contain a three month notice period for termination of employment (exclusive of termination for any reasons justifying summary dismissal in law) and all of the executive directors are subject to restraints of trade.

Non-executive directors' fees

The non-executive directors have no fixed term of appointment except as rotation of directors is required by the company's Memorandum of Incorporation. Regarding their service agreements, non-executive directors who wish to resign from the Board are required to give three months written notice to that effect. Each non-executive director is entitled to a fixed annual fee for their service to the company.

The following tables provide an overview of the non-executive directors and the executive directors' emoluments:

R'000	Services as director	Salary and allowances	Bonuses[1]	Retirement and related benefits	Other benefits	**Total**
2018						
Non-executive directors						
LM Nestadt	2 628	–	–	–	–	**2 628**
MJ Bowman	335	–	–	–	–	**335**
A Coovadia	290	–	–	–	–	**290**
JS Mthimunye	316	–	–	–	–	**316**
MSI Gani	350	–	–	–	–	**350**
Executive directors						
IL Saltzman	–	12 388	3 744	72	226	**16 430**
LF Saltzman	–	10 155	2 550	72	91	**12 868**
RM Morais	–	5 029	1 290	72	251	**6 642**
SE Saltzman (alternate)	–	4 827	1 161	72	356	**6 416**

Actual remuneration during the year continued

R'000	Services as director	Salary and allowances	Bonuses[1]	Retirement and related benefits	Other benefits	**Total**
2017						
Non-executive directors						
LM Nestadt #	625	–	–	–	–	**625**
MJ Bowman #	119	–	–	–	–	**119**
A Coovadia #	72	–	–	–	–	**72**
JS Mthimunye #	135	–	–	–	–	**135**
MSI Gani ^	–	–	–	–	–	**–**
Executive directors						
IL Saltzman	–	11 752	–	72	120	**11 944**
LF Saltzman	–	9 691	–	72	–	**9 763**
RM Morais	–	4 995	–	72	37	**5 104**
SE Saltzman (alternate)	–	4 800	–	72	146	**5 018**
NM Hegarty *	–	2 849	–	42	15	**2 906**
SRN Goetsch *	–	2 853	–	42	15	**2 910**
BI Epstein *	–	2 809	–	42	109	**2 960**
KS Sterling *	–	2 853	–	42	14	**2 909**
LLS van der Walt *	–	–	–	–	–	**–**

** Resigned 13 October 2016*

 # Appointed 13 October 2016

^ Appointed 3 May 2017

[1] Bonuses relates to amount physically paid in the current period

The proposed fees for the 2019 financial year, subject to approval by shareholders at the AGM, are as follows:

	Proposed fee for 2019				
Board position	Fee per meeting R	Number of anticipated meetings	Total fee for meetings R	Base fee R	**Total fee R**
Chair: Board [1]				2 830 200	**2 830 200**
Non-executive director	65 661	4	262 644	–	**262 644**
Chair: Audit Committee	69 057	4	276 228	–	**276 228**
Chair: Remuneration and nomination committee	44 319	3	132 957	–	**132 957**
Member: Remuneration and nomination committee	23 774	3	71 322	–	**71 322**
Chair: Social and ethic committee	21 510	3	64 530	–	**64 530**
Member: Social and ethics committee	11 830	3	35 490	–	**35 490**
Chair: Special committees	6 890 per hour				
Member: Special committees	6 360 per hour				

[1] Annual fee

Direct and indirect shares held by the directors

The following table provides an overview of the direct and indirect shares held by the directors:

	2018		2017	
	Direct interest	**Indirect interest**	Direct interest	Indirect interest
LM Nestadt	-	1 500 000	-	2 702 703
MJ Bowman	81 081	-	81 081	-
A Coovadia	-	162 162	-	162 162
JS Mthimunye	-	81 162	-	162 162
MSI Gani	-	-	-	-
IL Saltzman and LF Saltzman	-	453 041 396	-	457 041 396
RM Morais	-	6 672 192	-	6 672 192
SE Saltzman (alternate)	-	6 672 192	-	6 672 192

During the current year, LM Nestadt sold 409 890 shares for R34.05 and 792 813 shares for R33.74; JS Mthimunye sold 81 000 shares for R34.00. IL Saltzman and LF Saltzman sold 4 million shares for R35.00 per share.

In the prior year, on listing, LM Nestadt, MJ Bowman, A Coovadia and JS Mthimunye acquired their shares. IL Saltzman and LF Saltzman sold 87 million shares while RM Morais and SE Saltzman each sold 1.3 million shares on listing. There were no changes to the directors' interests between the end of the 2017 financial year and the date of the approval of the annual financial statements in the prior year.

Since the end of the 2018 financial year and the date of approval of the annual financial statements the following changes have occurred in the directors' interest: SE Saltzman bought 62 589 shares for R1 977 402.75 on 7 May 2018. RM Morais bought 1 818 182 shares for R49 109 095.82 on 15 June 2018. IL Saltzman, LF Saltzman, SE Saltzman and RM Morais were offered 383 579, 260 016, 119 155 and 134 853 options respectively under the Share Appreciation Rights share scheme on 1 June 2018. These offers need to be accepted by 30 June 2018.

Social and ethics committee report

A Social and ethics committee was established by the Dis-Chem Group in terms of section 72 of the Companies Act 2008. The Social and ethics committee operates under a mandate from the Board and in accordance with its terms of reference.

The Social and ethics committee is a formal sub-committee of the Board.

The Social and ethics committee monitors the activities of Dis-Chem and its subsidiary companies with regard to any legislation, other legal requirements or prevailing codes of best practice as prescribed by law.

The Social and ethics committee will focus on ensuring sustainable social responsibility, ethics, health, safety and transformation initiatives with specific emphasis on transformation regarding ownership, procurement, Employment Equity and skills development.

Composition

The Social and ethics committee comprises the following:

A Coovadia	Chairperson – Independent non-executive director
MSI Gani	Independent non-executive director
LF Saltzman	Managing Director

Meetings

The Social and ethics committee meets at least twice a year unless additional meetings are required. Two meetings were held during the period under review.

Reporting

The Social and ethics committee Chairperson reports formally to the Board on the proceedings after each meeting. The Chairperson will attend the Annual General Meeting to report and respond to any questions from stakeholders regarding the Social and ethics committee.

Responsibilities

The mandate of the Social and ethics committee is to assist the Board in the monitoring of Group activities regarding any relevant legislation, other legal requirements or prevailing codes of best practice in the following matters:

- social and economic development relating to the 10 principles set out in the United Global Compact Principles, the Organisation of Economics, Co-operation and Development (OECD) recommendations regarding corruption, the Employment Equity Act and the Broad Based Black Economic Empowerment Act
- good corporate citizenship in terms of the promotion of equality, prevention of unfair discrimination, reduction of corruption, contribution to development of the communities in which the Group's activities are predominately conducted, sponsorship and charitable donations
- the environment, health and public safety, and the impact of the Group's activities and its products or services
- consumer relationships, including the Group's advertising, public relations and compliance with consumer protection laws
- labour and employment with regard to the Group's standing in terms of the International Labour Organisation Protocol on decent work and working conditions, the Group's employment relationships and its contributions towards the educational development of its employees, drawing matters within its mandate to the attention of the Board and reporting to shareholders at the Annual General Meeting on the matters within its mandate.

Anuschka Coovadia
Independent non-executive Chairman

Dis-Chem's social responsibility philosophy

Corporate social responsibility (CSR) is a vital component of Dis-Chem's corporate ethos. The Dis-Chem Foundation Fund (the Foundation) was established in 2006 by company founders Ivan and Lynette Saltzman. At the core of the Foundation is our heartfelt desire to serve the communities in which Dis-Chem operates. Our belief extends further than simply achieving good corporate citizenry to genuinely impacting communities in a meaningful and enduring way through Foundation initiated projects.

THE DIS-CHEM FOUNDATION AIMS TO PROVIDE CARE AND SUPPORT TO IMPROVE THE LIVES OF INDIVIDUALS WHILE RELIEVING THE BURDEN ON COMMUNITIES, FAMILIES AND FRIENDS

Newly appointed Foundation heads, Shereen Saltzman and Melanie Saltzman, oversee the Foundation and are passionate about continuing the valuable work alongside a team of qualified Dis-Chem social workers and care-givers.

Over the last 13 years, the Dis-Chem Foundation has lent a helping hand to over 1 500 charities and organisations and served more than 2.3 million South Africans in need of assistance. We provide support in the areas of health, nutrition and education to babies, children, the elderly, abused and the homeless.

The Dis-Chem Foundation has won the PMR Diamond Arrow award (highest award presented) each year since 2011 in the Corporate Social Responsibility category.

Funding

The Foundation is funded through the Dis-Chem Pharmacies Benefits programme, in which a percentage of turnover, rather than profits, is donated to the Foundation.

Identifying beneficiaries

Dis-Chem places community needs at the forefront of its beneficiary selection. While we are inundated on a monthly basis with requests from individuals and charities alike, we select credible beneficiaries who are formally registered with an 18A certificate. Requests for funding are considered on the organisation's community merits within the ambit of the Foundation's CSR budget. Each request is evaluated for challenges, opportunities and its problem solving potential to the beneficiaries.

2018 Dis-Chem Foundation highlights

Dis-Chem Food Garden

The Dis-Chem Food Garden was started in August 2013 when a heightened need for food within local communities was identified. Utilising space adjacent to the Group's Head Office, the area was astutely reconditioned into a Food Garden. Almost five years later, this Food Garden is now a thriving farm, feeding over 10 000 people a month. Fresh produce is delivered to various NGOs across Gauteng weekly, including the African Children's Feeding Scheme, Feed SA, Victory Outreach, and Ladies of Hope.

This project reaches beyond food provision. Education and training have become an essential part of this dynamic. The garden team includes 18 community members who have been upskilled over the years to become fully self-sustainable farmers and have received full-time employment. The garden hosts educational school visits, agricultural sector interns, drug rehab patients, and mentally and physically challenged individuals who come to learn and heal from this environmentally friendly haven.

The Dis-Chem Food Garden won the prestigious awards from the Department of Agriculture, and grows from strength to strength as one of our proudest CSR achievements.

Million Comforts

The #MillionComforts campaign works in collaboration with Caring4Girls to distribute sanitary towels to teenage girls between the ages of 12 and 18. This initiative aims to keep young women living in poverty-stricken urban and rural areas in school during their menstrual periods. With an initial target of 1 million sanitary towels, the response received was enormous and last year alone, over 6.5 million sanitary towels have been donated. The major feminine hygiene product suppliers, Always, Kotex, Lil-lets and Stayfree, have once again committed to matching in-store purchases donated of their products.

Public Private Partnership

Dis-Chem Foundation sponsors two mobile wellness buses working together with the Department of Health in the Western Cape. It serves the community in the Winelands area as well as the metro area in the Western Cape.

The Foundation sponsors two nursing practitioners to assist and support government clinics in the Paarl area and Graafwater.

Foundation projects

Dis-Chem attempts to invest in underprivileged communities in which we have a presence. These initiatives range from disability sponsorships, investing in schools, caring for the aged, abandoned or homeless, and other deserving causes.

Foundation project highlights during the reporting period include:

Water donations to Cape Town beneficiaries – The Dis-Chem Foundation together with customer donations donated over 300 000 litres of clean, bottled water to several of our extremely vulnerable beneficiary organisations affected by the Western Cape water crisis.

Smile Week – Once again, the Dis-Chem Foundation sponsored the Charlotte Maxeke Johannesburg Academic Hospital Smile Week, where 17 children received reconstructive/cleft palate surgery.

"Random Acts of Kindness" – The Dis-Chem Foundation's long-standing partnership with Primedia to provide an on air platform for our beneficiaries to create awareness on the difficulties and challenges they experience. Radio stations involved are 94.7, 702 Talk Radio, Cape Talk, KFM and East Coast Radio.

Foundation beneficiaries

Some of our Dis-Chem Foundation beneficiaries include:

- African Children's Feeding Scheme – The organisation feeds 31 000 children daily. Gauteng
- Lonely Road Foundation – Assists child headed households. National
- Wits Hospice – Assists terminally ill patients. Gauteng
- Union of Jewish Woman Soup Kitchen – Feeds the sick at hospital clinics. Gauteng
- Little Eden – Takes care of mentally and physically disabled children. Gauteng
- Afrika Tikkun – Improves the lives of many, from education to health. National
- Cotlands – Takes care of orphans and vulnerable children. National
- Topsy Foundation – Assists HIV–affected children, women and men living in rural areas of South Africa.
- Ububele – A centre of learning, with a focus on emotional development for children under seven years. Gauteng
- Lead SA Heroes – Recognising and awarding individuals for their community initiatives. National
- Kwaggaspoort Reddingsdaad – Assistance for Afrikaans community squatter camps. Pretoria

- Fodisong Health Centre – Clinic serving the Cosmo city residents. Gauteng
- The Soup Clinic – Feeding Scheme. Western Cape
- The Robin Hood Foundation – Assists communities in KZN
- Reach for a Dream – Assists terminally ill children. Gauteng
- Friends of Child Protection – Assists vulnerable children. Western Cape
- Cape Town Refugee Centre – Assists Refugees
- Holy Cross Frail Home – Assists the aged. Pretoria
- Rape Crisis Helderberg – Assists abused women and children. Western Cape
- Forest Town School – Assists children with special needs. Gauteng
- Rachel Swart Fund – Assists people living with disabilities. Western Cape
- Chris Hani Baragwaneth Academic Hospital. Soweto
- FEED SA – Assists feeding schemes in Gauteng.
- Pink Drive – Assist patients living with breast cancer. Gauteng
- Super Tutor Programme with KFM – Assists learners with extra classes in Western Cape
- South African Depression and Anxiety Group – Assists individuals with depression – National
- SPCA – Assisting animals in communities. Gauteng
- The Place RSA – Assists teen mothers. Eldorado Park
- Warm The World – Knitting blankets for communities. Gauteng
- Walter Sisulu Environmental Centre – Educating children on the environment. Pretoria
- Wits Medical School Clinic – Students consult homeless in the community. Braamfontein
- Claremont Primary School – A very poor school on the West Rand.
- Soweto Animal Rescue and advisory Centre – Soweto
- Little Feet Home – KZN
- Kaya sands fire fighters
- Pediatric Colorectal Unit Bara
- The Smile Foundation
- Caring4Girls
- The Green Door
- Operation Hydrate
- Highway Hospice
- Thuthuzela Crisis Clinic
- Red Light SA
- Child Line
- Lifeline
- Home of Hope
- Safe House
- Victory Outreach
- Yad Aaron
- Meals on Wheels
- Reiger Park Cancer group
- Skeemsaam
- Lambano Sanctuary
- Kidz Clinic
- Bagdad Squatter Camp
- Abraham Kriel Children's Home
- Wits Hospice
- Claw
- Paballo
- Impilo Children's Home
- Top Dogs
- Woodside Special Care Centre
- Boikanyo
- Dew of Quietness
- Freda Hartley Home

Outlook

The Dis-Chem Foundation is undergoing a strategy shift. Our intention is to carefully explore a smaller beneficiary selection, and thus be able to engage and invest more deeply with chosen organisations over the long term. This will allow us to invest our CSR budget into funding these beneficiaries, assisting with staffing requirements, initiating projects and providing the training and tools to achieve ongoing successes.

Group turnover
▲ **13.3%** to

R19.6 billion

Adjusted HEPS
▲ **13.7%** to

78.7c

Working capital
improved seven days to

36 days

04

FINANCIAL PERFORMANCE

CEO's statement

> We have always been in business for the long-term and remain so

Ivan Leon Saltzman
Chief Executive Officer

Overview – the 28 February 2018 snapshot

I'm personally well satisfied with the results Dis-Chem recorded to close out our first full financial year as a listed company. Reading these in the context of an economy that struggled throughout 2017/18, Dis-Chem largely outperformed the general retail sector and our competitors.

Some commentators had anticipated that Dis-Chem would shoot out the lights with high double-digit earnings growth, yet the reality is that we met our internal targets and rolled out the 21 new stores planned for the year.

Yes, healthcare is a sound investment choice in stagnant economies, but realistically the sector is not wholly recession proof. Like any other commercial sector, healthcare is subject to reduced consumer spend, surprise VAT increases, and the continuing impact of politics on business and consumer confidence.

We have always been in business for the long-term and remain so. When preparing to list, we particularly sought out long-term investors who would appreciate Dis-Chem's inherently sound value proposition. Nevertheless, we respect that analysts and journalists who focus on the immediate results also have a voice, so we have taken note that our investor communications to market must be better timed and probably more frequent.

Operating and regulatory environment

The pharmaceutical sector is tightly regulated with the Department of Health (DoH) annually determining a Single Exit Price (SEP) for regulated drugs to discourage unnecessary usage of high-cost products and make private healthcare affordable for more South Africans.

The 1.26% percentage increase in SEP awarded this year does not compensate for inflationary drivers in the industry such as input costs and employee wages. With operating costs rising by an average of between 6% and 7%, the Group has to manage our own costs tightly to compensate for this abnormally low SEP increase.

The Dis-Chem brand is positioned on offering value, which compels us to remain price competitive. In this environment, we will pursue growth through increasing sales volumes and basket sizes.

Group performance

Dis-Chem reported a 6.6% rise in headline earnings for the year and achieved our primary targets for our retail and wholesale businesses, although certain distribution targets were missed due to licence delays and strike actions in the wholesale space.

Turnover grew 13.3% to R19.6 billion, with the retail business lifting 15% to R18 billion and wholesale and distribution rising 19.6% to R13.1 billion. Earnings before interest, tax, depreciation and amortisation (EBITDA) improved by 6.6%, accompanied by a 6.6% growth in profit after tax. Return on equity came in at 50%.

We expanded market share in all categories where Dis-Chem competes. The dispensary business, which takes in 37% of our overall revenue, lifted market share to 22.7% (2017: 21.4%), while personal care and beauty, which contributes 27% to turnover, raised its market share to 15.8% (2017: 15%). The Group continued gaining in healthcare and nutrition, where we recorded 44.2% against the previous year's 43.1% of market share.

During this period, we also improved our overall working capital position from 43 days to 36 days. The improvement was principally due to a concerted effort by management to extend creditor days, improving these from 61 days at February 2017 to 73 days at February 2018. We intend maintaining our average working capital position between 35 and 40 days going forward.

Dis-Chem declared a final dividend of 12.7c, taking us to a total of 31.5c for our first full year on the JSE.

I attribute our strong retail performance to a maturing store base, good margin management and the additional stores that opened to the public in this time.

Retail's solid performance was countered by the operating losses of R169 million in our wholesale and distribution business. This figure was due to our two-year investment into infrastructure and distribution capacity that did not contribute to revenues, while costing rentals and salaries, because of delayed trading licence approvals in the Western Cape and KwaZulu Natal. On the positive side, Dis-Chem has now funded sufficient warehousing capacity to support at least four years of ongoing store roll-outs.

Our national wholesale infrastructure was expanded by 13 443m^2 and stock control of the wholesale inventory was slightly enhanced. On the retail side, we added 21 stores to end the financial year with 129 outlets. When compared to competitors with considerably larger store numbers, our relative growth on store footprint was higher.

Performance by business unit

Retail pharmacy review

Our retail business comprises Dis-Chem's network of retail pharmacy stores and e-commerce website, wellness clinics and delivery service Dis-Chem Direct.

Turnover in the retail business lifted 15%, with like-for-like turnover in stores increasing by 6.6%. Our retail segment increased operating profit by 19.4%. This strong performance is primarily due to maturing stores, astute margin management and the 21 new stores that commenced trading in this period. All core categories recorded strong volume growth from maturing operations and we continued gaining market share in these categories.

Despite a concern that Dis-Chem's growth could result in prime retail locations becoming difficult to access, 'big box' stores such as Edgars and Game are shedding space due to restructuring and the rise of online shopping. We have secured leases for flagship stores in Sandton, Gateway and Eastgate, with a smaller outlet at Southgate.

The Dis-Chem model is designed for various retail nodes and we actively seek opportunities in large malls and centres in convenient nodes as key components of our overall business model.

Independent pharmacies are under pressure to remain profitable, primarily due to the SEP and insufficient front shop offerings. Dis-Chem provides a welcoming home for those seeking to access our wholesale network or convert into a TLC – or even a Dis-Chem – when the site is right. Numerous independents are in contact and this year we anticipate converting at least four independent stores into TLCs.

Wholesale and distribution review

In this period we were unable to recover the costs for building out our distribution footprint across the country. Consolidating this investment into this year's financials resulted in our wholesale and distribution business recording an operating loss of R169 million.

This position was caused by not getting wholesale pharmacy licences – particularly in KwaZulu Natal and the Western Cape – approved in line with planning, resulting in rental and payroll costs ahead of the warehouses being operational.

CEO's statement continued

CJ Distribution, our pharmaceutical wholesaler, grew its turnover by 19.6% and now supplies 79% of total stock into our retail stores.

After the year-end, CJ Distribution acquired – pending competition commission approval – a regional wholesaler in Cape Town. A successful acquisition would add scale and synergies to our wholesale operations in the Western Cape.

Material matters

Trading licences

The healthcare industry is highly regulated and delayed licencing of crucial operations has become a priority. We carefully select sites for their locale and the likelihood of being awarded trading licences within a reasonable time. Dis-Chem was particularly impacted by delayed licensing in this period, although all industry players face this risk.

Managing transition

We had drawn up a succession plan well before the JSE listing in early 2017. This includes a succession plan for myself as CEO. In this period, we recruited and appointed experienced professionals in key positions. Along with the board, they will be a fundamental part of transforming Dis-Chem from a family dominated business into a best practice listed company.

At the same time, we do not want to lose the attributes that have made Dis-Chem into such a great business. We have always planned for sustainable operations and long term returns, which has enabled Dis-Chem to continue growing through several economic downturns over the past four decades, albeit slower than when GDP growth is higher.

As a result, we were taken aback by analyst and media reaction to our results, which caused a temporary fall in the Dis-Chem share price. The lesson learnt is that our investors viewing Dis-Chem through a short term lens can be easily alarmed into selling their shares at the wrong time. We must ensure our messaging is accurately timed and expressed.

Dis-Chem's strategy and business model

Dis-Chem's business model is tweaked from year-to-year as necessary and is long proven to deliver consistent results. Our model is based on recognising retail opportunities early and engaging through astute management and tested growth planning.

Our value proposition to customers and shareholders is built on the 'Pharmacy First' philosophy, which requires that service-driven pharmacists anchor excellent dispensaries stocking medications at the most competitive prices for consumers and medical schemes. Each Dis-Chem dispensary is the hub of a wider offering of healthcare, complementary medicine, personal care and selected food ranges. This carefully selected and well-priced inventory, supported by excellent service, encourages bigger baskets of purchases which is crucial in a low price inflation phase such as now.

Store growth and efficiencies, trading densities and tight cost controls remain at the forefront of our short and medium-term strategy to ensure sustainable growth. To drive growth, KPIs have been set for key management personnel.

Retail strategy

Our primary thrust in retail is to continually add stores of various sizes to the Dis-Chem and TLC portfolios. Within the stores we have intensified our focus on the dispensary function to improve store trading densities. The Group recently implemented a new Customer Relationship Manager (CRM) system. We are utilising its enhanced analytics capability to learn more about our customers' needs, secure their loyalty to Dis-Chem and encourage larger baskets of purchases.

Wholesale strategy

Adding new retail outlets and independent customers to our portfolio inevitably grows our wholesale volumes.

Besides the Group's major investments into storage capacity over the past two years, we are also seeking out suitable wholesalers to acquire. As part of this drive, we recently purchased a Cape Town-based wholesaler, subject to the approval of the Competition Commission.

The Group also installed additional IT and supply chain infrastructure as an early step in establishing a pre-distribution business.

Looking ahead

Our first set of full year post-listing results is reassuring. These show that Dis-Chem is delivering shareholder value in line with our set targets. We will continue driving growth through space maturity in our existing stores and by opening new outlets, with about 24 400m² of additional retail space to be added during the current financial year. The 20 new Dis-Chem outlets already confirmed for the current period will include three flagship stores at Sandton City, Gateway in KwaZulu-Natal and at Eastgate in Gauteng, while we will also open our first Dis-Chem in Botswana and a fourth store in Namibia.

To spread the Dis-Chem footprint more widely, we are energetically marketing our TLC brand to well established independent pharmacies, with several expected to join the TLC stable this year.

Although political and economic sentiment has improved in recent months, South Africa's economy remains under severe pressure and contracted by over 2% in Q1 2018. We expect consumer spend to remain constrained, although spend on healthcare tends to be more robust than most sectors. Dis-Chem is well positioned to gain revenues from improved consumer sentiment and additional disposable income.

Appreciation and conclusion

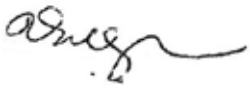
So many people have contributed to Dis-Chem's first full financial year that I hardly know where to start. Lynette Saltzman – Dis-Chem's co-founder and my wife – has stood out by taking on a far bigger role than previously. Lynette has become an invaluable contributor to whole store planning and not just the cosmetics and beauty sections, while also taking on direct responsibility for the Dis-Chem Foundation.

I also had the unprecedented pleasure of standing alongside Lynette on stage when we jointly won the All Africa Business Leader Entrepreneur of the Year awards for Africa. Those were unforgettable moments.

Our young and energetic CFO, Rui Morais, is attracting wide attention for his financial acumen and won three of the five CFO orientated awards for which he was nominated.

We are fortunate to have the support of an appropriately skilled Chairman and Board, a settled and deeply experienced management team and a widespread team of Dis-Chem people across southern Africa, all determined to take our brand to the next level.

Having undergone a difficult business transition under exceptionally trying circumstances, I'm looking forward to the next milestones in the Dis-Chem journey.



Ivan Leon Saltzman

CFO's statement

> The group continued to deliver a strong performance and increased market share across all categories.

Rui Morais
Chief Financial officer

It is with great pleasure that we report our second annual report to our stakeholders. We have managed to reach or exceed all internal targets and are now well positioned to benefit off our invested base.

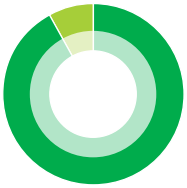
Turnover

Group turnover grew by 13.3% to R19.6bn and was underpinned by volume growth, maturing stores and the addition of new space.

Retail turnover increased by 15% to R18bn with like-for-like retail growth at 6.6% and product inflation of 2.9%. Like-for-like sales were impacted by the co-location of thirteen stores. Excluding the impact of co-location, like-for-like sales growth was 9.6%. Our trading densities improved to R96 119/m² from R95 579/m².

Wholesale turnover increased by 19.6% to R13.1 billion. We improved the control of own retail stock to 79% from 78%.

CONTRIBUTION TO TURNOVER



92% Retail
8% Wholesale

Gross margin

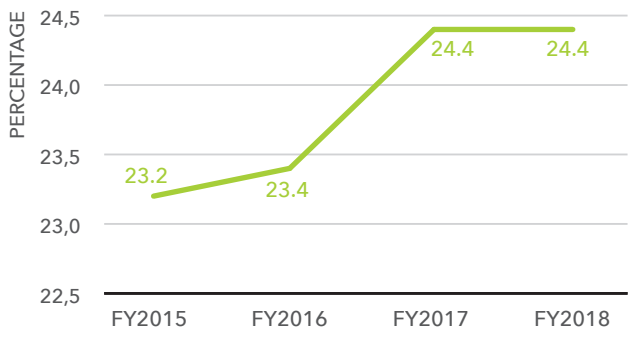
The group increased its gross profit by 13.3% to R4.8bn and maintained its gross margin of 24.4%.

The retail gross margin improved by ten basis points to 24.3%.

The wholesale margin declined to 7.6% from 8.5%. This was mainly as a result of the following:

- Labour unrest in January
- The delayed pharmacy license at the Cape Town distribution centre.

GROSS MARGIN



Other income

Other income increased by 13.5% to R686 million as the once-off impacts from the previous period have been eliminated.

Operating expenditure

Operating expenditure increased by 17.5% (FY2017: 20.5%) to R4.3 billion with the biggest contributor remaining employee costs.

	FY2018	FY2017	% change
Depreciation and amortisation	173	**162**	6.8
Occupancy costs	601	**504**	19.2
Employment costs	2 488	**2 038**	22.1
Transaction costs on listing	–	**8**	n/a
Other operating costs	1 068	**975**	9.5
Total operating expenditure	4 330	**3 687**	17.5

The increase in occupancy and employment costs of 19.2% and 22.1% respectively was primarily due to the addition of 21 new stores and the addition of 13 443m² of warehouse space. Management believes that it is fully invested in the wholesale space and can accommodate the retail and wholesale growth strategies over the next three to five years.

Finance costs

The net finance costs of the group decreased by 28.9% to R160 million as the group continues to de-lever. The structural contributors to net finance costs are:

- The initial term loan of R800 million payable over four years with a bullet payment of R200 million in year four. R150 million has been paid in the 2018 financial year.
- The finance lease.
- Our working capital facility.

Taxation

The group's effective tax rate of 27.6% is in line with expectations and is expected to be similar in the coming year.

Effective tax rate	**FY2018**
Standard tax rate	28.0%
Prior year adjustment	0.08%
Non-taxable items	-1.71%
Non-deductable items	0.95%
Other	0.31%
	27.6%

Earnings

Earnings per share, Headline earnings per share and adjusted headline earnings per share are 79.6c, 79.6c and 78.7c respectively. The weighted average number of shares (WANOS) in issue was 860.1 million compared to 817.6 million in the corresponding period. The increase in WANOS was as a result of the weighting effect of the group's restructuring before the listing on the JSE.

CFO's statement continued

	FY2018	FY2017
Headline earnings	**685**	610
Items deemed to relate to capital structure of the Group		
Finance lease obligation renegotiation	-	(80)
Operating-lease renegotiation	-	(29)
Items related to neither retail nor wholesale day-to-day operations		
Fair value (gain)/loss relating to non-hedging derivative	**(11)**	36
Items not expected to reoccur		
Transaction costs on listing	-	8
Taxation	**3**	21
Adjusted headline earnings	**677**	565
Earnings per share		
Basic	**79.6**	75.0
Diluted	**79.6**	75.0
Headline earnings per share		
Basic	**79.6**	74.7
Diluted	**79.6**	74.7
Adjusted headline earnings per share		
Basic	**78.7**	69.2
Diluted	**78.7**	69.2

Working Capital

In FY2018 the group improved its total working capital days to 36 days from 43 days primarily as a result of the further extension of creditor days from 61 days to 73 days. We continue to engage with suppliers to ensure an equitable distribution of the working capital costs.

The increase in stock days from 84 days to 89 days was as a function of the increase in wholesale space.

	FY2018	FY2017	Days change
Debtors days	20	**20**	0
Inventory days	89	**84**	5
Creditors days	73	**61**	12
Total working capital	36	**43**	-7

Cash Management

Cash inflow from trading operations improved by R48 million to R1 324 million.

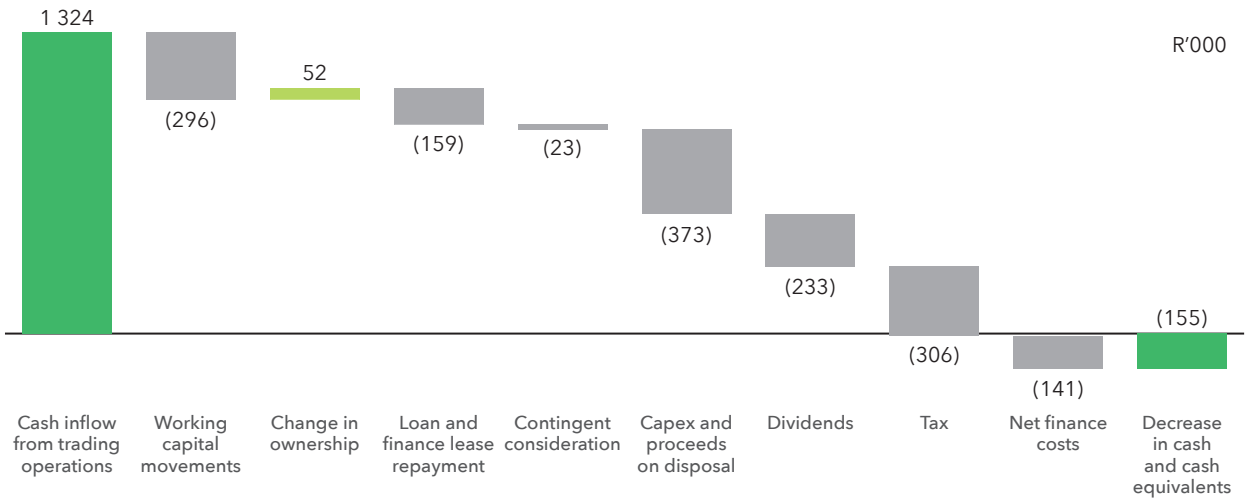
The investment in working capital is representative of what the required investment is to fund retail and wholesale growth ambitions. We expect the investment in working capital to grow at similar levels to topline growth, provided there are no additional benefits in stock days as the group matures.

The R52 million change in ownership cash inflow related to the 50% sale of our oncology business.

The loan and finance lease repayment is predominantly the repayment of term debt. We expect this value to remain between R150 million and R160 million over a three year period.

The contingent consideration cash outflow relates to payments made to partner stores bought back across the listing.

CASH FLOW (R'000)



Capital Management

The total capital expenditure in FY2018 of R374m was made up of R296m expansion CAPEX and R78m maintenance CAPEX.

Capital Expenditure	FY2018	FY2017
Office equipment	41.4	**30.8**
Leasehold improvements	59.4	**25.8**
Furniture and fixtures	165.1	**121.5**
Motor vehicles	7.1	**1**
Computer hardware	57.8	**35.9**
Computer software	43.5	**6.4**
Total	374.0	**221.4**

Dividends

An interim dividend of 18.73 cents per share amounting to R161 million was declared and paid to shareholders on 13 November 2017. A final dividend of 12.74 cents per share was approved by the directors on 3 May 2018 and paid on 28 May 2018 to shareholders registered on 23 May 2018.

The group has a 40% payout ratio policy based on adjusted headline earnings per share.

Outlook

For the eight weeks to 26 April 2018, group turnover increased by 11% compared to the prior eight week period. The group expects that the consumer will remain constrained despite improved consumer confidence. The resilient markets that the group operates in should offer some protection.

The financial information in this outlook has not been audited, reviewed or reported on by the group's external auditors.

Appreciation

I would like to extend my thanks to all involved in the preparation of the Integrated Annual Report as well as our board of directors.

Rui Morais
Chief Financial Officer

Summary of our five-year financial review

Statement of comprehensive income R'000	5-year compound growth %	2018	2017	2016	2015	2014
Turnover	17%	19 560 462	17 268 475	15 061 293	12 910 594	10 320 999
Cost of sales	17%	(14 790 890)	(13 059 154)	(11 534 533)	(9 917 018)	(7 845 447)
Gross profit	18%	4 769 572	4 209 321	3 526 760	2 993 576	2 475 552
Other income	24%	686 271	604 861	439 676	364 814	290 733
Other expenses	19%	(4 330 728)	(3 679 386)	(3 059 758)	(2 681 942)	(2 155 396)
Transaction costs		–	(8 074)	–	–	–
Operating profit	16%	1 125 115	1 126 722	906 678	676 448	610 889
Net finance costs	223%	(160 082)	(225 240)	(89 151)	(19 064)	(1 464)
– Finance income	40%	28 321	23 977	7 315	6 416	7 286
– Finance costs	115%	(188 403)	(249 217)	(96 466)	(25 480)	(8 750)
Share of profit from associates		–	501	344	59	65
Profit before tax	12%	965 033	901 983	817 871	657 443	609 490
Taxation	10%	(266 706)	(246 871)	(242 116)	(187 552)	(182 096)
Total comprehensive income for the year, net of tax	13%	698 327	655 112	575 755	469 891	427 394
Profitable attributable to:						
– Equity holders of the parent	14%	684 279	612 346	512 775	433 654	408 593
– Non-controlling interest	–7%	14 048	42 766	62 980	36 237	18 801
		698 327	655 112	575 755	469 891	427 394
Earnings per share						
– Basic cents		79.6	75.0	212.0	239.2	231.5
– Diluted cents		79.6	75.0	212.0	239.2	231.5

Statement of financial position R'000	5-year compound growth %	2018	2017	2016	2015	2014
ASSETS						
Non-current assets		**1 664 286**	1 191 740	1 064 929	462 969	358 424
Property, plant and equipment	54%	**1 182 394**	995 401	918 979	291 401	207 934
Intangible assets	85%	**300 461**	40 310	35 253	31 406	25 457
Deferred tax	10%	**181 431**	156 029	108 762	138 552	123 035
Investment in associates		**-**	-	1 935	1 610	1 998
Current assets		**5 465 123**	4 704 921	4 104 904	3 070 001	2 598 326
Inventory	20%	**3 947 937**	3 233 911	2 806 572	2 334 035	1 925 327
Trade and other receivables	18%	**1 113 313**	1 091 901	767 807	607 683	567 493
Loans receivables	67%	**113 876**	72 270	198 672	62 958	14 724
Taxation receivables	(38%)	**9 998**	12 141	58 644	38 373	67 446
Cash and cash equivalents	86%	**279 999**	294 698	273 209	26 952	23 336
Total assets	25%	**7 129 409**	5 896 661	5 169 833	3 532 970	2 956 750
EQUITY AND LIABILITIES						
Equity attributable to equity holders of parent of parent		**1 632 057**	1 106 902	722 566	1 218 194	941 512
Share capital	142%	**6 155 554**	6 140 554	1 352 074	199 101	178 401
Common control reserve		**-**	(990 991)	(990 991)	161 982	143 282
Retained earnings	(37%)	**98 546**	(4 042 661)	361 483	857 111	619 829
Other reserves		**(4 622 043)**	-	-	-	-
Non-controlling interests	(3%)	**55 147**	23 581	117 117	83 346	63 578
Total equity		**1 687 204**	1 130 483	839 683	1 301 540	1 005 090
Non-current liabilities		**1 388 846**	1 522 378	822 551	248 296	196 449
Finance lease liability	281%	**621 543**	622 907	651 679	2 207	2 938
Operating lease obligation	2%	**213 198**	179 162	170 872	246 089	193 511
Loans payable		**499 605**	647 000	-	-	-
Contingent consideration		**54 500**	73 309	-	-	-

Summary of our five-year financial review continued

Statement of financial position R'000	5-year compound growth %	2018	2017	2016	2015	2014
Current liabilities		**4 053 359**	3 243 800	3 507 599	1 983 134	1 755 211
Trade and other payables	28%	**3 255 259**	2 641 215	1 754 293	1 305 040	1 194 493
Employee obligations	26%	**146 014**	125 391	102 441	87 419	58 814
Deferred revenue	(2%)	**81 292**	95 364	77 026	65 342	89 219
Contingent consideration		**21 749**	24 003	–	–	–
Finance lease obligation	42%	**9 943**	2 390	2 541	2 467	2 453
Loans payable	-13%	**198 798**	173 659	27 026	32 150	345 096
Taxation payable	67%	**32 790**	14 719	14 564	18 469	4 167
Bank overdraft	50%	**307 514**	167 059	1 529 708	472 247	60 969
Total equity and liabilities	25%	**7 129 409**	5 896 661	5 169 833	3 532 970	2 956 750

Statement of cash flows R'000	5-year compound growth %	2018	2017	2016	2015	2014
Cash flow from operating activities	61%	**348 473**	159 160	(668 312)	(234 976)	51 903
Cash inflow from trading operations		**1 323 624**	1 276 127	991 682	859 320	820 353
Movement in working capital		**(295 931)**	218 460	(326 868)	(702 697)	(104 939)
Finance income received		**23 836**	23 977	7 315	6 416	7 286
Finance costs paid		**(164 424)**	(201 997)	(66 327)	(25 480)	(8 750)
Taxation paid		**(305 743)**	(247 480)	(236 502)	(159 694)	(259 229)
Dividends paid		**(232 889)**	(909 927)	(1037 612)	(212 841)	(402 818)

Statement of cash flows (continued) R'000	5-year compound growth %	2018	2017	2016	2015	2014
Cash flow from investing activities (mainly due to capex spend)	19%	**(396 050)**	(221 539)	(142 892)	(211 369)	(199 650)
Additions to property, plant and equipment and intangible assets						
– To maintain operations		**(78 242)**	(73 234)	(44 930)	(43 370)	(19 960)
– To expand operations		**(295 586)**	(148 225)	(179 721)	(168 574)	(70 099)
Proceeds on disposal of tangible and intangible assets		**1 123**	7 432	81 759	246	136
Decrease/(increase) in investments		**–**	–	–	329	(2 036)
Acquisition of subsidiary net of cash acquired		**–**	(7 512)	–	–	(107 691)
Acquisition of assets and liabilities in business combination, net of cash acquired		**(23 345)**	–	–	–	–
Cash flow from financing activities (mainly due to share issues)		**(107 577)**	1 446 517	–	38 683	176 708
Shares issued		**–**	4 381 052	–	20 700	89 201
Shares issued in Dis-Chem Distribution		**–**	–	–	18 700	83 240
Capitalised share costs		**–**	(42 294)	–	–	–
Repurchase of shares		**–**	(3 631 052)	–	–	–
Long term loans (repaid)/ received		**(153 410)**	800 000	–	–	–
Contingent consideration		**(22 941)**	–	–	–	–
Finance lease repayment		**(6 226)**	(351)	–	(717)	4 267
Change in ownership interest in subsidiary		**75 000**	–	–	–	–
Acquisition of non-controlling interests		**–**	(60 838)	–	–	–
Net decrease in cash and cash equivalents		**(155 154)**	1 384 138	(811 204)	(407 662)	28 961
Cash and cash equivalents at beginning of year		**127 639**	(1 256 499)	(445 295)	(37 633)	(66 594)
Cash and cash equivalents at end of year		**(27 515)**	127 639	(1 256 499)	(445 295)	(37 633)

Summary of our five-year financial review continued

Performance indicators and other information		5-year average	2018	2017	2016	2015	2014
Like-for-like/comparable retail turnover growth	%	9.6%	6.6%	9.1%	8.5%	10.6%	13.0%
Product inflation	%	4.8%	2.9%	6.5%	4.8%	5.0%	
Gross profit margin	%	23.9%	24.4%	24.4%	23.4%	23.2%	24.0%
EBITDA margin	%	6.8%	6.6%	7.5%	7.0%	6.2%	6.9%
Operating margin	%	5.9%	5.8%	6.5%	6.0%	5.2%	5.9%
EPS	cps	167.5	79.6	75.0	212.0	239.2	231.5
Headline earnings	R'000	526 995	684 261	610 314	498 232	433 515	408 651
HEPS	cps	166.2	79.6	74.7	206.0	239.1	231.6
Inventory days	Days	84	89	84	81	78	90
Debtors days	Days	19	20	20	17	17	20
Creditors days	Days	57	73	61	48	46	56
Net working capital days	Days	46	36	43	50	49	54
Return on equity	%	52.5%	50.0%	66.9%	52.8%	40.2%	
Number of stores (all with pharmacies)			129	108	98	84	73
Retail trading density	R'000/ m^2		96.1	95.6	90.5	87.2	86.4
Total size of retail stores	m^2		187 141	163 699	150 055	133 124	115 659
Average size of retail stores	m^2		1 451	1 516	1 531	1 585	1 584
Employees			15 223	14 136	11 990	10 207	8 792

Share performance		5-year compound growth %	2018	2017	2016	2015	2014
Actual shares at year-end*	('000)	48%	860 084	859 274	794 446	181 818	180 000
WANOS	('000)	49%	860 073	816 617	241 831	181 320	176 474
Share price at year end	cps		34.40	23.98	n/a	n/a	n/a
Net asset value per share (WANOS)	cps	(23%)	196.17	138.43	347.22	717.81	569.54
Net asset value per share (actual shares at year-end)	cps	(23%)	196.17	131.56	105.69	715.85	558.38

** After share split in September 2016*

Group performance

GROUP

Turnover up
13.3%

Return on equity at
50%

Dividends
315cps

Dis-Chem is a market leading corporate retail pharmacy group in South Africa. The Group operates two divisions namely Retail and Wholesale. The group produced a strong trading performance, led by strong growth in the retail division.

RETAIL

Turnover up
15.0%

Capital Expenditure of
R374m

21
new stores opened

Dis-Chem's Retail division is comprised of the group's retail pharmacy stores, its e-Commerce website, its corporate wellness clinics, and its courier service called Dis-Chem Direct.

As at 28 February 2018, Dis-Chem operated 129 retail pharmacies including three stores in Namibia. The group has grown rapidly in recent years and added a total of 62 stores over the past five years. 119 of our stores are wholly owned, and ten stores are majority-owned subsidiaries. Every Dis-Chem store has a pharmacy and at least one wellness clinic.

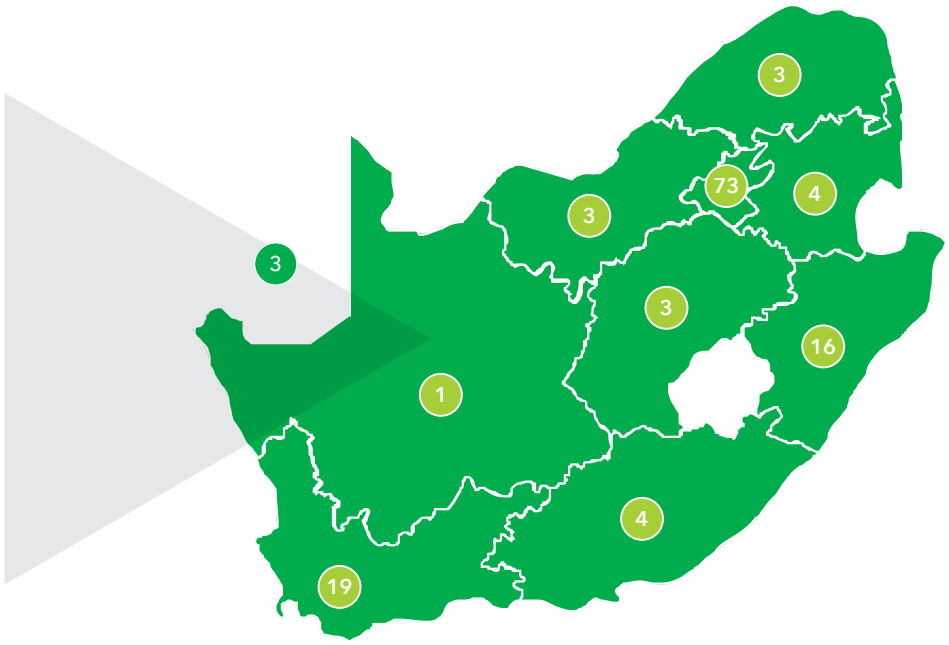
New stores opened in FY18	m^2
Springs Mall	1 000
Randfontein	1 365
Jubilee Mall	797
Southcoast Mall – Shelley Beach	1 330
Valley View (Noordheuwel)	962
Pinecrest	1 010
Soshanguve Crossing	1 211
Meadowdale Hypermarket	1 049
Market Street TLC	542

New stores opened in FY18	m^2
Ballito Lifestyle	1 088
Cornubia	2 126
Table Bay Mall	1 144
Mall @55	1 300
Dunes Mall Walvis Bay	1 518
Heidelberg / Voortrekker Street TLC	346
Old Mutual	156
Ghandi Square	944
Rivonia Rd / Morningside	1 527
Melville / Campus Square	1 200
Hermanus	1 507
Newcastle	1 320

Operational review

Dis-Chem is represented in all of the country's provinces with the majority of its stores in Gauteng.

Gauteng	73
Western Cape	19
KwaZulu-Natal	16
Eastern Cape	4
Mpumalanga	4
Free State	3
North West	3
Limpopo	3
Northern Cape	1
Total SA	126
Namibia	3



Review

Retail continued its strong performance during the year and grew turnover by 15%, with market share growth in all categories.

Market share	February 2018	December 2016	December 2015
Dispensary	**22.7%**	21.4%	19.6%
Personal care and beauty#*	**15.8%**	15.0%	12.4%
Healthcare and nutrition#	**44.2%**	43.1%	38.0%
Baby care#	**9.6%**	9.1%	7.4%

Nielsons
* *Prestige fragrance and cosmetics not included*

On top of additional space, inflation and volume growth, maturing space associated with a relatively young store base was the predominant driver of retail turnover growth. Like-for-like turnover growth was 6.6% and excluding the effect of co-location as a result of introducing new stores into markets serviced by highly densely traded mature stores; like-for-like sales were 9.6%. Online sales also contributed to turnover growth and now contributes approximately the same turnover as a small to medium size retail store. In addition, Click and Collect is in every store.

Categories

The group operates four main categories: Dispensary, Personal Care and Beauty, Healthcare and Nutrition and Baby Care as well as other smaller categories like shoes and electronics.

Contribution to retail turnover

Market share	FY2016	FY2017	FY2018
Dispensary	37%	36%	**37%**
Personal care and beauty	26%	27%	**27%**
Healthcare and nutrition	22%	21%	**20%**
Baby care	5%	6%	**7%**
Other	10%	10%	**9%**

Regulations

Currently, we perceive regulations to be one of our biggest risks, specifically in the Healthcare and Nutrition space where the CAMs regulation was introduced. In our view, when this regulation is fully implemented and understood, it should force consolidation in the market.

E-Commerce

Dis-Chem has invested heavily in the e-commerce space as we believe it is an enabler of our trading densities. We have introduced Click and Collect in every store with the option to pay online or in store. Online sales now contribute the size of a small- to medium-store.

Loyalty Program

Dis-Chem's launched its Loyalty Program in 2003 with members increasing annually since. Loyalty members account for around 73% of front shop turnover and have larger shopping baskets than non-loyalty customers. We have an array of loyalty partnerships with external parties.

Our loyalty programs include the Beautiful Women Program, Senior Citizens and Baby.

In order to commercialise the investment we have made in the SAP CRM (Customer Relationship Management) system, the group has started an analytics function to drive returns. CRM was introduced to assist us in better understanding our customers as we have multiple touch points with our customers. In time we will have a single view of all customer data and interaction.

Private Label

Dis-Chem believes that one of the factors that differentiate it in the market is the range of products it offers. The target range for private label brands is between 20% and 25% and includes exclusive brands.

Ancillary Services

A number of Dis-Chem stores offer ancillary services to customers which include hair salons and nail bars. These salons allow Dis-Chem to sell high-end hair care products otherwise not sold in retail stores.

Outlook

The group will add 20 stores in FY2019 comprising big box formats, alternative formats and Dis-Chem TLC's. These stores will add approximately 24 400m². In addition, the group will open a fourth store in Namibia and its first store in Botswana. We believe that our maturing store base, volume growth and the addition of space will continue to be a driver of growth.

Retail roadmap

	FY2018 targets	Achievement	FY2019 targets
Drive existing revenue and market share growth	• Optimise trading densities across retail portfolio • Achieve strong like-for-like growth • Continue to grow market share across product offering through Dis-Chem's brand positioning • Continue category leadership by staying ahead of consumer market trends and being first to market (i.e. food and sport supplements trends, beauty salon products and treatments)	• Trading density improved from R95 579m² to R96 118m² • Like-for-like growth at 6.6% • Market share increased in all categories	• Improve trading density by price inflation • Continue to gain market share in categories • Improve volume growth
Drive customer loyalty	• Continue conversion of non-loyalty customers • Drive cross-sell within Dis-Chem stores through Customer Relationship Management ('CRM') and targeted marketing • Increase loyalty basket size • Increase number of partnerships with blue chip companies' reward programmes	• Growth in loyalty customers • Introduced analytic function to extract value • Reward programme with Total	• Loyalty customers to continue to grow ahead of customer base • Continue to increase loyalty basket size
Driving secondary retail opportunities through innovation	• Retain first to market innovative practices to deliver revenue diversification • Enhance customer convenience through Dis-Chem Direct and Corporate Wellness Centres • Enhance e-commerce platform to build on online success including Click and Collect	• Growth in Dis-Chem Direct and wellness clinics • 100% of stores facilitating Click and Collect	• Continue to open at least one clinic in each store • Continue to have 100% stores facilitating Click and Collect • Increase Dis-Chem Direct courier services to third parties
Driving margins by leveraging support services fixed cost base	• Leverage off existing head office infrastructure cost base • Negotiate better commercial terms with vendors	• Overall costs increased due to costs associated with the increase in Warehouse and Retail space	• It is expected expenses will grow at a lower rate than turnover in the coming financial year • Gross margin between 24.0% and 25.0%
Consolidation of independent pharmacies	• Significant opportunity to gain market share as the independent pharmacy market consolidates: • Partnership model ideal to optimise on independent pharmacists' loyal customer base	• Opened two new corporate Dis-Chem TLC pharmacies	• Continue to look at opportunities in FY19
Store roll-out	• Double store footprint over the next five to eight years • Use of partner store model to benefit from market consolidation	• 21 new stores opened in FY18	• 20 new stores to be opened in FY19 including additional Namibian store and first store in Botswana • Open more Dis-Chem TLC stores
Train and motivate employees	• Bursaries given to students • Learnerships at head office and stores	• 82 bursaries to pharmacy students • 326 employees completed learnership agreements	• 73 bursaries to pharmacy students • 420 employees to complete learnership agreements

Wholesale

Turnover up
19.6%

Capital Expenditure of
R30m

Warehouse space increased by
20.2%

The South African pharmaceutical wholesale and distribution value chain involves the distribution of goods from product manufacturers through to distributors and then to wholesalers and, ultimately, to retailers. Through CJ Distribution, Dis-Chem operates as a wholesaler, meaning it distributes products from distributors to retailers. Before 2013, Dis-Chem's wholesale business focused solely on distributing products from its distribution centres to its own store network. In 2013, with the acquisition of the majority interest in CJ Group, Dis-Chem also began distributing products to independent retail pharmacies.

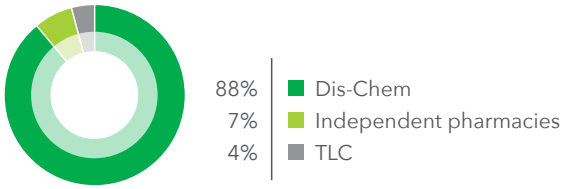
Review

Wholesale turnover increased by 19.6% with wholesale control of own retail stock increasing to 79% from 78%.

Dis-Chem currently serves 525 independent retail pharmacies in South Africa of which 88 are TLC stores. Dis-Chem distributes both dispensary and health-related products, including medicines and scheduled substances, and front shop products, to these independent pharmacies and TLC stores. Revenue generated from servicing Dis-Chem stores comprised 88% of CJ Distribution's revenue for the financial year 2018 (FY2017 85%), whereas revenue generated from servicing TLC stores and independent pharmacies comprised the remaining 12% of CJ Distribution's revenue for the same period.

In FY2018 the group added 13 443m² or 20.2% of new warehouse space to accommodate future Retail growth and increase its independent fine Wholesale market share. The group also acquired a Wholesaler in the Western Cape adding necessary scale to the business. Management believes that the wholesale space is fully invested and will be able to accommodate the retail growth strategies over the medium-term.

WHOLESALE TURNOVER



Pre-distribution

The vertical integration of wholesale and pre-distribution allows for better working capital management and access to logistic fees as well as distributor fees.

Outlook

From the increased wholesale space, CJ Distribution will be focused on increasing its current market share by continuing to service Dis-Chem, increasing supply to a greater number of TLC stores and serving a greater number of independent pharmacies. The target is to maintain own store stock ownership from own warehouses at between 75% to 80%. The Group continues to engage the pre-distribution market.

We expect the wholesale division to break even at an EBITDA level at the end of FY2019 mostly through scale as we add more stores, through acquisitions and supply chain agreements with independent pharmacies.

Wholesale roadmap

	FY2018 targets	Achievement	FY2019 targets
Continue to leverage our sophisticated infrastructure	• Improved ability to service independents and grow wholesale customer base • Warehouse space in Cape Town and Durban frees up space in Midrand • Dis-Chem's growth in retail expected to create scale in wholesale • Continue to enhance efficiencies throughout supply chain	• Additional warehouse space of 13 443m² added • 21 new stores opened in FY18 and being stocked by Wholesale • Stock 79% of inventory in Dis-Chem stores from own warehouse up from 78%	• 20 new stores to be opened in FY19 • Wholesale control of own Retail stock to remain between 75% and 80%
Gain scale through acquisition of independent wholesalers	• Consolidation of the independent retail pharmacy market will drive consolidation of the wholesale market • Gain scale and bargaining power with suppliers • Leverage off acquired customer base in regions where CJ Distribution has no presence to speed up market penetration • Post-acquisition cost synergies and efficiencies are expected	• Purchased wholesaler in Western Cape (awaiting CC approval)	• Purchase wholesale business to further grow base • Invest in price to attract independent volume
Opportunity to capture supply chain of additional The Local Choice stores	• Grow market share through conversion of independent pharmacies to Dis-Chem The Local Choice brand	• Two Dis-Chem The Local Choice stores opened in FY18	• Add an additional two Dis-Chem TLC stores (and potentially another seven)

Outlook and targets

Although market sentiment is improving, we expect that the consumer will remain constrained during the course of FY2019. We expect inflation to be between 1.5% and 3% on the back of the 1.26% SEP increase effective 1 March 2018.

Our retail strategy is focused on adding space to the maturing store base. In the Wholesale space, the group is now invested to cater for retail growth in the medium-term. The group will continue to pursue potential wholesale acquisitions.

With a national wholesale footprint, Dis-Chem has started to invest in IT infrastructure to support pre-distribution in the future. The group continues to engage with third parties.

Medium-term targets

	Achieved 2017	**Achieved 2018**	2019–2020 target
Working capital days	43	36	**35–40**
New store capex (m²)	5 350	5 670	**Inflation adjusted**
Gross margin (%)	24.4	24.4	**24.0–25.0**
EBITDA	7.5	6.6	**7.0–8.0**
Operating margin (%)	6.5	5.8	**6.0–7.0**
Dividend pay-out ratio (%)		40	**40–50**

Statement of directors' responsibilities and approval of the annual financial statements

The directors are responsible for the preparation and fair presentation of the Group and company's audited annual financial statements of Dis-Chem Pharmacies Limited, comprising the statements of financial position at 28 February 2018, and the statements of comprehensive income, changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the Companies Act of South Africa. The annual financial statements are therefore based upon appropriate accounting policies that present fairly the financial position, financial performance and cash flows of the company and the Group, consistently applied and supported by reasonable and prudent judgements and estimates.

The directors are required by the Companies Act of South Africa, to maintain adequate accounting records and are responsible for the content and integrity of the Group and company annual financial statements and related financial information included in this report. It is their responsibility to ensure that the Group and company annual financial statements fairly present the state of affairs of the Group and company as at the end of the financial year and the results of its operations and cash flows for the period then ended.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the Group and company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal controls aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and company and all employees are required to maintain the highest ethical standards in ensuring the Group and company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group and company is on identifying, assessing, managing and monitoring all known forms of risk across the Group and company. While operating risk cannot be fully eliminated, the Group and company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the Group and company annual financial statements. However, any system of internal financial controls can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group and company's cash flow forecast for the year to 28 February 2019 and beyond, and other appropriate information. The directors have also considered forecasts and budgets for a 12-month period from the approval of these financial statements. In the light of this review and the current financial position, they are satisfied that the Group and company have access to adequate resources to continue in operational existence for the foreseeable future, and thus considered it to be a going concern. The external auditors are responsible for independently auditing and reporting on the Group and company annual financial statements. The Group and company annual financial statements have been audited by the company's external auditors and their reports are presented on pages 74 to 77 and pages 125 to 128.

The annual financial statements set out on pages 78 to 124 and pages 129 to 161, were approved by the board of directors on 22 June 2018 and were signed on its behalf by:

Ivan Leon Saltzman
Chief Executive Officer

Rui Manuel Morais
Chief Financial Officer

The annual financial statements have been prepared under the supervision of Mr Rui Manuel Morais CA(SA), the Chief Financial Officer of the Group and company.

Company Secretary certification

In terms of section 88(e) of the Companies Act of South Africa, No. 71 of 2008 (the Act), as amended, I, Whitney Green, in my capacity as Company Secretary of Dis-Chem Pharmacies Limited, confirm that, to the best of my knowledge and belief, in respect of the year under review, Dis-Chem Pharmacies Limited has filed with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Act and that all such returns and notices appear to be true, correct and up to date.

Whitney Green
Company Secretary
Date: 22 June 2018

Report of the directors

FOR THE YEAR ENDED 28 FEBRUARY 2018

Review of activities

Main business and operations

The Group and company is engaged in the retailing and wholesale of affordable healthcare products and pharmaceuticals. In the prior year, on 18 November 2016, the Group listed on the Johannesburg Stock Exchange.

The operating results and state of affairs of the Group and company are fully set out in the attached annual financial statements and do not, in our opinion, require further comments. Additional information is also available in the integrated report on the Dis-Chem website.

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The directors have reviewed and considered all relevant information to support their view that the Group and company is a going concern, and will continue to operate as such in the foreseeable future.

Authorised and issued share capital

During the current year, 810 810 additional shares were issued. There has been no change to the authorised share capital in the current year.

On 30 September 2016, a 150-for-1 share split took place and therefore increased the number of shares in issue to 794 446 200. In addition, during the prior year 261 135 336 shares were issued for R4.8 billion and 196 307 863 shares were repurchased for R3.6 billion.

Refer to note 18 for the share capital analysis (note 15 in the company annual financial statements).

Dividends

In the current year, an interim dividend of 18.73035 cents per share or R161 million was paid on 13 November 2017. A final dividend of 12.736000 cents per share or R110 million was approved by the directors on 3 May 2018 and paid on 28 May 2018.

In the prior year as preparation for listing, as part of a capital restructure, dividends amounting to R870 million were declared and paid by the company to shareholders on 30 March 2016. A final dividend of 7.3 cents per share or R63 million was approved by the directors on 17 May 2017 and paid on 5 June 2017.

Refer to note 26 for the dividend per share analysis (note 22 in the company annual financial statements).

Events after reporting period

The directors are not aware of any additional material matter or circumstance arising since the end of the financial year up to the date of this report that would require amendment or additional disclosure in these annual financial statements, except that disclosed in note 32 (note 29 in the company annual financial statements).

Special resolutions

Special resolutions passed during the current year:

- Special resolution 1: Authorisation of non-executive directors' fess
- Special resolution 2: Authorisation of direct or indirect financial assistance in regards to section 44 and 45 of the Companies Act.

Special resolutions passed during the prior year:

- Special resolution 1: Authorisation of the public company conversion from a private company
- Special resolution 2: Authorisation of the share capital conversion (150-to-1 split)
- Special resolution 3: Authorisation of the adoption of the new Memorandum of Incorporation
- Special resolution 4: Authorisation to allot and issue up to 42 963 684 ordinary no par value shares in terms of long-term incentive plan (this plan has not been implemented at year-end).

Borrowing limitations

In terms of the Memorandum of Incorporation of the companies within the Group, the directors may exercise all the powers of the Group to borrow money, as they consider appropriate.

Subsidiary companies/Group structure

Refer to note 4 in the Group annual financial statements.

Directors

Independent non-executive directors

LM Nestadt	(South African)
MJ Bowman	(South African)
A Coovadia	(South African)
JS Mthimunye	(South African)
MSI Gani (appointed 3 May 2017)	(South African)

Executive directors

IL Saltzman	(South African)
LF Saltzman	(South African)
RM Morais	(South African)
SE Saltzman (Alternate for LF Saltzman)	(South African)

Report of the directors *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

Directors' interest in shares and contracts

There are no material contracts involving directors' interests except for lease contracts between Dis-Chem and various property companies owned/controlled by the directors (refer to note 29).

Direct and indirect shares held by the directors as at 28 February are as follows:

	2018		2017	
	Direct interest	**Indirect interest**	Direct interest	Indirect interest
LM Nestadt	**–**	**1 500 000**	–	2 702 703
MJ Bowman	**81 081**	**–**	81 081	–
A Coovadia	**–**	**162 162**	–	162 162
JS Mthimunye	**–**	**81 162**	–	162 162
MSI Gani	**–**	**–**	–	–
IL Saltzman and LF Saltzman	**–**	**453 041 396**	–	457 041 396
RM Morais	**–**	**6 672 192**	–	6 672 192
SE Saltzman	**–**	**6 672 192**	–	6 672 192

During the current year, LM Nestadt sold 409 890 shares for R34.05 and 792 813 shares for R33.74; JS Mthimunye sold 81 000 shares for R34.00. IL Saltzman and LF Saltzman sold 4 million shares for R35.00 per share.

In the prior year, on listing, LM Nestadt, MJ Bowman, A Coovadia and JS Mthimunye acquired their shares. IL Saltzman and LF Saltzman sold 87 million shares while RM Morais and SE Saltzman each sold 1.3 million shares on listing. There were no changes to the directors' interests between the end of the 2017 financial year and the date of the approval of the annual financial statements in the prior year.

Since the end of the 2018 financial year and the date of approval of the annual financial statements the following changes have occurred in the directors' interest: SE Saltzman bought 62 589 shares for R1 977 402.75 on 7 May 2018. RM Morais bought 1 818 182 shares for R49 109 095.82 on 15 June 2018. IL Saltzman, LF Saltzman, SE Saltzman and RM Morais were offered 383 579, 260 016, 119 155 and 134 853 options respectively under the Share Appreciation Rights share scheme on 1 June 2018. These offers need to be accepted by 30 June 2018.

Secretary
WT Green

Registered office
23 Stag Road
Midrand
1685

Audit and risk committee report

The Audit and risk committee is constituted as a committee of the Dis-Chem Board in accordance with the company's Memorandum of Incorporation, and section 84(4)(c) of the Companies Act, 2008. The committee has a documented terms of reference under which it operates and which has been approved by the Board. This report is presented to shareholders in compliance with the requirements of the Companies Act and the King Code of Governance Principles.

Composition

The committee comprises of four directors, with suitable qualifications, all of whom are independent non-executive directors of the company. The following independent non-executive directors served on the committee during the financial year under review:

- JS Mthimunye (Chairman)
- MJ Bowman
- A Coovadia
- MSI Gani (Appointed 3 May 2017)

The executive directors, external audit, internal audit and senior management have a standing invitation to attend meetings of the committee. The committee also meets separately with the external auditors, internal auditors and senior management as required.

At each annual general meeting the Board shall present the shareholders with at least three suitable candidates from amongst the independent non-executive directors, on recommendation by the Nomination committee, for election as committee members. The Board shall have the power at all times to appoint, remove and replace any member from the committee.

Role and responsibilities of the committee

The committee has the following specific responsibilities:

Integrated reporting

The committee oversees integrated reporting, and in particular the committee must:

- have regard to all factors and risks that may impact on the integrity of the integrated report;
- review the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price-sensitive information, circulars and prospectuses, trading statements and similar documents;
- comment in the annual financial statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls of the company;
- consider the frequency for issuing interim results and whether the external auditors should perform assurance procedures on the interim results;
- review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- recommend to the Board the engagement of an external assurance provider on material sustainability issues; and
- recommend the integrated report for approval by the Board.

Combined assurance

The committee ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the committee should:

- ensure that the combined assurance received is appropriate to address all the significant risks facing the company via suitable mitigating controls;
- provide an effective counterbalance to executive management, thereby upholding the independence of internal and external assurance providers, to enhance effectiveness; and
- monitor the relationship between the external assurance providers and the company.

Finance function and financial director

The committee:

- reviews the expertise, resources and experience of the company's finance function, and disclose the results of the review in the integrated report; and
- considers and satisfies itself as to the suitability of the expertise and experience of the financial director every year and confirm this in the integrated report.

External audit

The committee is responsible for recommending the appointment of the external auditor and to oversee the external audit process and in this regard the committee:

- nominates the external auditor (a registered auditor), who in the opinion of the committee, is independent of the company, for appointment by the shareholders;
- approves the terms of engagement and remuneration for the external audit engagement;
- monitors and report on the independence of the external auditor in the annual financial statements;
- ensures that the appointment of the auditor complies with the provisions of the Act and any other legislation relating to the appointment of auditors;

Audit and risk Committee Report *continued*

- defines a policy for non-audit services and pre-approve the contracts for non-audit services to be rendered by the external auditor;
- ensures that there is a process for the committee to be informed of any issues identified and reported by the external auditor; and
- reviews the quality and effectiveness of the external audit process.

Internal audit

The committee is responsible for overseeing the internal audit function, and in particular the committee:

- is responsible for the appointment, performance assessment and/or dismissal of the head of internal audit or the outsourced service provider;
- reviews and approves the internal audit plan;
- annually reviews and approves the internal audit charter;
- receives and deals appropriately with concerns or complaints, including those on its initiative relating to the accounting practices and internal audit of the company; the content or auditing of the company's financial statements; the internal financial controls of the company or any related matter;
- review and confirm the independence of the internal audit function on an annual basis; and
- ensure that the internal audit function is subject to an independent quality review, as and when the committee determines it appropriate.

Risk management

The committee is an integral component of the risk management process and specifically the committee must oversee financial reporting risks; internal financial controls; fraud risks as it relates to financial reporting; and IT risks as it relates to financial reporting. The committee performs all the functions necessary to fulfil its risk management role, including the following:

- ensuring the establishment of an independent risk function at a Group level;
- overseeing the development and annual review of a policy and plan for risk management to recommend for approval to the Board;
- monitoring implementation of the policy and plan for risk management taking place by means of risk management systems and processes;
- making recommendations to the Board concerning the levels of tolerance and appetite and monitoring that risks are managed within the levels of tolerance and appetite as approved by the Board;
- ensures that risk management assessments are performed on a continuous basis and at least once a year;
- ensures that management considers and implements appropriate risk responses;
- ensures that continuous risk monitoring by management takes place;
- expresses the committee's formal opinion to the Board on the effectiveness of the system and process of risk management;
- reviews reporting concerning risk management that is to be included in the integrated report for it being timely, comprehensive and relevant; and
- ensures that a risk register is maintained by management and provided to the Board regularly.

Financial reporting and financial control

The committee:

- evaluates the adequacy and effectiveness of the accounting policies adopted by the company in terms of IFRS, JSE Listings Requirements and other legal requirements;
- considers the adequacy and clarity of disclosures in the financial statements;
- reviews the effectiveness of financial management and the quality of internal accounting control systems and reports produced by financial management;
- concludes and reports annually to stakeholders and the Board on the effectiveness of internal financial controls;
- reviews the impact of new financial systems, tax and litigation matters on financial reporting;
- reviews the company's interim and audited annual financial statements, summarised financial information interim and preliminary announcements, dividend announcements, and all financial information, including non-financial information in the integrated report, for distribution to shareholders and the general public, prior to submission to the Board or publication and confirm that the annual financial statements present a balanced and understandable assessment of the company's position, performance and prospects; and
- reviews the basis on which the company has been determined a going concern and make a recommendation to the Board.

Evaluation of Chief Financial Officer and finance function

The committee is satisfied as to the expertise, resources and experience of the company's finance division and the appropriateness of the experience and expertise of the Chief Financial Officer. It is satisfied that the composition of the finance function meets the Group's requirements.

Independence of external auditors

The committee appraised the independence, quality and effectiveness of the external audit function. Part of this process was to obtain confirmation from the external auditors that the firm, partner and staff responsible for the audit comply with all legal and professional requirements in regard to independence. The committee also approved the fees paid to the external auditors.

The committee confirmed its satisfaction with the independence and level of service rendered by the external auditor, Ernst & Young Inc., for the 2018 financial year.

Policy on non-audit services

The committee has formulated a policy to manage and approve non-audit services. No non-audit services were provided by the external auditors in the current financial year. Non-audit services provided by the external auditors in the prior financial year related to the listing of the company and amounted to R9.8 million.

Execution of functions of the Audit Committee

The committee is satisfied that, in respect of the period under review, it has conducted its affairs and discharged its duties and responsibilities in accordance with its terms of reference, the Companies Act and the King Code of Governance Principles.

J Mthimunye
Audit and Risk Committee Chairman
22 June 2018

Independent Auditor's Report

TO THE SHAREHOLDERS OF DIS-CHEM PHARMACIES LIMITED

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated annual financial statements of Dis-Chem Pharmacies Limited (the Group) set out on pages 78 to 124, which comprise the statements of financial position as at 28 February 2018, and the statement of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and notes to the consolidated annual financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated annual financial statements present fairly, in all material respects, the consolidated financial position of Dis-Chem Pharmacies Limited as at 28 February 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa and the JSE Listing Requirements.

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 Financial Statements section of our report. We are independent in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing the audit of the financial statements of Dis-Chem Pharmacies Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA code, IFAC code and in accordance with other ethical requirements applicable to performing an audit of Dis-Chem Pharmacies Limited.

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 annual financial statements of the current period. These matters were addressed in the context of our audit of the consolidated annual financial statements as a whole, and in forming our opinion thereon, and our response to each matter below does not represent a separate opinion on each of these matters.

Key audit matter	How our audit addressed the key matter
Supplier rebates	
As described in note 15 to the financial statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers. The reduction primarily comprises contributions received in relation to promotions in the Retail business, strategic buy-ins, annual volume-based rebates, logistic rebates and advertising rebates. The majority of these contributions tend to be small in unit value but high in volume. The agreements include those which span relatively short periods of time but also and to a lesser extent annual agreements whose timing does not coincide with the company's year-end and are re-negotiated/re-entered into on an ongoing basis. There are therefore a number of agreements which are in progress at the financial year-end and for which final settlement will only occur at the end of the agreement or at a future point. There are also various types of rebate agreements which differ in their targets, percentages applied and relate to different periods, for each supplier. The calculation of these accruals are managed centrally and calculated manually. Significant time is therefore required to assess the completeness and accuracy of the source data and to obtain the evidence of all agreements in place at year-end and this is a key consideration each year due to the changes in contracts from year to year.	In respect of the receivable recognised/accrued supplier income for in progress rebate agreements: • On a sample basis we inspected the rebate terms in the agreements and agreed them to inputs used in the calculation; • On a sample basis we vouched the purchased volumes to those per the accounting records and considered whether the amounts being used related to the correct period per the agreement; • We tested the arithmetical accuracy of the calculation and agreed the amount calculated to the amount recognised in the financial statements; • On a sample basis we selected invoices and debit notes raised post year-end to test the completeness of accrued supplier income at 28 February 2018; • We tested the recoverability of the amounts due at the year-end by agreeing the amounts to subsequent settlement from suppliers; and • We tested the recognition criteria of 'genuine/specific' rebates which are recognised at a point in time versus rebates which are general in nature that form part of the deferred unearned rebate calculation.
Acquisition of Optipharm Proprietary Limited	
As described in note 5 to the financial statements, Pharma-Logistical Proprietary Limited, a 100% held subsidiary of Dis-Chem Pharmacies Limited acquired certain assets and liabilities of Optipharm Proprietary Limited, a pharmaceutical courier. Included in the assets acquired were intangible assets relating to a distribution right, amounting to R93 million, and a customer list, amounting to R28 million and goodwill amounting to R93 million. • Significant judgement is involved in assessing the valuation methodology applied. Areas of judgement include: Projected cash flows that will be generated from the customer list and the distribution right; • Discount rate; and • Determination of the fair value of the other assets and liabilities.	Our audit procedures to test the accounting for the transaction included: • We reviewed the contract to obtain an understanding of the terms and conditions of the contract to determine the source of the inputs used in the determination of the estimates and judgements applied by managements in their forecast and discount rate used. • We assessed the reasonableness of the projected cash flows generated from the customer list and the distribution right taking into account the historical revenue trends of the products. • We engaged internal experts to assist in determining whether the discount rate used and valuation methodology applied to the distribution right and the customer list is appropriate. • We agreed the fair values of the identifiable assets and liabilities to the contract and the audited financial statements of Optipharm.

Independent Auditor's Report *continued*

TO THE SHAREHOLDERS OF DIS-CHEM PHARMACIES LIMITED

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the Audit Committee's report and the Company Secretary's certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated 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 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 our 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 directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated annual 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual financial statements, the directors are responsible for assessing the Group'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 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 annual 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 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 annual 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 internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's 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 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 annual 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 to cease to continue as a going-concern;

- evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- 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 annual financial statements.

We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors, 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 annual 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

The engagement partner on the audit resulting in this independent auditor's report is Derek Engelbrecht (Director and Registered Auditor). 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 Dis-Chem Pharmacies Limited for 12 years.

Ernst & Young Inc.

Director: Derek Engelbrecht
102 Rivonia Road
Johannesburg
Gauteng
South Africa
2146
22 June 2018

Group statement of comprehensive income

FOR THE YEAR ENDED 28 FEBRUARY 2018

	Notes	**2018 R'000**	2017 R'000
Revenue	7	**20 275 054**	17 897 313
Turnover	7	**19 560 462**	17 268 475
Cost of sales		**(14 790 890)**	(13 059 154)
Gross profit		**4 769 572**	4 209 321
Other income	7	**686 271**	604 861
Other expenses	8	**(4 330 728)**	(3 679 386)
Transaction costs for listing		**-**	(8 074)
Operating profit	8	**1 125 115**	1 126 722
Net financing costs		**(160 082)**	(225 240)
- Finance income	9	**28 321**	23 977
- Finance costs	9	**(188 403)**	(249 217)
Share of profit from associates		**-**	501
Profit before taxation	8	**965 033**	901 983
Taxation	10	**(266 706)**	(246 871)
Total comprehensive income for the year, net of tax		**698 327**	655 112
Profit attributable to:			
- Equity holders of the parent		**684 279**	612 346
- Non-controlling interests		**14 048**	42 766
Earnings per share (cents)	11		
- Basic		**79.6**	75.0
- Diluted		**79.6**	75.0

Group statement of financial position

AS AT 28 FEBRUARY 2018

	Notes	2018 R'000	2017 R'000
ASSETS			
Non-current assets		**1 664 286**	1 191 740
Property, plant and equipment	12	**1 182 394**	995 401
Intangible assets	13	**300 461**	40 310
Deferred taxation	14	**181 431**	156 029
Current assets		**5 465 123**	4 704 921
Inventories	15	**3 947 937**	3 233 911
Trade and other receivables	16	**1 113 313**	1 091 901
Loans receivable	17	**113 876**	72 270
Taxation receivable	28.3	**9 998**	12 141
Cash and cash equivalents	28.4	**279 999**	294 698
Total assets		**7 129 409**	5 896 661
EQUITY AND LIABILITIES			
Equity and reserves		**1 632 057**	1 106 902
Share capital	18	**6 155 554**	6 140 554
Common control reserve		**–**	(990 991)
Retained profit/(loss)		**98 546**	(4 042 661)
Other reserves		**(4 622 043)**	–
Non-controlling interest		**55 147**	23 581
Total equity		**1 687 204**	1 130 483
Non-current liabilities		**1 388 846**	1 522 378
Finance lease liability	19	**621 543**	622 907
Operating lease obligation	20	**213 198**	179 162
Contingent consideration	21	**54 500**	73 309
Loans payable	22	**499 605**	647 000
Current liabilities		**4 053 359**	3 243 800
Trade and other payables	23	**3 255 259**	2 641 215
Employee-related obligations	24	**146 014**	125 391
Deferred revenue	25	**81 292**	95 364
Contingent consideration	21	**21 749**	24 003
Finance lease liability	19	**9 943**	2 390
Loans payable	22	**198 798**	173 659
Taxation payable	28.3	**32 790**	14 719
Bank overdraft	28.4	**307 514**	167 059
Total equity and liabilities		**7 129 409**	5 896 661
Net asset value per share (weighted average number of shares)	(cents)	**196.17**	138.43
Net asset value per share (actual shares at year-end)	(cents)	**196.17**	131.56

Group statement of changes in equity

FOR THE YEAR ENDED 28 FEBRUARY 2018

	Notes	Share capital R'000 (Note 18)	Retained profit/ (loss) R'000	Common control reserve R'000	Other reserves R'000	Non-controlling interest R'000	Total R'000
Balance at 29 February 2016		1 352 074	361 483	(990 991)	–	117 117	839 683
Total comprehensive income for the year		–	612 346	–	–	42 766	655 112
Acquisition of non-controlling interests	4	–	(515 438)	–	–	(100 885)	(616 323)
Acquisition of subsidiary	5	–	–	–	–	4 510	4 510
Shares issued during the year	18	4 830 774	–	–	–	–	4 830 774
Capitalised share costs for listing	18	(42 294)	–	–	–	–	(42 294)
Shares repurchased during the year		–	(3 631 052)	–	–	–	(3 631 052)
Dividends paid	26	–	(870 000)	–	–	(39 927)	(909 927)
Balance at 28 February 2017		**6 140 554**	**(4 042 661)**	**(990 991)**	**–**	**23 581**	**1 130 483**
Total comprehensive income for the year		**–**	**684 279**	**–**	**–**	**14 048**	**698 327**
Change in ownership interest in subsidiary	4	**–**	**50 179**	**–**	**–**	**26 104**	**76 283**
Shares issued during the year	18	**15 000**	**–**	**–**	**–**	**–**	**15 000**
Transfer to other reserves[1]		**–**	**3 631 052**	**990 991**	**(4 622 043)**	**–**	**–**
Dividends paid	26	**–**	**(224 303)**	**–**	**–**	**(8 586)**	**(232 889)**
Balance at 28 February 2018		**6 155 554**	**98 546**	**–**	**(4 622 043)**	**55 147**	**1 687 204**

[1] The transfer relates to the moving of non-operating related items to a separate reserve.

Group statement of cash flows

FOR THE YEAR ENDED 28 FEBRUARY 2018

	Notes	2018 R'000	2017 R'000
Cash flow from operating activities		**348 473**	159 160
Cash inflow from trading operations	28.1	**1 323 624**	1 276 127
Movement in working capital	28.2	**(295 931)**	218 460
Finance income received		**23 836**	23 977
Finance costs paid		**(164 424)**	(201 997)
Taxation paid	28.3	**(305 743)**	(247 480)
Dividends paid		**(232 889)**	(909 927)
Cash flow from investing activities		**(396 050)**	(221 539)
Additions to property, plant and equipment and intangible assets			
– To maintain operations	12/13	**(78 242)**	(73 234)
– To expand operations	12/13	**(295 586)**	(148 225)
Proceeds on disposal of property, plant and equipment and intangible assets		**1 123**	7 432
Acquisition of subsidiary, net of cash acquired	5	**–**	(7 512)
Acquisition of assets and liabilities in business combination, net of cash acquired	5	**(23 345)**	–
Cash flow from financing activities		**(107 577)**	1 446 517
Proceeds from issue of share capital		**–**	4 381 052
Costs capitalised to issue share capital	18	**–**	(42 294)
Repurchase of shares		**–**	(3 631 052)
Long-term loans (repaid)/received	22	**(153 410)**	800 000
Contingent consideration paid	30	**(22 941)**	–
Finance lease repaid		**(6 226)**	(351)
Change in ownership interest in subsidiary	4	**75 000**	–
Acquisition of non-controlling interests		**–**	(60 838)
Net (decrease)/increase in cash and cash equivalents		**(155 154)**	1 384 138
Cash and cash equivalents at beginning of year		**127 639**	(1 256 499)
Cash and cash equivalents at end of year	28.4	**(27 515)**	127 639

Notes to the annual financial statements

FOR THE YEAR ENDED 28 FEBRUARY 2018

1. Corporate information

Dis-Chem Pharmacies Limited is incorporated in South Africa. The Group annual consolidated financial statements as at 28 February 2018 comprises the company and its subsidiaries (collectively referred to as "the Group").

2. Basis of preparation

The Group and company annual financial statements set out on pages 78 to 124 and 129 to 161 are prepared on the historical cost basis as modified by fair value adjustments, and incorporate the following principal accounting policies, which conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act of South Africa.

The Group and company annual financial statements are presented in South African Rands and are rounded to the nearest thousand, except where otherwise indicated.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the annual financial statements are set out in the relevant supporting note, unless no supporting note is presented or it impacts multiple line items. In the latter case they are presented under 3.1 below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of consolidation

The Group annual consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 28 February 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee) ;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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 year are included in the consolidated annual financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any investment retained is recognised at fair value. The resultant gain or loss is recognised in profit or loss in the period that control is lost.

3. Summary of significant accounting policies *continued*

3.2 Business combinations and goodwill

Business combinations, other than those under common control, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the fair value of the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss in the year of acquisition.

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 (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

3.3 Impairment of non-financial assets

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest Group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows per the management accounts for the next five years are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately in profit or loss.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the asset's or CGU's recoverable amount is estimated.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

3. Summary of significant accounting policies *continued*

3.3 Impairment of non-financial assets *continued*

Where an impairment loss subsequently reverses, the carrying amount of an asset (or CGU) is increased to the revised estimate of its recoverable amount. This is done so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated at each reporting date. Whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, an impairment loss is recognised in profit or loss. As goodwill is not capable of generating cash flows independently of other assets, in assessing the recoverable amount of goodwill, it is allocated to CGUs on a reasonable and consistent basis. The recoverable amount of the CGU (including an allocation of goodwill) is assessed with reference to the future cash flows of the CGU. Where an impairment is identified for a CGU, the impairment is applied first to the goodwill allocated to the CGU and then to other assets on a *pro rata* basis comprising the CGU, provided that each identifiable asset is not reduced to below its recoverable amount.

3.4 Common control reserve

Common control transactions are accounted for using the pooling of interest method with the difference between the carrying amount and consideration recognised in a separate reserve in equity.

3.5 Other reserves

Other reserves relates to equity that is non-operating in nature, for example repurchase of shares and reserves arising on the acquisition of entities previously controlled by the group.

3.6 Significant accounting estimates, judgements and assumptions

The presentation of the results of operations, financial position and cash flows in these annual financial statements is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Group's accounting policies. These, together with the key assumptions concerning the future, and other key sources of the estimation uncertainty at the reporting date, are discussed:

Advertising agreements

The Group enters into cooperative advertising agreements with its suppliers. A cooperative advertising agreement provides that the manufacturer will participate in the advertising cost of the Group. Significant judgement is required to determine whether the reimbursement of advertising costs received by the Group from the manufacturer should be accounted for as other income or as a reduction against cost of sales.

The Group accounts for the reimbursement as part of "other income" when both of the following criteria are met:

- The manufacturer receives, or will receive, an identifiable advertising service in exchange for the reimbursement. In order to meet this condition, the advertising service must be sufficiently separable from the Group's purchase of the manufacturer's products such that the manufacturer could have entered into an exchange transaction with a party other than a purchaser of its products or services in order to receive that advertising service.
- The Group can reasonably estimate the fair value of the advertising services. If the amount of reimbursement paid by the manufacturer exceeds the estimated fair value of the advertisement services, that excess amount is characterised as a reduction of cost of sales when recognised in the Group's income statement.

Loyalty benefit point scheme

Loyalty benefit points are redeemed through additional sales to customers. Historical redemption rates of the points are used to determine the extent to which the points which are accrued by customers are likely to be redeemed and therefore the extent they are provided for.

The Group experiences low levels of unredeemed loyalty points due to the ease with which customers can redeem them at point of sale. The points are derecognised upon redemption by the customers.

Ownership of Oncology

The Group owns 50% of the share capital of Oncology Proprietary Limited but due to the ability to appoint the majority of directors and control the operations of Oncology, the company is still consolidated by the Group.

3. Summary of significant accounting policies *continued*

3.7 New and amended standards and interpretations effective for the period ended 28 February 2018

The following new or revised standards became effective in the current period but had no significant impact on the financial position or performance of the Group:

- Amendment to IAS 7 Disclosure Initiative – additional disclosure has been included in the annual financial statements in regards to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Profits
- AIP IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12

3.8 International Financial Reporting Standards issued; not yet effective

The Group has not applied various IFRS and IFRIC interpretations that have been issued, but which are not yet effective, and does not plan on early adoption (unless otherwise stated). These are as follows:

Standard	Pronouncement	Scope	Effective Date
IFRS 9 Financial Instruments	New standard	IFRS 9 combines the classification and measurement of financial assets and liabilities, the expected credit loss impairment model for financial assets measured at amortised cost and fair value through other comprehensive income and hedge accounting that is to replace the current accounting under IAS 39. Management has put together a project team to assess the impact that the new standard will have on the classification of financial assets as well as calculation of impairment losses. Based on the company's and Group's current portfolio of financial instruments, management does not expect the standard to have a significant impact on performance except for a possible increase in the allowance for impairment losses. This is not expected to be material due to the nature of the trade debtors.	1 January 2018

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

3. Summary of significant accounting policies *continued*

3.8 International Financial Reporting Standards issued; not yet effective *continued*

Standard	Pronouncement	Scope	Effective Date
IFRS 15 Revenue from Contracts from Customers	New standard	IFRS 15 establishes a single, comprehensive framework for determining when to recognise revenue and the amount of revenue to be recognised. IFRS 15 replaces the previous revenue standards that are currently in place. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in the standard to assist entities in applying its requirements to determining the consideration paid to a customer, variable consideration, common arrangements, including licences, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services, and breakage. These could be relevant to the Group. The new standard is more prescriptive than current IFRS and the disclosure requirements are more extensive. Management has put together a project team to assess the impact the new standard will have on the Group's and company's recognition of revenue, and the additional disclosure that it will need to provide. The Group does not expect significant changes to current accounting practices, an impact of less than 1% of current revenue. Accounting for contract liabilities and right of return assets for the Group's return policies could change current accounting practice.	1 January 2018
IFRS 16 Leases	New standard	IFRS 16 will require lessees to recognise most leases, subject to certain policy elections and exemptions, "on balance sheet" as lease liabilities with corresponding right-of-use assets, similar to what is currently done for finance leases. The accounting by lessors under the new standard is substantially unchanged from current accounting. Management has put together a project team to assess the impact the new standard will have on the Group's and company's results and is expected to be adopted in the year the standard becomes effective for the Group. The quantitative impact of this standard is expected to be material due to the number of store leases in place.	1 January 2019

3. Summary of significant accounting policies *continued*

3.8 International Financial Reporting Standards issued; not yet effective *continued*

Standard	Pronouncement	Scope	Effective Date
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments		The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. This interpretation is not expected to impact the Group or company.	1 January 2019
IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2		The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: – The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction. – The classification of a share-based payment transaction with net settlement features for withholding tax obligations. – The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity settled. This interpretation is not expected to impact the Group or company.	1 January 2018

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

4. Group information

Majority shareholder

The majority shareholder of the Group is Ivlyn No4 Proprietary Limited that holds 52.67% (2017 Ivlyn Proprietary Limited: 53.14%) of the shares. During the current period, Ivlyn Proprietary Limited disposed of its shares to Ivlyn No 4 Proprietary Limited for the purpose of the re-organisation of the Saltzman family's interest in Dis-Chem.

Subsidiaries

The consolidated financial statements of the Group include:

(All companies are incorporated in South Africa except for Dis-Chem Swakopmund Proprietary Limited and Dunes Walvis Bay Pharmacy Proprietary Limited that are incorporated in Namibia)

	% equity interest	
Name	**2018**	2017
Pharmaceutical retailer		
Dis-Chem Riverside Lifestyle Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Hemmingways Proprietary Limited	**100.0**	100.0
Dis-Chem Cape Road Proprietary Limited	**100.0**	100.0
Dis-Chem Garden Route Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Mooi River Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Ballito Junction Proprietary Limited	**70.0**	70.0
Dis-Chem Krugersdorp Proprietary Limited	**51.0**	51.0
Dis-Chem Brooklyn Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Woodlands Boulevard Proprietary Limited	**100.0**	100.0
Dis-Chem Savannah Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Three Rivers Proprietary Limited	**75.0**	75.0
Dis-Chem Bay-side Proprietary Limited	**100.0**	100.0
Dis-Chem The Galleria Amanzimtoti Proprietary Limited	**80.0**	80.0
Dis-Chem Glen Fair Proprietary Limited	**51.0**	51.0
Dis-Chem Jeffrey's Bay Proprietary Limited	**100.0**	100.0
Dis-Chem Flamewood Value Centre Proprietary Limited	**66.7**	66.7
Dis-Chem Nicolway Proprietary Limited	**100.0**	100.0
Dis-Chem Glenacres Proprietary Limited	**100.0**	100.0
Dis-Chem Festival Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Secunda Proprietary Limited	**100.0**	100.0
Dis-Chem Park Station Proprietary Limited	**89.6**	89.6
Dis-Chem Worcester Proprietary Limited	**95.0**	95.0
Dis-Chem North Cape Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Highveld Mall Proprietary Limited	**100.0**	100.0
The Local Choice Proprietary Limited	**100.0**	100.0
Pharma-Logistical Solutions Proprietary Limited	**100.0**	100.0
Oncology Proprietary Limited	**50.0**	100.0
Platinum Park Proprietary Limited	**100.0**	100.0
Rynfield Terrace Proprietary Limited	**80.0**	80.0
Dis-Chem Swakopmund Proprietary Limited	**100.0**	100.0
Dunes Walvis Bay Pharmacy Proprietary Limited*	**100.0**	n/a
Dis-Chem Maponya Proprietary Limited*	**90.0**	n/a

4. Group information *continued*

Name	% equity interest 2018	2017
Dis-Chem Jubilee Proprietary Limited*	**100.0**	n/a
Dis-Chem Ballito Lifestyle Proprietary Limited*	**100.0**	n/a
Wholesaler of pharmaceutical products and supporting services		
Dis-Chem Distribution Proprietary Limited	**100.0**	100.0
CJ Pharmaceutical Enterprises Limited	**100.0**	100.0
Evening Star Trading Proprietary Limited (t/a Nelspruit Pharmaceutical Wholesaler)	**51.3**	51.3
CJ Marketing Proprietary Limited	**100.0**	100.0
The Pharmacy Development Academy Proprietary Limited	**70.0**	70.0
Dis-Chem Midrand Property Limited	**100.0**	100.0

* During the current and prior period, the company opened new stores which exist within a statutory entity or a new statutory entity. These entities were not acquired from a third party and therefore were not treated as business combinations

In the current year, the Group sold 50% of their interest in Oncology Proprietary Limited for R75 million and 10% of their interest in Dis-Chem Maponya for R1 million. Due to the ability to appoint the majority of directors and control the operations of Oncology, the company is still consolidated by the Group.

The effect on equity from the change in ownership is as follows:

	Retained profit/(loss) R'000	Non-controlling interest R'000
Oncology		
Gain on sale	48 896	–
Increase in non-controlling interest	–	26 104
Maponya		
Gain on sale	1 283	–
Increase in non-controlling interest	–	–
	50 179	26 104

In the prior year, the Group acquired the non-controlling interest of 14 entities for an amount of R461 million in Dis-Chem shares, R60.8 million in cash and R94 million in contingent consideration based on the future performance of the stores.

There were no material non-controlling interests identified within the Group in the current and prior financial period. The Group assesses the share of non-controlling interest in profit after tax to be material if the interest is higher that 10% (2017: 10%) of consolidated profit after tax.

Associates

The Group's investment in its associate is accounted for using the equity method.

The Group has a 40% interest in Dis-Chem Bothamed Proprietary Limited which has an accumulated loss of R2.6 million.

Notes to the group annual financial statements
continued

FOR THE YEAR ENDED 28 FEBRUARY 2018

5. Acquisitions

Acquisitions in 2018	Principal activity	Acquisition
Optipharm Proprietary Limited	Pharmaceutical courier	1 April 2017
Market Street TLC	Retail pharmacy	1 August 2017
Heidelberg TLC	Retail pharmacy	1 November 2017

On 1 April 2017, the Group acquired certain assets and liabilities of Optipharm Proprietary Limited, a pharmaceutical courier based in South Africa. These assets and liabilities were bought by Pharma-Logistical Solutions Proprietary Limited, a 100%-owned subsidiary in the Group.

On 1 August 2017 and 1 November 2017, the Group acquired certain assets, liabilities and operations of Heidelberg TLC and Market Street TLC, two retail pharmacies based in South Africa.

Assets acquired and liabilities assumed
The fair values of the identifiable assets and liabilities of these companies as at the date of acquisition were:

	Heidelberg R'000	Market R'000	Optipharm R'000	Total R'000
Assets				
Property, plant and equipment	34	–	5 467	5 501
Software	–	–	10 560	10 560
Trade receivables[1]	–	–	8 767	8 767
Other intangibles[2]	–	–	121 273	121 273
Inventory	643	–	–	643
Cash and cash equivalents	–	–	5 082	5 082
	677	–	151 149	151 826
Liabilities				
Trade and other payables	–	–	(173 989)	(173 989)
Finance lease	–	–	(1 272)	(1 272)
Bank overdraft	–	–	(25 000)	(25 000)
Loan payable	–	(3 670)	(10 000)	(13 670)
Deferred tax	–	–	(33 849)	(33 849)
	–	(3 670)	(244 110)	(247 780)
Total identifiable net assets/(liabilities) at fair value	677	(3 670)	(92 961)	(95 954)
Goodwill arising on acquisition	2 750	3 670	92 961	99 381
Purchase consideration transferred	3 427	–	–	3 427

(1) The carrying amount reflects the gross contractual amounts receivable and we expected to receive the full amount at date of acquisition

(2) Other intangibles consist of the customer list valued at R28 million and distribution rights valued at R93 million (refer to note 13).

The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised.

Net cash acquired	–	–	(19 918)	(19 918)
Cash paid	(3 427)	–	–	(3 427)
Net cash flow on acquisition	(3 427)	–	(19 918)	(23 345)

The assets and liabilities of Optipharm that were acquired were assimilated into Pharma-Logistical Services and therefore the specific revenue and profit before tax impact to the group cannot be determined. The revenue and profit before tax of Heidelberg and Market Street are not material.

5. Acquisitions *continued*

Acquisitions in 2017	Principal activity	Acquisition	Acquired (%)
Evening Star Trading Proprietary Limited	Pharmaceutical wholesaler	1 September 2016	51.3
The Pharmacy Development Academy Proprietary Limited	Training	1 September 2016	70.0
Dis-Chem Platinum Park Proprietary Limited	Retail pharmacy	1 September 2016	100.0

On 1 September 2016, the Group acquired an additional interest in the voting shares of Evening Star Trading Proprietary Limited and The Pharmacy Development Academy Proprietary Limited, unlisted companies based in South Africa and specialising in the wholesale of pharmaceutical products and training activities. Prior to 1 September the Group held 26% and 35% respectively in these companies.

On 1 August 2016, the Group acquired the assets and liabilities of Platinum Park Proprietary Limited, an unlisted pharmaceutical company based in South Africa.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of these companies as at the date of acquisition were:

	Evening Star R'000	Pharmacy Development R'000	Platinum Park R'000	Total R'000
Assets				
Property, plant and equipment	109	11	1 722	1 842
Inventory	5 869	–	2 599	8 468
Trade receivables[1]	12 511	337	714	13 562
Cash and cash equivalents	886	1 013	19	1 918
Other	156	–	–	156
	19 531	1 361	5 054	25 946
Liabilities				
Trade payables	(8 392)	(586)	(3 294)	(12 272)
Loans	(844)	(1 523)	–	(2 367)
Other	(531)	(59)	–	(590)
	(9 767)	(2 168)	(3 294)	(15 229)
Total identifiable net assets/(liabilities) at fair value	9 764	(807)	1 760	10 717
Non-controlling interest at proportionate share	(4 752)	242	–	(4 510)
Derecognition of equity accounted investments	(2 436)	–	–	(2 436)
Goodwill arising on acquisition	274	565	7 670	8 509
Purchase consideration transferred	2 850	–	9 430	12 280

[1] The carrying amount reflects the gross contractual amounts receivable and we expected to receive the full amount at date of acquisition

The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

5. Acquisitions *continued*

	Evening Star R'000	Pharmacy Development R'000	Platinum Park R'000	Total R'000
Net cash acquired	886	1 013	19	1 918
Cash paid	–	–	(9 430)	(9 430)
Net cash flow on acquisition	886	1 013	(9 411)	(7 512)

No cash payment occurred for the acquisition of the Evening Star and Pharmacy Development companies as the consideration was made through the issue of 126 498 (before the 150-for-1 share split) Dis-Chem Pharmacies shares measured at the listing price.

From the date of acquisition, the following revenue and profit before tax was contributed to the Group:

	Evening Star R'000	Pharmacy Development R'000	Platinum Park R'000	Total R'000
Revenue	21 260	1 200	19 883	42 343
Loss before tax	(575)	(39)	(1 486)	(2 100)

If the acquisitions had taken place at the beginning of the year, the following revenue and profit before tax would have been contributed to the Group:

	Evening Star R'000	Pharmacy Development R'000	Platinum Park R'000	Total R'000
Revenue	57 134	3 020	40 314	100 468
Profit/(Loss) before tax	1 261	209	(1 150)	320

6. Segmental information

An operating segment is defined as a component 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 chief operating decision-maker in order to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The Group has identified two reportable segments. The following describes the operations in each of the reportable segments:

Retail

Retail consists of the Dis-Chem stores, retailers of pharmaceutical and a variety of health and beauty products, as well as pharma-logistic services and oncology and retailers of pharmaceutical products. All retail stores have been aggregated into one segment as they have similar economic characteristics, products and services, type of customer and distribution methods.

Wholesale

Wholesale consists of the CJ Wholesale and Dis-Chem Distribution businesses, wholesalers of pharmaceutical and a variety of health and beauty products. The wholesale subsidiaries have been aggregated into one segment as they have similar economic characteristics, products and services, type of customer and distribution methods.

There are no external customers that account for more than 10% of the Group's revenue in the current and prior financial year.

6. Segmental information *continued*

Geographic information

With the exception of two stores in Namibia, the Group operates in one principal geographical area, that being South Africa.

	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
2018				
External customers	17 987 562	1 572 900	-	19 560 462
Inter-segment	-	11 481 381	(11 481 381)	-
Total turnover	17 987 562	13 054 281	(11 481 381)	19 560 462
Cost of sales	(13 619 454)	(12 063 447)	10 892 011	(14 790 890)
Gross profit	4 368 108	990 834	(589 370)	4 769 572
Other income	704 331	47 686	(65 746)	686 271
Other expenses (excluding depreciation and amortisation)	(3 626 131)	(1 166 498)	635 353	(4 157 276)
Depreciation and amortisation	(132 561)	(40 891)	-	(173 452)
Net finance costs	(101 945)	(58 137)	-	(160 082)
Share of profit from associates	-	-	-	-
Profit/(loss) before tax	1 211 802	(227 006)	(19 763)	965 033
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 446 308	(127 978)	(19 763)	1 298 567
Capital expenditure	(308 842)	(64 986)	-	(373 828)
Total assets	5 247 177	4 332 658	(2 450 426)	7 129 409
Total liabilities	3 211 671	3 117 477	(886 943)	5 442 205
	%	%		%
Gross profit margin	24.3	7.6		24.4
EBITDA margin	8.0	(1.0)		6.6
Operating margin	7.3	(1.3)		5.8

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

6. Segmental information *continued*

	Retail R'000	Wholesale R'000	Inter-group/ consolidation R'000	Total R'000
2017				
External customers	15 646 131	1 622 344	–	17 268 475
Inter-segment	–	9 295 733	(9 295 733)	–
Total turnover	15 646 131	10 918 077	(9 295 733)	17 268 475
Cost of sales	(11 853 918)	(9 995 286)	8 790 050	(13 059 154)
Gross profit	3 792 213	922 791	(505 683)	4 209 321
Other income	611 091	90 469	(96 699)	604 861
Other expenses (excluding depreciation and amortisation)	(3 176 755)	(884 352)	535 675	(3 525 432)
Depreciation and amortisation	(126 036)	(35 992)	–	(162 028)
Net finance costs	(125 639)	(99 601)	–	(225 240)
Share of profit from associates	–	–	501	501
Profit/(loss) before tax	974 874	(6 685)	(66 206)	901 983
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 226 549	128 908	(66 707)	1 288 750
Capital expenditure	(191 249)	(30 210)	–	(221 459)
Total assets	4 711 001	4 329 291	(3 143 630)	5 896 662
Total liabilities	3 123 181	2 955 555	(1 312 557)	4 766 179
	%	%		%
Gross profit margin	24.2	8.5		24.4
EBITDA margin	7.8	1.2		7.5
Operating margin	7.0	0.9		6.5

7. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Turnover comprises sales of fast-moving consumer goods, net of returns, discounts, and is stated exclusive of value-added tax. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount can be reliably measured. Significant risk and rewards of ownership are transferred when the customer takes ownership of the goods and the Group has no continued management involvement. For retail transactions this generally occurs when the customer takes delivery at the point of sale. For wholesale transactions this generally occurs when the goods are delivered to the customer.

Finance income is recognised utilising the effective interest rate method, being the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in profit or loss.

Unless specifically stated otherwise, other income is recognised with reference to the stage of completion of the transaction at the end of the reporting period if the outcome of a transaction can be estimated reliably. However, when a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Please refer to note 3.6 for the discussion of the advertising income and the significant judgements and estimates.

	2018 R'000	2017 R'000
Turnover	**19 560 462**	17 268 475
Finance income	**28 321**	23 977
Other income	**686 271**	604 861
– Advertising income and marketing	**282 724**	291 603
– Commission income	**44 547**	54 825
– Franchisee income	**11 326**	6 693
– Data fees	**202 585**	71 868
– Gain from renegotiated lease terms	**–**	109 344
– Insurance refund received	**2 331**	10 871
– Payroll-related recovery	**33 973**	13 494
– Profit on sale of assets	**33**	6
– Rental related recovery	**38 636**	11 601
– Foreign exchange gain	**10 650**	–
– Contingent consideration release	**10 735**	–
– Other*	**48 731**	34 556
	20 275 054	17 897 313

* Other consists of conference income and other sundry income

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

8. Profit before tax

Profit before taxation has been determined after taking into account the following:

	2018 R'000	2017 R'000
Expenses		
Depreciation of tangible assets (note 12)	**158 846**	152 205
Amortisation of intangible assets (note 13)	**14 606**	9 823
Computer expenses	**160 687**	137 796
Advertising expenses	**280 974**	253 995
Commission	**97 318**	116 012
Bank charges	**46 935**	42 961
Donations	**18 418**	28 559
Security	**81 011**	60 718
Foreign exchange loss	**-**	35 812
Write-off and loss on sale of assets	**-**	429
Occupancy costs	**601 463**	504 417
– Lease payments	**383 662**	338 937
– Other (including electricity and rates)	**217 801**	165 480
Employee benefits	**2 488 280**	2 038 179
– Salaries and benefits	**2 254 773**	1 858 254
– Pension costs	**74 962**	60 478
– Medical aid	**41 273**	34 120
– Leave pay	**15 781**	17 840
– Other	**101 491**	67 487

For details on directors' emoluments and key management personnel refer to note 29.

The write-off in the prior year mainly relates to the fixture and fittings in the Bloemfontein store that were written off due to the flooding that occurred. Included in other income is insurance recovery of R3.3 million.

9. Net financing costs

Finance income

Finance income is recognised utilising the effective interest method, being the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in profit or loss.

Finance costs

All borrowing costs are recognised in profit or loss using the effective interest method, unless the borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, in which case the directly attributable costs are capitalised.

	2018 R'000	2017 R'000
Finance income	**28 321**	23 977
– Bank accounts	**19 307**	22 099
– Loans	**5 991**	–
– SARS	**2 994**	218
– Other	**29**	1 660
Finance costs	**188 403**	249 217
– Bank overdraft	**46 397**	139 271
– Bank loan	**66 254**	15 573
– Finance lease	**59 418**	89 099
– SARS	**1 811**	1 923
– Loans	**3 317**	–
– Contingent consideration	**10 744**	3 285
– Other	**462**	66
Net financing costs	**160 082**	225 240

10. Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred taxation is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

10. Taxation *continued*

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits, and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

	2 018 R'000	2 017 R'000
South African normal tax		
Current income tax		
– Current year	**322 344**	279 352
– Prior year under provision	**3 613**	14 786
Deferred tax		
– Attributable to temporary differences	**(58 545)**	(36 383)
– Prior year over provision	**(706)**	(10 884)
	266 706	246 871

	%	%
Reconciliation of tax rate		
Standard tax rate	**28.00**	28.00
Prior year net under-provision	**0.08**	0.43
Adjusted for permanent differences:		
Non-taxable:		
ETI and learnership	**(0.83)**	(0.77)
Tenant allowance	**(0.62)**	(0.13)
Contingent consideration	**(0.26)**	–
Non-deductable:		
Legal fees	**–**	0.01
SARS interest and penalties	**0.05**	0.07
Listing costs	**–**	0.25
Unwinding of contingent liability	**0.31**	0.10
S18A donations brought forward	**–**	(0.43)
Expenditure	**0.59**	–
Other*	**0.32**	(0.16)
Effective tax rate	**27.64**	27.37

* Other consists mainly of fines and consulting fees

11. Earnings per share

Earnings per share is calculated using the weighted average number of ordinary shares in issue during the period and is based on the profit after tax attributable to equity holders of the parent.

Headline earnings per share

Headline earnings per share (HEPS) is determined as per the JSE Listings Requirements as set out in the HEPS circular 4/2018.

Adjusted headline earnings per share

Adjusted Headline earnings per share is a performance measure derived from HEPS for three categories of items:

1) Items deemed to relate to capital structure of the Group – these items are removed from HEPS as management believes it relates to the capital structure of the Group but is not explicitly dealt with in the HEPS circular.
2) Items related to neither Retail nor Wholesale general operations – these items represent income and expenses that arise outside of the Group's core retail and wholesale business.
3) Items not expected to reoccur – these items are income and expenses that management does not expect to reoccur in the foreseeable future.

The calculation of headline earnings per share is based on the weighted average number of ordinary shares. The calculation is reconciled as follows:

	2018 R'000	2017 R'000
Profit attributable to equity holders of the parent	**684 279**	612 346
Net (profit)/loss on disposal of property, plant and equipment and intangible assets	**(25)**	423
Insurance recovery from third parties	**–**	(3 245)
Taxation	**7**	790
Headline earnings	**684 261**	610 314
Items deemed to relate to capital structure of the Group		
Finance lease obligation renegotiation	**–**	(80 136)
Operating lease renegotiations	**–**	(29 208)
Items related to neither Retail nor Wholesale general operations		
Fair value (gain)/loss relating to non-hedging derivatives	**(10 650)**	35 812
Items not expected to reoccur		
Transaction costs on listing	**–**	8 074
Taxation	**2 982**	20 589
Adjusted headline earnings	**676 593**	565 445
Earnings per share (cents)		
– Basic	**79.6**	75.0
– Diluted	**79.6**	75.0
Headline earnings per share (cents)		
– Basic	**79.6**	74.7
– Diluted	**79.6**	74.7
Adjusted headline earnings per share (cents)		
– Basic	**78.7**	69.2
– Diluted	**78.7**	69.2

Notes to the group annual financial statements
continued

FOR THE YEAR ENDED 28 FEBRUARY 2018

	2018	2017
Reconciliation of shares in issues to weighted average number of shares in issue		
Total number of shares in issue at beginning of the year	**859 273 673**	5 296 308
Shares issued during the year before the share split weighted for the period outstanding	**-**	62 383
Share in issue before the share split	**859 273 673**	5 358 691
Share split	**-**	798 444 959
Shares repurchased after the share split during the year weighted for the period outstanding	**-**	(54 858 637)
Shares issued after the share split during the year weighted for the period outstanding	**799 703**	67 672 225
Total weighted number of shares in issue at the end of the year	**860 073 376**	816 617 238

On 30 September 2016, a 150-for-1 share split took place and therefore increased the number of shares in issue. This has been taken into account in the above calculation of the weighted average number of shares as if the shares were in issue for the whole year and all earlier years presented.

The total weighted average number of shares in issue for the year equals the total weighted average diluted number of shares in issue for the year as the Group has no share options or other instruments that would result in a dilutive impact.

12. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. Property, plant and equipment are depreciated on the straight-line basis at rates estimated to write each asset down to their residual value over the term of its useful life.

Initial and subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

All assets are depreciated from the date they are available-for-use, on a straight-line basis, to allocate their cost to their residual value over their estimated useful life. Depreciation ceases at the earlier of either the date the asset is classified as held for sale or the date the asset is derecognised.

The estimated useful lives are as follows:

– Computer hardware	Three to five years
– Office equipment	Four to eight years
– Improvements to leased premises	Remaining lease term
– Motor vehicles	Three to five years
– Furniture and fittings	Four to eight years

The residual values, useful lives and depreciation methods of property plant and equipment are reviewed at each reporting date and adjusted if appropriate. At each reporting date it is assessed whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount is estimated.

Where carrying values exceed the estimated recoverable amounts, tangible assets are written down to their recoverable amounts and the impairment is recognised in profit or loss immediately.

Please refer to note 3.3 on impairment of non-financial assets, where the recoverable amount is discussed.

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. These gains or losses are included in profit or loss in the period of derecognition.

12. Property, plant and equipment *continued*

	Computer hardware R'000	Leased land and buildings R'000	Office equip-ment* R'000	Leasehold improve-ments R'000	Furniture and fixtures# R'000	Motor vehicles R'000	Total R'000
2018							
Cost	231 398	619 000	138 134	466 743	437 868	58 517	1 951 660
Opening balance	187 897	619 000	103 853	407 383	379 655	41 049	1 738 837
Additions	57 769	-	41 126	59 360	165 097	18 076	341 428
Disposals	(14 268)	-	(6 845)	-	(111 860)	(1 133)	(134 106)
Acquisitions	-	-	-	-	4 976	525	5 501
Accumulated depreciation	(148 028)	(18 252)	(76 614)	(339 839)	(155 316)	(31 217)	(769 266)
Opening balance	(135 881)	(3 650)	(68 807)	(319 166)	(191 613)	(24 319)	(743 436)
Current charge	(26 290)	(14 602)	(14 342)	(20 673)	(75 439)	(7 500)	(158 846)
Disposals	14 143	-	6 535	-	111 736	602	133 016
Net carrying amount	83 370	600 748	61 520	126 904	282 552	27 300	1 182 394
2017							
Cost	187 897	619 000	103 853	407 383	379 655	41 049	1 738 837
Opening balance	153 825	619 000	83 962	385 607	264 719	40 244	1 547 357
Additions	35 948	-	30 811	25 764	121 555	1 010	215 088
Disposals	(1 876)	-	(10 920)	(3 988)	(8 461)	(205)	(25 450)
Acquisitions	-	-	-	-	1 842	-	1 842
Accumulated depreciation	(135 881)	(3 650)	(68 807)	(319 166)	(191 613)	(24 319)	(743 436)
Opening balance	(107 987)	(9 857)	(58 154)	(289 661)	(142 840)	(19 879)	(628 378)
Current charge	(28 543)	(13 506)	(15 166)	(32 756)	(56 275)	(5 959)	(152 205)
Disposals	649	-	4 513	3 251	7 502	1 519	17 434
Adjustment to lease	-	19 713	-	-	-	-	19 713
Net carrying amount	52 016	615 350	35 046	88 217	188 042	16 730	995 401

* Includes air conditioners, security equipment, medical and clinic equipment, office equipment, PABX, media equipment and machinery and equipment.

\# Includes salon equipment, fixtures and fittings, shop equipment, signs and furniture.

The motor vehicles held under finance leases amounts to R18.3 million (2017: R5.9 million). These motor vehicles are held as security for the finance leases (refer to note 19).

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

12. Property, plant and equipment *continued*

The Absa loan was secured by the cession of the book debts in and general notarial bond for R2.2 billion over movable assets of Dis-Chem Pharmacies Limited.

During the current year the re-assessment of useful lives resulted in a decrease in depreciation of R18 million.

13. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The estimated useful lives are as follows:

– Computer software	Two to four years
– Distribution right	15 years
– Customer list	Seven years
– Licences	Indefinite

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

	Computer software R'000	Licences R'000	Goodwill R'000	Customer list R'000	Distribution right R'000	Total R'000
2018						
Cost	89 689	3 181	128 304	28 136	93 137	342 447
Opening balance	35 754	3 181	28 923	–	–	67 858
Additions	43 543	–	–	–	–	43 543
Acquisitions	10 560	–	99 381	28 136	93 137	231 214
Disposals	(168)	–	–	–	–	(168)
Accumulated amortisation	(33 615)	–	–	(2 679)	(5 692)	(41 986)
Opening balance	(27 548)	–	–	–	–	(27 548)
Current charge	(6 235)	–	–	(2 679)	(5 692)	(14 606)
Disposals	168	–	–	–	–	168
Net carrying amount	56 074	3 181	128 304	25 457	87 445	300 461

13. Intangible assets *continued*

	Computer software R'000	Licences R'000	Goodwill R'000	Total R'000
2017				
Cost	35 754	3 181	28 923	67 858
Opening balance	29 535	3 181	20 414	53 130
Additions	6 371	–	8 509	14 880
Disposals	(152)	–	–	(152)
Accumulated amortisation	(27 548)	–	–	(27 548)
Opening balance	(17 877)	–	–	(17 877)
Current charge	(9 823)	–	–	(9 823)
Disposals	152	–	–	152
Net carrying amount	8 206	3 181	28 923	40 310

Carrying amount of goodwill and licences allocated to each of the CGUs:

	2018 R'000	2017 R'000
Goodwill		
Wholesale		
CJ Pharmaceutical Enterprises Limited	**19 327**	19 327
CJ Marketing Proprietary Limited	**1 087**	1 087
Evening Star Trading Proprietary Limited	**274**	274
The Pharmacy Development Academy Proprietary Limited	**565**	565
Retail		
Dis-Chem Platinum Park Proprietary Limited	**7 670**	7 670
TLC – Market Street	**3 670**	–
TLC – Heidelberg	**2 750**	–
Optipharm included in Pharma-Logistical Services Proprietary Limited	**92 961**	–
	128 304	28 923
Licences		
Retail		
Dis-Chem Pharmacies Limited	**2 781**	2 781
Dis-Chem Cape Road Proprietary Limited	**400**	400
	3 181	3 181

The licences relate to the trading of Dis-Chem Pharmacies and Dis-Chem Cape Road. As there is no foreseeable limit to the period over which these companies will trade, the licence is considered to have an indefinite useful life. This assumption is re-assessed each period and no impairment is required in the current or prior period.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

13. Intangible assets *continued*

The CGUs are based on the relevant statutory entities except for the TLC stores which are based on the underlying profit centre. The recoverable amount of the above CGUs as at the reporting date, has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 12.6% (2017: 13.6%) for wholesale companies, 10.3% (2017: 13.4%) for the retail pharmacies and 11.7% for Pharma-Logistical Services. Cash flows beyond the five-year period are extrapolated using a 3% (2017: 3%) growth rate. As a result of the analysis, management did not identify an impairment in the current or prior financial period.

No reasonably possible change in assumptions will result in an impairment loss being recognised in the current and prior financial period.

14. Deferred tax

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax and the asset or liability relates to the same taxation authority and the same taxable entity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Tax relating to items recognised directly in equity are also recognised directly in equity and not in the statement of comprehensive income.

Also refer to accounting policy under note 10.

	2018 R'000	2017 R'000
Deferred taxation asset		
Balance at the beginning of the year	**156 029**	108 762
Movements during the year		
– Charge to income statement	**59 251**	47 267
– Acquisition	**(33 849)**	–
Balance at end of year	**181 431**	156 029
The deferred tax asset balance is made up as follows:		
Employee-related obligations	**40 874**	35 082
Straight-lining of leases	**66 173**	54 614
Deferred revenue and S24C allowance	**23 839**	29 225
Finance lease	**5 173**	1 314
Prepayment	**(2 952)**	(748)
Tax losses	**94 757**	38 289
Inventory	**(4 915)**	5 547
Property, plant and equipment	**(7 808)**	(7 771)
Intangible assets	**(33 849)**	–
Other*	**139**	477
	181 431	156 029

* Other consists of income received in advance and provision for bad debts

15. Inventories

Inventories comprise merchandise for resale and are valued at the lower of cost determined on a weighted average moving cost basis and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. The cost of merchandise sold includes normal shrinkage, wastage, inventory losses, trade discounts, rebates and other similar items. Obsolete and slow moving inventories are identified and written down to their net realisable value. The carrying amount of inventory is recognised as an expense in the period in which the related revenue is recognised.

The Group enters into various rebate agreements with its vendors in regards to the purchasing of inventory. These rebates are recorded as a reduction to the cost of the related inventory to the extent that the inventories have been sold. Certain of these agreements are based on the achievement of specific volumes of purchases over a specified period, including escalating rebates as certain pre-defined hurdles are met. The Group accrues these growth rebates at the point when it is probable that the hurdles will be met.

	2018 R'000	2017 R'000
Finished goods	**3 947 937**	3 233 911
Cost of inventories recognised as cost of sales	**14 790 890**	13 059 154

During the prior year, R8 million of inventory was written off due to the flooding in the Bloemfontein store.

16. Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business and are accounted for as loans and receivables in accordance with the accounting policy disclosed in note 30. Prepayments and other receivables are stated at their nominal values.

	2018 R'000	2017 R'000
Trade receivables	**403 766**	541 964
Provision for bad debts	**(3 859)**	(2 958)
Net trade receivables	**399 907**	539 006
Other receivables	**651 756**	510 998
Related parties (note 29)	**41 095**	–
Prepayment	**20 555**	41 897
	1 113 313	1 091 901
Provision for bad debt		
Opening balance	**(2 958)**	(588)
Provision raised	**(901)**	(2 370)
Closing balance	**(3 859)**	(2 958)

Trade receivables are non-interest-bearing and are generally on terms of seven to 30 days.

Other receivables are non-interest-bearing and generally on terms of 30 days. Other receivables consist of rebates and logistic fee receivables as well as credit card debtors and other sundry receivables.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

16. Trade and other receivables *continued*

As at 28 February, the age analysis of trade receivables is as follows:

	Total R'000	Neither past due nor impaired R'000	Past due but not impaired				
			<30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2018	399 907	328 859	46 323	9 186	6 626	797	8 116
2017	539 006	387 305	54 874	21 320	21 532	42 676	11 299

As at 28 February, the age analysis of other receivables is as follows:

	Total R'000	Neither past due nor impaired R'000	Past due but not impaired				
			<30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2018	651 756	513 609	30 746	22 375	26 992	14 034	44 000
2017	510 998	386 919	23 307	18 552	21 196	14 637	46 387

Trade debtors over 120 days in the current and prior year are mainly on payment plans and have been meeting the payment requirements and therefore not provided for at year-end. An amount of R106 million, that is past due but not impaired as at 28 February 2017, relates to Optipharm that was acquired by the Group in the current year.

Refer to note 30 on credit risk management of trade and other receivables.

The Absa loan was secured by the cession of the book debts in and general notarial bond for R2.2 billion over movable assets of Dis-Chem Pharmacies Limited.

Trade and other receivables relating to CJ Pharmaceutical Enterprises Limited amounting to R395 million (2017: R422 million) were pledged as security for the overdraft facilities with Nedbank.

17. Loans receivable

Loans are accounted for as financial assets in accordance with the accounting policy disclosed in note 30.

	2018 R'000	2017 R'000
NCI shareholders loans	8 280	4 703
Related parties (note 29)	60 897	38 715
Other loans	44 699	28 852
	113 876	72 270

The loans are payable on demand and interest is earned at prime interest rate.

Other loans in the current year mainly relate to loans given to ASU, Stemm Cell and Gamma Knife which are companies within the pharmaceutical industry.

Other loans in the prior year mainly relate to loans given to Optipharm and ASU which are companies within the pharmaceutical industry and payable on demand. The assets and liabilities of Optipharm were acquired in the current year and therefore this loan was settled.

18. Share capital

Ordinary share capital represents the par value of ordinary shares issued.

	2018 R'000	2017 R'000
Authorised		
1 500 000 000 (2017:1 500 000 000) ordinary no par value shares		
Issued and fully paid		
860 084 483 (2017: 859 273 673) ordinary no par value shares	**6 155 554**	6 140 554
Reconciliation of shares issued		
Opening balance	**6 140 554**	1 352 074
Shares issued during the period	**15 000**	4 830 774
Capitalisation of costs	**-**	(42 294)
Closing balance	**6 155 554**	6 140 554

19. Finance lease liability

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date and depends on whether the fulfillment of the arrangement is dependent on the use of a specific asset, and whether the arrangement conveys the right to use the asset.

A lease is classified at the inception date as a finance lease or an operating lease.

Finance leases, which transfer to the lessee substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if it is not reasonably certain that ownership will transfer at the end of the lease.

Leases where the lessor does not retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rentals with fixed escalation clauses are charged to profit or loss on a straight-line basis over the term of the leases.

Gains from renegotiated lease terms arise where the terms and conditions of lease agreements are substantially modified. In this case the original lease contract is derecognised and a new lease agreement recognised.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

19. Finance lease liability *continued*

	2018 R'000	2017 R'000
Minimum payments due		
– Within one year	**70 793**	64 040
– Within five years	**292 726**	301 292
– Over five years	**1 187 783**	1 303 571
	1 551 302	1 668 903
Less: future finance charges	**(919 816)**	(1 043 606)
Present value of minimum payments	**631 486**	625 297
Present value of minimum payment due:		
– Within one year	**9 943**	2 390
– Within five years	**69 553**	59 055
– Over five years	**551 990**	563 852
	631 486	625 297
Non-current liabilities	**621 543**	622 907
Current liabilities	**9 943**	2 390
	631 486	625 297

Capitalised finance leases relate to motor vehicles and land and buildings and the interest rates are linked to prime at the contract date. The capitalised finance leases relating to motor vehicles are secured by the motor vehicles (refer to note 12).

In the 2017 year, Dis-Chem Distribution's lease was renegotiated resulting in the effective interest rate reducing from 14.7% to 10%. The new lease contract results in the lease being benchmarked to comparable industry rental payments every seven years. The lease term for the land and buildings is 30 years with an escalation of 8%.

20. Operating lease obligation

Refer to accounting policy in note 19.

	2018 R'000	2017 R'000
Operating lease obligation		
– Current portion in trade and other payables	**24 383**	17 632
– Non-current portion	**213 198**	179 162
	237 581	196 794

The Group has entered into commercial property leases in respect of its retail stores and warehouses.

These non-cancellable leases have remaining terms of between one and 12 years (2017: one and 11 years).

The leases include an escalation clause between 7% to 8% which has been straight-lined over the remaining period of the initial lease in terms IAS 17 – Leases. No material contingent rentals are paid.

21. Contingent consideration

The contingent consideration is measured at fair value through profit and loss with any fair value gains and losses recognised in other income/costs.

	2018 R'000	2017 R'000
Non-current liabilities	**54 500**	73 309
Current liabilities	**21 749**	24 003
	76 249	97 312

The contingent consideration relates to the acquisition of the non-controlling shareholders and is based on the future performance of each respective partner store, multiplied by the respective minority interests each year for five years to be paid in cash if performance targets are met. The performance targets will be agreed on an annual basis with each selling non-controlling shareholder.

It is currently assumed that the majority of the partner stores will meet the performance targets in all five years and that the selling non-controlling shareholders will therefore be entitled to the contingent consideration. The present value of estimated contingent consideration is recognised as a liability which will be unwound over the four-year period (2017: five-year period). The current period interest amounted to R10.7 million (2017: R3.3 million).

Refer to note 30 for fair value disclosure and reconciliation of the movement in the balance.

22. Loans payable

Loans are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 30.

	2018 R'000	2017 R'000
Non-current loans		
Absa Bank	**496 000**	647 000
Other	**3 605**	–
	499 605	647 000
Current loans		
NCI shareholders loans	**2 026**	4 899
Related parties (note 29)	**43 053**	19 691
Absa Bank	**150 000**	149 000
Other	**3 719**	69
	198 798	173 659

The Absa loan consists of two parts and was obtained in December 2016:

- The first part of the term loan is for R600 million repayable quarterly over four years at a variable interest rate linked to JIBAR. The first instalment payment was paid on 31 March 2017.
- The second part of the term loan is for R200 million repayable at the end of four years at a variable interest rate linked to JIBAR.
- The loan is secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

The other loan in the current year bear interest at prime rate less 1% and is payable over three years.

Related party and NCI shareholders loans are considered to be short-term in nature as they are payable on demand and bear interest at prime interest rate.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

23. Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 30.

Expenses and assets are recognised net of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from SARS, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables which are stated inclusive of VAT. The net amount of sales tax recoverable from, or payable to, SARS is included as part of receivables or payables in the statement of financial position.

	2018 R'000	2017 R'000
Trade payables	**2 934 359**	2 368 618
Operating lease obligation	**24 383**	17 632
Other payables	**262 944**	235 998
VAT	**32 073**	3 184
Derivative liability – FEC (note 30)	**1 500**	15 783
	3 255 259	2 641 215

Trade and other payables are non-interest-bearing and are substantially on terms of seven to 60 days.

Other payables consist of payables relating to payroll as well as general accruals.

Refer to note 30 on liquidity risk management. Refer to note 20 and 27 for further information on operating leases.

24. Employee-related obligations

Short-term employee obligations are measured at the undiscounted amount required to settle the present obligation at the reporting date. Included in short-term employee obligations are bonus and leave pay.

The expected cost of short-term employee benefits are recognised in the form of paid absences as follows:

- in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.
- in the case of non-accumulating paid absences, when the absences occur.

The expected cost of profit-sharing and bonus payments are recognised when, and only when:

- there is a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, there is no realistic alternative but to make the payments.

When an employee has rendered service to the Group during a period, the Group shall recognise the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. The expense is recognised in profit or loss.

	2018 R'000	2017 R'000
Leave pay	**107 615**	91 807
Bonus	**38 399**	33 584
	146 014	125 391

The bonus is dependent on the Group performance as well as individual ratings.

25. Deferred revenue

Deferred revenue liability is recognised for expected loyalty benefit points and gift vouchers redeemed by customers for purchases made by participating customers for the loyalty points and gift vouchers purchased for cash during the last three years, based on past experience of the level of redemptions. It is expected that a majority of these will be redeemed in the next financial year and all will have been redeemed within two years of the reporting date. Assumptions used to calculate the liability are based on current redemption rates at existing stores which are between 80% and 90% (2017: 80% and 90%).

Loyalty benefit point scheme

The Group operates a loyalty scheme which allows retail customers to accumulate points that entitle them, subject to certain criteria, to use these points in the future in any store in exchange for goods or services. The fair value which includes the expected redemption rate attributed to the points awarded, is deferred as a liability and recognised as revenue on redemption of the points by customers. The Group experiences low levels of unredeemed loyalty points due to the ease with which customers can redeem them at point of sale.

Gift vouchers

The fair value of gift vouchers which includes the expected redemption rate attributed to the vouchers, is deferred as a liability and recognised as revenue on redemption of the gift vouchers by customers.

	2018 R'000	2017 R'000
Loyalty benefit points scheme	**52 497**	49 806
Gift vouchers	**28 795**	45 558
	81 292	95 364

26. Dividends to shareholders

	2018 R'000	2017 R'000
5 June 2017	**63 206**	–
13 November 2017	**161 097**	–
30 March 2016	**–**	870 000
	224 303	870 000

Dividends per share	**Cents**	Cents
Interim paid	**18.7**	109.5
Final declared/paid	**12.8**	7.3

27. Commitments

	2018 R'000	2017 R'000
Commitments under non-cancellable operating leases, payable as follows:		
Within one year	**437 145**	340 170
Within five years	**1 652 874**	1 274 970
Over five years	**1 064 360**	828 567
	3 154 379	2 443 707

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

28. Notes to the statement of cash flows

Cash and cash equivalents are accounted for as loans and receivables and bank overdrafts are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 30.

Cash and cash equivalents comprise cash on hand and deposits held on call, all of which are available-for-use by the Group.

	2018 R'000	2017 R'000
28.1 Cash generated by operations		
Profit before tax	**965 033**	901 983
Adjustments for:		
– Depreciation and amortisation	**173 452**	162 028
– Finance costs	**188 403**	249 217
– Finance income	**(28 321)**	(23 977)
– Increase in employee obligations	**20 623**	22 950
– (Decrease)/increase in deferred revenue	**(14 072)**	18 338
– (Profit)/loss on sale of tangible and intangible assets	**(33)**	584
– Increase/(decrease) from lease liability straightlining and changes in lease terms	**40 787**	(72 648)
– Share of profit in associates	**–**	(501)
– Increase in provision for bad debt	**901**	2 370
– Contingent consideration	**(8 866)**	–
– Fair value loss relating to non-hedging derivatives	**(14 283)**	15 783
	1 323 624	1 276 127
28.2 Movement in working capital		
(Decrease)/increase in loans receivable	**(35 837)**	126 402
Decrease/(increase) in loans payable	**11 562**	(8 734)
Increase in inventories	**(713 383)**	(418 871)
Increase in trade and other receivables	**(13 546)**	(312 746)
Increase in trade and other payables	**455 273**	832 409
	(295 931)	218 460
28.3 Taxation paid		
Net amount (payable)/receivable at beginning of the year	**(2 578)**	44 080
Amount charged excluding deferred tax	**(325 957)**	(294 138)
Net amount payable at end of the year	**22 792**	2 578
	(305 743)	(247 480)
28.4 Cash and cash equivalents comprise the following:		
Cash and cash equivalents		
Cash on hand and balances with banks	**279 999**	294 698
Bank overdrafts	**(307 514)**	(167 059)
	(27 515)	127 639

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The Absa loan was secured by the cession of the book debts in and general notarial bond for R2.2 billion over movable assets of Dis-Chem Pharmacies Limited. Trade and other receivables relating to CJ Pharmaceutical Enterprises Limited amounting to R395 million (2017: R422 million) were pledged as security for the overdraft facility with Nedbank.

28. Notes to the statement of cash flows *continued*

The following material non-cash items occurred during the period:

28.5 Material non-cash items

	2018 R'000	2017 R'000
Shares issued for acquisition of non-controlling interest	15 000	461 458

28.6 Changes in financing activities

			Non-cash changes				
	2017	Cash flows	New leases/ transaction	Acquisitions	Release/ fair value changes	Present value interest unwinding	2018
Long-term loans	796 000	(153 410)	–	10 000	–	–	652 590
Contingent consideration	97 312	(22 941)	–	–	(8 866)	10 744	76 249
Finance lease	625 297	(6 226)	11 143	1 272	–	–	631 486

29. Related party transactions

Related party transactions constitute the transfer of resources, services or obligations between the Group and a party related to the Group. For the purposes of defining related party transactions with key management, key management has been defined as directors and includes close members of their families and entities controlled or jointly controlled by these individuals.

The majority shareholder of the Group is Ivlyn No 4 Proprietary Limited that holds 52.67% (2017 Ivlyn Proprietary Limited: 53.14%) of the shares. During the current period, Ivlyn Proprietary Limited disposed of its shares to Ivlyn No 4 Proprietary Limited for the purpose of the re-organisation of the Saltzman family's interest in Dis-Chem.

Directors' direct and indirect holdings of shares in the company is disclosed in the Directors' Report.

2018

Related party transactions with a company that is controlled/jointly controlled by a person that has significant influence over Dis-Chem Group:

Related party	Loan receivable/ (payable) R'000	Finance lease owing R'000	Accounts receivable R'000	Leases paid R'000	Interest income/ (expense) R'000	Purchases R'000
Columbia Falls Property 7 Proprietary Ltd	–	(619 224)	–	59 405	–	–
Josneo Proprietary Ltd	(40 395)	–	26 428	17 188	(3 317)	–
Eleador Proprietary Ltd	3 416	–	–	–	–	–
Minlou Proprietary Ltd	(2 658)	–	–	–	–	–
MSDS No 3 Proprietary Ltd	16 960	–	–	10 529	4 485	–
Dis-Chem Bothamed Proprietary Ltd	7 027	–	–	–	–	–
Dis-Chem Namibia	5 797	–	13 462	–	–	–
Dunes Walvis Bay Pharmacy Proprietary Limited	3 613	–	1 205	–	–	–
Mathimba Proprietary Ltd	22 470	–	–	886	1 506	–
Dis-Chem Proprietary Ltd	1 614	–	–	–	–	4 463
Various property companies	–	–		26 295	–	–

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

29. Related party transactions *continued*

2017

Related party transactions with a company that is controlled/jointly controlled by a person that has significant influence over Dis-Chem Group:

Related party	Loan receivable/ (payable) R'000	Finance lease owing R'000	Leases paid R'000
Columbia Falls Property 7 Proprietary Ltd	–	(620 044)	56 756
Josneo Proprietary Ltd	(17 096)	–	–
Eleador Proprietary Ltd	2 970	–	–
Minlou Proprietary Ltd	(2 595)	–	–
MSDS No 3 Proprietary Ltd	26 462	–	–
Dis-Chem Bothamed Proprietary Ltd	3 444	–	–
Dis-Chem Namibia	5 839	–	–
Various property companies	–	–	26 271

For further information in regards to loans receivable, loans payable, trade receivables and trade payables and finance lease payable refer to note 17, 22, 16, 23 and 19 respectively.

	2018 R'000	2017 R'000
Compensation of key management		
Short-term employee benefits	**42 068**	43 058
Post-employment benefits	**288**	456
Non-executive directors' fees	**3 919**	951
	46 275	44 465

Executive and non-executive emoluments to directors

	Services as director R'000	**Salary and allowances R'000**	**Bonuses[1] R'000**	**Retirement and related benefits R'000**	**Other benefits R'000**	**Total R'000**
2018						
Non-executive directors						
LM Nestadt	2 628	–	–	–	–	2 628
MJ Bowman	335	–	–	–	–	335
A Coovadia	290	–	–	–	–	290
JS Mthimunye	316	–	–	–	–	316
MSI Gani	350	–	–	–	–	350
Executive directors						
IL Saltzman	–	12 388	3 744	72	226	16 430
LF Saltzman	–	10 155	2 550	72	91	12 868
RM Morais	–	5 029	1 290	72	251	6 642
SE Saltzman (alternate)	–	4 827	1 161	72	356	6 416

29. Related party transactions *continued*

	Services as director R'000	Retirement Salary and allowances R'000	Bonuses[1] R'000	Retirement and related benefits R'000	Other benefits R'000	Total R'000
2017						
Non-executive directors						
LM Nestadt#	625	–	–	–	–	625
MJ Bowman#	119	–	–	–	–	119
A Coovadia#	72	–	–	–	–	72
JS Mthimunye#	135	–	–	–	–	135
MSI Gani^	–	–	–	–	–	–
Executive directors						
IL Saltzman	–	11 752	–	72	120	11 944
LF Saltzman	–	9 691	–	72	–	9 763
RM Morais	–	4 995	–	72	37	5 104
SE Saltzman (alternate)	–	4 800	–	72	146	5 018
NM Hegarty*	–	2 849	–	42	15	2 906
SRN Goetsch*	–	2 853	–	42	15	2 910
BI Epstein*	–	2 809	–	42	109	2 960
KS Sterling*	–	2 853	–	42	14	2 909
LLS van der Watt*	–	–	–	–	–	–

* Resigned 13 October 2016
\# Appointed 13 October 2016
^ Appointed 3 May 2017
[1] Bonuses relates to amount physically paid in the current period

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

30. Financial risk management objectives and policies

Financial assets and liabilities

Initial recognition

Financial instruments, or their component parts, are classified on initial recognition as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets and liabilities recognised on the statement of financial position include cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less, and are measured at amortised cost.

For the purposes of the cash flow statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding short-term bank borrowings as overdrafts are an integral part of the Group's cash management policies.

Cash and cash equivalents are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset.

Trade and other receivables

Trade receivables, which generally have seven to 30-day terms, are recognised and carried at original invoice value less an allowance for uncollectable amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the effect of the time value of money is significant, receivables have been reflected at amortised cost using the effective interest rate method.

Bad debts are written off when identified.

Trade and other payables

Trade and other payables are recognised initially at fair value net of directly attributable transaction costs.

Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

Derivative liability – FEC

FECs are initially recognised at the fair value on the contract date.

Subsequent measurement

Loans and receivables (including trade and other receivables and cash and cash equivalents)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

30. Financial risk management objectives and policies *continued*

Loans and borrowings (including trade and other payables)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

At fair value (including FEC and contingent consideration)

After initial recognition, items are subsequently measured at fair value with any fair value gains and losses recognised in other costs.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows from the asset is retained, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the rights to receive cash flows from the asset have been transferred and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the rights to receive cash flows from an asset has been transferred but all the risks and rewards of the asset has been substantially transferred or retained nor has control of the asset been transferred, the asset is recognised to the extent of continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that could be required to be repaid.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets

At each reporting date it is assessed whether a financial asset or group of financial assets are impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

30. Financial risk management objectives and policies *continued*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss. In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as default or delinquency in payments, the probability of insolvency or significant financial difficulties of the debtor or group of debtors) that all of the amounts due under the original terms of the invoice will not be collected. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value measurement

In addition to the financial instruments carried at fair value (available for sale financial instruments), the fair values of financial instruments measured at amortised cost are disclosed should it be determined that the carrying value of these instruments does not reasonably approximate their fair value at each reporting date. 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The valuation techniques that are used to measure fair value are appropriate in the circumstances and for which sufficient data is available, 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 consolidated 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 assets and liabilities that are recognised in the annual consolidated financial statements at fair value, or for which the fair value is disclosed, on a recurring basis, it is determined whether transfers have occurred between the levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

30. Financial risk management objectives and policies *continued*

The Group's principal financial instruments comprise loans, cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the company's operations. The company has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk, and credit risk. The Group has immaterial foreign exchange risk. The board reviews and agrees policies for managing each of these risks, which are summarised below:

	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset - loans and receivables R'000	Non-financial instru-ments and leases R'000
2018					
Assets					
Property, plant and equipment	-	-	-	-	1 182 394
Intangible assets	-	-	-	-	300 461
Deferred taxation	-	-	-	-	181 431
Inventories	-	-	-	-	3 947 937
Trade and other receivables	1 092 758	-	-	1 092 758	20 555
Loans receivable	113 876	-	-	113 876	-
Taxation receivable	-	-	-	-	9 998
Cash and cash equivalents	279 999	-	-	279 999	-
Liabilities					
Finance lease liability	-	-	-	-	631 486
Operating lease obligation	-	-	-	-	213 198
Contingent consideration	76 249	76 249	-	-	-
Loans payable	698 403	-	698 403	-	-
Trade and other payables	3 198 803	1 500	3 197 303	-	56 456
Employee-related obligations	-	-	-	-	146 014
Deferred revenue	-	-	-	-	81 292
Taxation payable	-	-	-	-	32 790
Bank overdraft	307 514	-	307 514	-	307 514

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

30. Financial risk management objectives and policies *continued*

	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset - loans and receivables R'000	Non-financial instru-ments and leases R'000
2017					
Assets					
Property, plant and equipment	–	–	–	–	995 401
Intangible assets	–	–	–	–	40 310
Deferred taxation	–	–	–	–	156 029
Inventories	–	–	–	–	3 233 911
Trade and other receivables	1 050 004	–	–	1 050 004	41 897
Loans receivable	72 270	–	–	72 270	–
Taxation receivable	–	–	–	–	12 141
Cash and cash equivalents	294 698	–	–	294 698	–
Liabilities					
Finance lease liability	–	–	–	–	625 296
Operating lease obligation	–	–	–	–	179 162
Contingent consideration	97 312	97 312	–	–	–
Loans payable	820 659	–	820 659	–	–
Trade and other payables	2 620 399	15 783	2 604 616	–	20 816
Employee-related obligations	–	–	–	–	125 391
Deferred revenue	–	–	–	–	95 364
Taxation payable	–	–	–	–	14 719
Bank overdraft	167 059	–	167 059	–	–

30. Financial risk management objectives and policies *continued*

Credit risk

The carrying amount of financial assets represents the maximum credit exposure which relates to trade and other receivables, loans receivables and positive cash and cash equivalents.

Trade and other receivables

The Group and company are exposed to credit risk in relation to trade and other receivables from its retail and wholesale business.

	2018 R'000	2017 R'000
The maximum exposure to credit risk for trade receivables is as follows:		
Retail	**151 131**	181 960
Wholesale	**248 776**	357 046
The maximum exposure to credit risk for other receivables is as follows:		
Retail	**417 953**	312 396
Wholesale	**233 803**	198 602

In relation to the retail business, trade receivables primarily relate to amounts recoverable from medical aids. These receivables are deemed to be low credit risk as medical schemes pay within 14 days and all amounts are neither past due nor impaired. The majority of other receivables relates to rebates receivable from suppliers and are deemed to be low credit risk as the net position with the supplier is a creditor.

In wholesale, customers are primarily independent pharmacists and other pharmaceutical companies. The majority of other receivables relates to rebates receivable from suppliers and are deemed to be low credit risk as the net position with the supplier is a creditor.

The risk is managed through formal procedures for granting of credit to trade debtors. Credit quality of underlying wholesale customers is assessed before credit is granted and re-assessed on a regular basis. The Group determines the provision for doubtful debt by means of applying a percentage that reflects the best estimate of incurred credit losses at the reporting date determined with reference to past history to the relevant age buckets of the trade debtors. The process for managing wholesale credit risk is to allow 10 days after payment is due, for customer to pay. If payment is not subsequently made after following up with the customer, the customer's account will be suspended until payment is received or a payment plan is implemented.

Cash and cash equivalents

With respect to the credit risk arising from cash resources, the Group's exposure to credit risk arises from the default of the counterparty with the maximum exposure equal to the carrying amount of these resources.

The Group manages and monitors daily funding requirements and has limited foreign currency exposure. Surplus funds are invested with banking institutions of a high credit standing.

Loans

The Group is exposed to credit risk in relation to loans with related and other parties. The risk is managed through formal procedures for granting of these loans. The recoverability of these loans are assessed annually. Based on past payment history, the credit quality of these loans are considered to be of a high credit standing.

Currency risk

The Group's exposure to currency risk arises from FECs taken out during the year.

If the USD, with, all other variables held constant, strengthened or weakened by 10% at year-end, the impact of the Group's profit before tax would be immaterial (2017: approximately R4 million).

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

30. Financial risk management objectives and policies *continued*

Interest rate risk

The Group and company's exposure to the risk of changes in market interest rates relates primarily to the Absa loan with a floating interest rate linked to JIBAR as well as interest incurred on overdraft facilities (note 9).

As part of the process of managing the Group's interest rate risk, interest rate characteristics of new borrowings and refinancing of existing borrowings are positioned according to anticipated movements in interest rates. Funds on call earn interest at prevailing market call rates. Interest payable on bank borrowings fluctuates in accordance with prime bank lending rates while the Absa loan fluctuates with the JIBAR rate.

If the interest rate, with all other variables held constant, increased or decreased by 50 average basis points (2017: 50) at year-end, the impact of the Group's profit before tax would be approximately R6.6 million (2017: R9.4 million). The sensitivity analysis for both periods presented was based on the average balance of the funds during the period on the bank borrowings, Absa loan and other loans.

Liquidity risk

During the current year, Dis-Chem had a general banking facility of R100 million with Nedbank, an Absa loan of R646 million, other loans of R52 million as well as an overdraft prime lending facility of up to R800 million.

CJ Pharmaceutical has a revolving credit facility of R10 million to be used by way of vehicle and asset finance and general banking facility of R200 million with Nedbank.

In the prior year, Dis-Chem had a general banking facility of R100 million with Nedbank, a corporate call account with Investec as a working capital overdraft facility of R600 million (the "Investec Facility") and an unsecured facility up to R1 500 000 000 (the "Bridge Facility") with Absa Bank Limited. The Investec Facility and the Bridge Facility were replaced in December 2016 by the Absa loan of R800 million as well as an overdraft prime lending facility of up to R700 million. CJ Pharmaceutical has a revolving credit facility of R10 million to be used by way of vehicle and asset finance and general banking facility of R200 million with Nedbank.

The table on the next page summarises the maturity profile of the Group's financial liabilities at year-end, based on contractual and undiscounted payments.

30. Financial risk management objectives and policies *continued*

	On demand R'000	Less than 12 months R'000	Greater than 12 months R'000	Total R'000
2018				
Trade and other payables	-	3 198 803	-	3 198 803
Loans payable excluding Absa loan	45 079	4 030	4 101	53 210
Bank overdraft	-	307 514	-	307 514
Contingent consideration	-	22 789	70 665	93 454
Absa loan linked to JIBAR	-	205 884	570 101	775 985
Undiscounted payments	45 079	3 739 020	644 867	4 428 966
Less: future finance charges	-	(57 233)	(90 764)	(147 997)
	45 079	3 681 787	554 103	4 280 969
2017				
Trade and other payables	-	2 620 399	-	2 620 399
Loans payable excluding Absa loan	24 659	-	-	24 659
Bank overdraft	-	167 059	-	167 059
Contingent consideration	-	25 056	104 257	129 313
Absa loan linked to JIBAR	-	221 550	775 986	997 536
Undiscounted payments	24 659	3 034 064	880 243	3 938 966
Less: future finance charges	-	(73 603)	(159 934)	(233 537)
	24 659	2 960 461	720 309	3 705 429

Fair value

The information below analyses financial assets and liabilities that are carried at fair value or financial assets and liabilities that have carrying amounts that differ from their fair values:

	Level 1 R'000	Level 2 R'000	Level 3 R'000
2018			
Financial liabilities at fair value through profit and loss			
- Derivative liability	-	1 500	-
- Contingent consideration	-	-	76 249
2017			
Financial liabilities at fair value through profit and loss			
- Derivative liability	-	15 783	-
- Contingent consideration	-	-	97 312

The derivatives represent forward exchange contracts (FECs). The fair value of the FEC liability is measured with reference to market data. The key input into this valuation is the forward exchange rate as provided by a reputable bank.

Notes to the group annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

30. Financial risk management objectives and policies *continued*

The fair value of the contingent consideration payable is measured with reference to the performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 11.4% (2017: 12.9%) used to determine the present value of the future cash flows.

	2018 R'000	2017 R'000
Reconciliation of recurring Level 3 fair value movements:		
Opening balance	**97 312**	–
Acquisitions	**–**	94 027
Payment	**(22 941)**	–
Interest	**10 744**	3 285
Release to other income*	**(10 735)**	–
Fair value adjustment	**1 869**	–
Closing balance	**76 249**	97 312

**Relates to an amount, reflected in other income, that was not paid by the company due to performance conditions not being met and expected future performance not being met.*

A reasonable movement in the unobservable inputs would not significantly impact the fair value of the contingent consideration as at the end of the reporting period and therefore not significantly impact profit after tax or equity.

There were no transfers of financial instruments between Level 1, Level 2 and Level 3 fair value measurements during the year ended February 2018 and 2017.

31. Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The company considers share capital and retained income as capital. The board of directors considers capital requirements from time to time and makes adjustments accordingly.

No changes were made in the objectives, policies and processes for managing capital during the years ended 28 February 2018 and 28 February 2017.

32. Events after reporting date

The directors are not aware of any matter or circumstance arising since the end of the financial year up to the date of this report that would require amendment or additional disclosure in these annual financial statements, except for:

- The potential acquisition of Quenets Proprietary Limited. The Quenets acquisition is still awaiting Competition Commission approval and therefore control has not yet passed to Dis-Chem.
- The offer of 276 269 shares on the Forfeitable share Plan and 2 223 574 options on the Share Appreciation Rights Plan. These offers need to be accepted by the participants by 30 June 2018. The directors have authorisation to allot and issue up to 42 963 684 ordinary no par value shares in terms of the long-term incentive plan.

Company Independent Auditor's Report

TO THE SHAREHOLDERS OF DIS-CHEM PHARMACIES LIMITED

Report on the Audit of the Separate Financial Statements Opinion

We have audited the separate annual financial statements of Dis-Chem Pharmacies Limited set out on pages 129 to 161, which comprise the statements of financial position as at 28 February 2018, and the statement of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and notes to the separate annual financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate annual financial statements present fairly, in all material respects, the separate financial position of Dis-Chem Pharmacies Limited as at 28 February 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa and the JSE Listing Requirements.

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 Separate Financial Statements section of our report. We are independent in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing the audit of the financial statements of Dis-Chem Pharmacies Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA code, IFAC code and in accordance with other ethical requirements applicable to performing an audit of Dis-Chem Pharmacies Limited.

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 separate annual financial statements of the current period.

These matters were addressed in the context of our audit of the separate annual financial statements as a whole, and in forming our opinion thereon, and our response to each matter below does not represent a separate opinion on each of these matters.

Company Independent Auditor's Report *continued*

TO THE SHAREHOLDERS OF DIS-CHEM PHARMACIES LIMITED

Key audit matter	How our audit addressed the key matter
Supplier rebates	
As described in note 12 to the Financial Statements, the Company recognises a reduction in cost of sales as a result of amounts receivable from suppliers. The reduction primarily comprises contributions received in relation to promotions in the Retail business, strategic buy-ins, annual volume based rebates and advertising rebates. The majority of these contributions tend to be small in unit value but high in volume. The agreements include those which span relatively short periods of time but also and to a lesser extent annual agreements whose timing does not coincide with the company's year-end and are re-negotiated/re-entered into on an ongoing basis. There are therefore a number of agreements which are in progress at the financial year-end and for which final settlement will only occur at the end of the agreement or at a future point. There are also various types of rebate agreements which differ in their targets, percentages applied and relate to different periods, for each supplier. The calculation of these accruals are managed centrally and calculated manually. Significant time is therefore required to assess the completeness and accuracy of the source data and to obtain the evidence of all agreements in place at year-end and this is a key consideration each year due to the changes in contracts from year-to-year	In respect of the receivable recognised/accrued supplier income for in progress rebate agreements: • On a sample basis we inspected the rebate terms in the agreements and agreed them to inputs used in the calculation; • On a sample basis we vouched the purchased volumes to those per the accounting records and considered whether the amounts being used related to the correct period per the agreement; • We tested the arithmetical accuracy of the calculation and agreed the amount calculated to the amount recognised in the financial statements; • On a sample basis we selected invoices and debit notes raised post year-end to test the completeness of accrued supplier income at 28 February 2018; • We tested the recoverability of the amounts due at the year-end by agreeing the amounts to subsequent settlement from suppliers; and • We tested the recognition criteria of 'genuine/specific' rebates which are recognised at a point in time versus rebates which are general in nature that form part of the deferred unearned rebate calculation.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the Audit Committee's report and the Company Secretary's certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the 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 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 separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our 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 directors for the separate financial statements.

The directors are responsible for the preparation and fair presentation of the separate annual 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate annual financial statements, the directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate annual 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 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 separate annual 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 Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's 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 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 separate annual 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 Company to cease to continue as a going-concern;
- evaluate the overall presentation, structure and content of the separate annual financial statements, including the disclosures, and whether the separate annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

Company Independent Auditor's Report *continued*

TO THE SHAREHOLDERS OF DIS-CHEM PHARMACIES LIMITED

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the separate annual financial statements. We are responsible for the direction, supervision and performance of the Company audit.

We remain solely responsible for our audit opinion.

We communicate with the directors, 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.

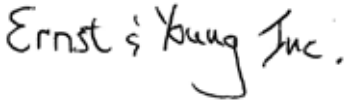
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the separate annual 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

The engagement partner on the audit resulting in this independent auditor's report is Derek Engelbrecht (Director and Registered Auditor).

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 Dis-Chem Pharmacies Limited for 12 years.



Director: Derek Engelbrecht
102 Rivonia Road
Johannesburg
Gauteng
South Africa
2146
22 June 2018

Company statement of comprehensive income

FOR THE YEAR ENDED 28 FEBRUARY 2018

	Notes	2018 R'000	Restated* 2017 R'000
Revenue	4	**16 051 462**	14 030 674
Turnover	4	**15 375 592**	13 448 384
Cost of sales		**(11 464 929)**	(10 001 921)
Gross profit		**3 910 663**	3 446 463
Other income	4	**669 122**	562 654
Other expenses	5	**(3 519 409)**	(2 995 465)
Transaction costs for listing		**-**	(8 074)
Operating profit	5	**1 060 376**	1 005 578
Net financing costs		**(114 702)**	(129 787)
- Finance income	6	**6 748**	19 636
- Finance costs	6	**(121 450)**	(149 423)
Profit before taxation	5	**945 674**	875 791
Taxation	7	**(294 688)**	(230 341)
Total comprehensive income for the year, net of tax		**650 986**	645 450

*Refer note 28

Company statement of financial position

AS AT YEAR ENDED 28 FEBRUARY 2018

	Notes	2018 R'000	Restated* 2017 R'000	Restated* 2016 R'000
ASSETS				
Non-current assets		**2 160 676**	1 997 204	1 559 721
Property, plant and equipment	8	**421 370**	303 824	242 757
Intangible assets	9	**54 266**	16 832	14 239
Deferred taxation	10	**111 136**	102 644	79 751
Investment in subsidiaries	11	**1 573 904**	1 573 904	1 221 508
Investment in associates	11	**-**	-	1 466
Current assets		**2 364 997**	2 277 507	2 115 179
Inventories	12	**1 578 549**	1 427 436	1 338 848
Trade and other receivables	13	**540 858**	456 302	319 183
Loans receivable	14	**245 590**	123 309	142 154
Taxation receivable	24.3	**-**	-	53 916
Cash and cash equivalents	24.4	**-**	270 460	261 078
Total assets		**4 525 673**	4 274 711	3 674 900
EQUITY AND LIABILITIES				
Equity and reserves		**1 711 283**	1 269 600	626 569
Share capital	15	**6 155 554**	6 140 554	1 352 074
Common control reserve		**-**	(262 502)	(23 207)
Other reserves		**(3 893 554)**	-	30 556
Retained loss		**(550 717)**	(4 608 452)	(732 854)
Non-current liabilities		**735 660**	877 809	144 820
Finance lease liability		**3 901**	-	-
Operating lease obligation	16	**181 260**	157 500	144 820
Contingent consideration	17	**54 499**	73 309	-
Loans payable	18	**496 000**	647 000	-
Current liabilities		**2 078 730**	2 127 302	2 903 511
Finance lease liability		**1 006**	-	-
Trade and other payables	19	**1 427 472**	1 657 657	1 253 666
Employee-related obligations	20	**129 051**	111 359	92 966
Deferred revenue	21	**84 344**	97 308	77 530
Contingent consideration	17	**21 750**	24 003	-
Loans payable	18	**275 326**	226 908	46 841
Taxation payable	24.3	**31 465**	10 067	-
Bank overdraft	24.4	**108 316**	-	1 432 508
Total equity and liabilities		**4 525 673**	4 274 711	3 674 900

* Refer note 28

Company statement of changes in equity

FOR THE YEAR ENDED 28 FEBRUARY 2018

	Notes	Share capital R'000 (Note 15)	Retained loss R'000	Common control reserve R'000	Other reserves R'000	Total R'000
Balance at 28 February 2015 (restated)		199 101	(36 170)	(23 207)	15 139	154 863
Total comprehensive income for the year		–	93 987	–	29 029	123 016
Shares issued during the year		1 152 973	–	–	–	1 152 973
Dividends paid		–	(790 671)	–	(13 612)	(804 283)
Balance at 29 February 2016 (restated)		1 352 074	(732 854)	(23 207)	30 556	626 569
Total comprehensive income for the year		–	625 454	–	19 996	645 450
Business acquisition under common control		–		(239 295)	(28 846)	(268 141)
Shares issued during the year	15	4 830 774	–	–	–	4 830 774
Capitalised share costs for listing	15	(42 294)	–	–	–	(42 294)
Shares repurchased during the year		–	(3 631 052)	–	–	(3 631 052)
Dividends paid	22	–	(870 000)	–	(21 706)	(891 706)
Balance at 28 February 2017 (restated)		**6 140 554**	**(4 608 452)**	**(262 502)**	**–**	**1 269 600**
Total comprehensive income for the year		**–**	**650 986**	**–**	**–**	**650 986**
Shares issued during the year	15	**15 000**	**–**	**–**	**–**	**15 000**
Transfer to other reserves		**–**	**3 631 052**	**262 502**	**(3 893 554)**	**–**
Dividends paid	22	**–**	**(224 303)**	**–**	**–**	**(224 303)**
Balance at 28 February 2018		**6 155 554**	**(550 717)**	**–**	**(3 893 554)**	**1 711 283**

Company statement of cash flows

FOR THE YEAR ENDED 28 FEBRUARY 2018

	Notes	2018 R'000	Restated* 2017 R'000
Cash flow from operating activities		**45 023**	173 710
Cash inflow from trading operations	24.1	**1 312 898**	1 139 710
Movement in working capital	24.2	**(679 191)**	205 149
Finance income received		**5 617**	19 636
Finance costs paid		**(102 498)**	(134 034)
Taxation paid	24.3	**(281 782)**	(189 251)
Dividends paid		**(224 303)**	(891 706)
Dividends received		**14 282**	24 206
Cash flow from investing activities		**(249 631)**	(178 688)
Additions to property, plant and equipment and intangible assets			
– To maintain operations	8/9	**(61 502)**	(53 794)
– To expand operations	8/9	**(191 095)**	(129 082)
Proceeds on disposal of property, plant and equipment and intangible assets		**2 966**	4 188
Cash flow from financing activities		**(174 168)**	1 446 868
Proceeds from issue of share capital		**–**	4 381 052
Costs capitalised to issue share capital	15	**–**	(42 294)
Repurchase of shares		**–**	(3 631 052)
Changes in subsidiary shareholdings		**–**	(60 838)
Bank loans (repaid)/received	18	**(150 000)**	800 000
Contingent consideration paid	26	**(22 941)**	–
Finance lease repaid		**(1 227)**	–
Net (decrease)/increase in cash and cash equivalents		**(378 776)**	1 441 890
Cash and cash equivalents at beginning of year		**270 460**	(1 171 430)
Cash and cash equivalents at end of year	24.4	**(108 316)**	270 460

* Refer note 28

Notes to the company annual financial statements

FOR THE YEAR ENDED 28 FEBRUARY 2018

4. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Turnover comprises sales of fast-moving consumer goods, net of returns, discounts, and is stated exclusive of value-added tax. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount can be reliably measured. Significant risk and rewards of ownership are transferred when the customer takes ownership of the goods and the company has no continued management involvement. For retail transactions this generally occurs when the customer takes delivery at the point of sale.

Finance income is recognised utilising the effective interest rate method, being the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in profit or loss.

Unless specifically stated otherwise, other income is recognised with reference to the stage of completion of the transaction at the end of the reporting period if the outcome of a transaction can be estimated reliably. However, when a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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

	2018 R'000	2017 R'000
Turnover	**15 375 592**	13 448 384
Finance income	**6 748**	19 636
Other income	**669 122**	562 654
– Advertising income and marketing	**278 622**	305 420
– Commission income	**42 376**	52 888
– Dividend income	**14 282**	24 206
– Franchisee income	**22 616**	21 619
– Data fees	**220 768**	53 643
– Gain from renegotiated lease terms	**–**	29 208
– Insurance refund received	**1 991**	10 062
– Payroll-related recovery	**29 628**	8 180
– Profit on sale of assets	**213**	6
– Rental related recovery	**29 572**	11 038
– Other*	**29 054**	46 384
	16 051 462	14 030 674

* Other consists of conference income and other sundry income

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

5. Profit before tax

Profit before taxation has been determined after taking into account the following:

	2018 R'000	2017 R'000
Expenses		
Depreciation of tangible assets (note 8)	**97 679**	106 404
Amortisation of intangible assets (note 9)	**3 320**	8 216
Computer expenses	**140 677**	126 973
Advertising expenses	**276 919**	226 218
Commission	**89 530**	107 383
Bank charges	**41 937**	38 015
Donations	**18 336**	28 523
Security	**62 848**	50 253
Write-off and loss on sale of assets	**-**	429
Loan waiver	**140 407**	-
Occupancy costs	**502 654**	458 456
- Lease payments	**324 970**	317 290
- Other (including electricity and rates)	**177 684**	141 166
Employee benefits	**1 958 222**	1 659 220
- Salaries and benefits	**1 780 399**	1 517 958
- Pension costs	**63 007**	52 138
- Medical aid	**35 612**	29 777
- Leave pay	**13 667**	14 144
- Other	**65 537**	45 203

For details on directors' emoluments and key management personnel refer to note 25.

The write-off in the prior year mainly relates to the fixture and fittings in the Bloemfontein store that were written off due to the flooding that occurred. Included in other income is insurance recovery of R3.3 million.

6. Net financing costs

Finance income

Finance income is recognised utilising the effective interest method, being the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in profit or loss.

Finance costs

All borrowing costs are recognised in profit or loss using the effective interest method, unless the borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, in which case the directly attributable costs are capitalised.

6. Net financing costs *continued*

	2018 R'000	2017 R'000
Finance income	**6 748**	19 636
– Bank accounts	**5 633**	19 445
– SARS	**1 089**	–
– Other	**26**	191
Finance costs	**121 450**	149 423
– Bank overdraft	**44 368**	130 411
– Bank loan	**66 254**	15 573
– SARS	**–**	112
- Contingent consideration	**10 744**	3 285
– Other	**84**	42
Net financing costs	**114 702**	129 787

7. Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred taxation is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits, and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

7. Taxation *continued*

	2018 R'000	2017 R'000
South African normal tax		
Current income tax		
– Current year	**299 598**	241 050
– Prior year under provision	**3 582**	12 360
Deferred tax		
– Attributable to temporary differences	**(8 492)**	(12 933)
– Prior year over provision	**–**	(10 136)
	294 688	230 341

Reconciliation of tax rate	**%**	%
Standard tax rate	**28.0**	28.0
Prior year net (over)/under provision	**0.07**	0.01
Adjusted for permanent differences:		
Non-taxable:		
ETI and learnership	**(0.80)**	(0.77)
Tenant allowance	**(0.33)**	(0.13)
Dividends income	**(0.42)**	(0.52)
Contingent consideration	**(0.26)**	–
Non-deductable:		
Legal fees	**0.01**	0.01
SARS interest and penalties	**0.05**	–
Listing costs	**–**	0.26
Unwinding of contingent liability	**0.32**	0.11
S18A donations brought forward	**–**	(0.45)
Loan waiver	**4.24**	–
Other*	**0.28**	(0.22)
Effective tax rate	**31.16**	26.30

* Other consists mainly of fines and consulting fees

8. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. Property, plant and equipment are depreciated on the straight-line basis at rates estimated to write each asset down to their residual value over the term of its useful life.

Initial and subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

All assets are depreciated from the date they are available-for-use, on a straight-line basis, to allocate their cost to their residual value over their estimated useful life. Depreciation ceases at the earlier of either the date the asset is classified as held for sale or the date the asset is derecognised.

The estimated useful lives are as follows:

- Computer hardware — Three years
- Office equipment — Five to six years
- Improvements to leased premises — Six years, or if shorter, the remaining lease term
- Motor vehicles — Four to five years
- Furniture and fittings — Five to six years

The residual values, useful lives and depreciation methods of property plant and equipment are reviewed at each reporting date and adjusted if appropriate. At each reporting date it is assessed whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount is estimated.

Where carrying values exceed the estimated recoverable amounts, tangible assets are written down to their recoverable amounts and the impairment is recognised in profit or loss immediately.

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. These gains or losses are included in profit or loss in the period of derecognition.

	Computer hardware R'000	Office equipment* R'000	Leasehold improve-ments R'000	Furniture and fixtures# R'000	Motor vehicles R'000	Total R'000
2018						
Cost	169 776	75 302	404 300	355 157	24 378	1 028 913
Opening balance	146 154	71 955	364 687	332 024	17 546	932 366
Additions	36 684	10 424	39 787	124 251	6 832	217 978
Disposals	(13 062)	(7 077)	(174)	(101 118)	–	(121 431)
Accumulated depreciation	(111 982)	(51 978)	(301 786)	(125 735)	(16 062)	(607 543)
Opening balance	(107 964)	(52 126)	(286 237)	(168 416)	(13 799)	(628 542)
Current charge	(17 063)	(6 367)	(15 723)	(56 263)	(2 263)	(97 679)
Disposals	13 045	6 515	174	98 944	–	118 678
Net carrying amount	57 794	23 324	102 514	229 422	8 316	421 370

* Includes air conditioners, security equipment, medical and clinic equipment, office equipment, PABX, media equipment and machinery and equipment.
\# Includes salon equipment, fixtures and fittings, shop equipment, signs and furniture.

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

8. Property, plant and equipment *continued*

	Computer hardware R'000	Office equipment* R'000	Leasehold improve-ments R'000	Furniture and fixtures# R'000	Motor vehicles R'000	Total R'000
2017						
Cost	146 154	71 955	364 687	332 024	17 546	932 366
Opening balance	120 254	63 845	344 113	226 071	17 432	771 715
Additions	26 978	8 625	23 155	113 092	216	172 066
Disposals	(1 078)	(515)	(2 581)	(7 139)	(102)	(11 415)
Accumulated depreciation	(107 964)	(52 126)	(286 237)	(168 416)	(13 799)	(628 542)
Opening balance	(90 064)	(46 059)	(260 660)	(120 244)	(11 931)	(528 958)
Current charge	(18 909)	(6 551)	(28 156)	(50 820)	(1 968)	(106 404)
Disposals	1 009	484	2 579	2 648	100	6 820
Net carrying amount	38 190	19 829	78 450	163 608	3 747	303 824

* Includes air conditioners, security equipment, medical and clinic equipment, office equipment, PABX, media equipment and machinery and equipment.
\# Includes salon equipment, fixtures and fittings, shop equipment, signs and furniture.

The motor vehicles held under finance leases amounts to R6.1 million (2017: Rnil). These motor vehicles are held as security for the finance leases.

The Absa loan was secured by the cession of the book debts in and general notarial bond for R2.2 billion over movable assets of Dis-Chem Pharmacies Limited.

During the current year the reassessment of useful lives resulted in a decrease in depreciation of R14 million.

9. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

9. Intangible assets *continued*

The estimated useful lives are as follows:

- Computer software — Two years
- Licences — Indefinite

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

	Computer software R'000	Licences R'000	Goodwill R'000	Total R'000
2018				
Cost	71 277	3 181	7 670	82 128
Opening balance	30 794	3 181	7 670	41 645
Additions	40 754	–	–	40 754
Disposals	(271)	–	–	(271)
Accumulated depreciation	(27 862)	–	–	(27 862)
Opening balance	(24 813)	–	–	(24 813)
Current charge	(3 320)	–	–	(3 320)
Disposals	271	–	–	271
Net carrying amount	43 415	3 181	7 670	54 266
2017				
Cost	30 794	3 181	7 670	41 645
Opening balance	27 807	3 181	–	30 988
Additions	3 139	–	7 670	10 809
Disposals	(152)	–	–	(152)
Accumulated depreciation	(24 813)	–	–	(24 813)
Opening balance	(16 749)	–	–	(16 749)
Current charge	(8 216)	–	–	(8 216)
Disposals	152	–	–	152
Net carrying amount	5 981	3 181	7 670	16 832

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

9. Intangible assets *continued*

Carrying amount of goodwill and licences allocated to each of the CGUs:

	2018 R'000	2017 R'000
Goodwill		
Dis-Chem Platinum Park Proprietary Limited	**7 670**	7 670
	7 670	7 670

The CGU is based on the relevant profit centre. The recoverable amount of the above CGU as at the reporting date, has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10.3% (2017: 13.4%). Cash flows beyond the five-year period are extrapolated using a 3% (2017: 3%) growth rate. As a result of the analysis, management did not identify an impairment in the current or prior financial period.

No reasonably possible change in assumptions will result in an impairment loss being recognised in the current and prior financial year.

10. Deferred tax

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax and the asset or liability relates to the same taxation authority and the same taxable entity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Tax relating to items recognised directly in equity are also recognised directly in equity and not in the statement of comprehensive income.

Also refer to accounting policy under note 7.

	2018 R'000	2017 R'000
Deferred taxation asset		
Balance at the beginning of the year	**102 644**	79 751
Movements during the year		
– Charge to income statement	**8 492**	22 893
Balance at end of year	**111 136**	102 644
The deferred tax asset balance is made up as follows:		
Employee-related obligations	**36 134**	31 180
Straight-lining of leases	**56 892**	48 390
Deferred revenue and S24C allowance	**23 616**	29 583
Prepayment	**(192)**	(580)
Property, plant and equipment	**(5 741)**	(5 741)
Other*	**427**	(188)
	111 136	102 644

* Other consists of income received in advance and provision for bad debts

11. Investments

An associate is an entity over which the company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The company's investments in its associate are accounted for at cost.

The company holds the investment in subsidiaries at cost.

	2018 R'000	2017 R'000
Investment in associate		
Dis-Chem Bothamed Proprietary Limited	**-**	-
The associate is not considered to be material to the Company. Dis-Chem Bothamed Proprietary Limited has made an accumulated loss of R2.6 million.		
Investment in subsidiaries		
CJ Pharmaceutical Enterprises Limited	**411 612**	411 612
CJ Marketing Proprietary Limited	**5 104**	5 104
Dis-Chem Distribution Proprietary Limited	**1 152 972**	1 152 972
Evening Star Trading Proprietary Limited	**4 216**	4 216
	1 573 904	1 573 904

All other subsidiaries measured at cost in the financial statements are immaterial and therefore not shown above.

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

12. Inventories

Inventories comprise merchandise for resale and are valued at the lower of cost determined on a weighted average moving cost basis and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. The cost of merchandise sold includes normal shrinkage, wastage, inventory losses, trade discounts, rebates and other similar items. Obsolete and slow moving inventories are identified and written down to their net realisable value. The carrying amount of inventory is recognised as an expense in the period in which the related revenue is recognised.

The company enters into various agreements with its vendors in regards to the purchasing of inventory. These rebates are recorded as a reduction to the cost of the related inventory to the extent that the inventories have been sold. Certain of these agreements are based on the achievement of specific volumes of purchases over a specified period, including escalating rebates as certain pre-defined hurdles are met. The company accrues these growth rebates at the point when it is probable that the hurdles will be met.

	2018 R'000	2017 R'000
Finished goods	**1 578 549**	1 427 436
Cost of inventories recognised as cost of sales	**11 464 929**	10 001 921

During the prior year, R8 million of inventory was written off due to the flooding in the Bloemfontein store.

13. Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business and are accounted for as loans and receivables in accordance with the accounting policy disclosed in note 26. Prepayments and other receivables are stated at their nominal values.

	2018 R'000	2017 R'000
Trade receivables	**94 919**	103 392
Provision for bad debts	**(1 521)**	(394)
Net trade receivables	**93 398**	102 998
Other receivables	**385 167**	279 748
Related parties (note 25)	**51 595**	56 845
Prepayment	**10 698**	16 711
	540 858	456 302
Provision for bad debt		
Opening balance	**(394)**	(165)
Provision raised	**(1 127)**	(229)
Closing balance	**(1 521)**	(394)

Trade receivables are non-interest-bearing and are generally on terms of seven to 30 days.

Other receivables are non-interest-bearing and generally on terms of 30 days. Other receivables consist of rebates and logistic fee receivables as well as credit card debtors and other sundry receivables.

As at 28 February, the age analysis of trade receivables is as follows:

			Past due but not impaired				
	Total R'000	**Neither past due nor impaired R'000**	**<30 days R'000**	**30-60 days R'000**	**60-90 days R'000**	**90-120 days R'000**	**>120 days R'000**
2018	93 398	93 398	–	–	–	–	–
2017	102 998	102 998	–	–	–	–	–

13. Trade and other receivables *continued*

As at 28 February, the age analysis of other receivables is as follows:

	Total R'000	Neither past due nor impaired R'000	Past due but not impaired				
			<30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2018	385 167	285 147	17 011	16 653	17 353	11 175	37 828
2017	279 748	191 944	17 991	14 298	19 550	14 006	21 959

Related party receivables are neither past due not impaired.

Refer to note 26 on credit risk management of trade and other receivables.

The Absa loan was secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

14. Loans receivable

Loans are accounted for as financial assets in accordance with the accounting policy disclosed in note 26.

	2018 R'000	2017 R'000
Related parties (note 25)	238 925	101 083
Other loans	6 665	22 226
	245 590	123 309

Other loans in the prior year mainly relates to loans given to Optipharm which is a company within the pharmaceutical industry and payable on demand. Optipharm was acquired by the Dis-Chem group in the current financial year.

15. Share capital

Ordinary share capital represents the par value of ordinary shares issued.

	2018 R'000	2017 R'000
Authorised		
1 500 000 000 (2017: 1 500 000 000) ordinary no par value shares		
Issued and fully paid		
860 084 483 (2017: 859 273 673) ordinary no par value shares	6 155 554	6 140 554
Reconciliation of shares issued		
Opening balance	6 140 554	1 352 074
Shares issued during the period	15 000	4 830 774
Capitalisation of costs	-	(42 294)
Closing balance	6 155 554	6 140 554

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

16. Operating lease obligation

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date and depends on whether the fulfillment of the arrangement is dependent on the use of a specific asset, and whether the arrangement conveys the right to use the asset.

A lease is classified at the inception date as a finance lease or an operating lease.

Leases where the lessor does not retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rentals with fixed escalation clauses are charged to profit or loss on a straight-line basis over the term of the leases.

Gains from renegotiated lease terms arise where the terms and conditions of lease agreements are substantially modified. In this case the original lease contract is derecognised and a new lease agreement recognised.

	2018 R'000	2017 R'000
Operating lease liability		
– Current portion in trade and other payables	**21 927**	17 065
– Non-current portion	**181 260**	157 500
	203 187	174 565

The company has entered into commercial property leases in respect of its retail stores.

These non-cancellable leases have remaining terms of between one and 12 years (2017: one and 11 years).

The leases include an escalation clause of 7% to 8% which has been straight-lined over the remaining period of the initial lease in terms IAS 17 – Leases. No material contingent rentals are paid.

17. Contingent consideration

The contingent consideration is measured at fair value through profit and loss with any fair value gains and losses recognised in other income/costs.

	2018 R'000	2017 R'000
Non-current liabilities	**54 499**	73 309
Current liabilities	**21 750**	24 003
	76 249	97 312

The contingent consideration relates to the acquisition of the non-controlling shareholders and is based on the future performance of each respective partner store, multiplied by the respective minority interests each year for five years to be paid in cash if performance targets are met. The performance targets will be agreed on an annual basis with each selling non-controlling shareholder.

It is currently assumed that the majority of the partner stores will meet the performance targets in all five years and that the selling non-controlling shareholders will therefore be entitled to the deferred consideration.
The present value of estimated deferred consideration is recognised as a liability which will be unwound over the four-year period (2017: five-year period). The current period interest amounted to R10.7 million (2017: R3.3 million).

Refer to note 26 for fair value disclosure and reconciliation of the movement in the balance.

18. Loans payable

Loans are accounted for as financial assets/liabilities in accordance with the accounting policy disclosed in note 26.

	2018 R'000	2017 R'000
Non-current loans		
Absa Bank	**496 000**	647 000
	496 000	647 000
Current loans		
Related parties (note 25)	**121 025**	77 774
Absa Bank	**150 000**	149 000
Other	**4 301**	134
	275 326	226 908

The Absa loan consists of two parts and was obtained in December 2016:

- The first part of the term loan is for R600 million repayable quarterly over four years at a variable interest rate linked to JIBAR. The first instalment payment was paid on 31 March 2017.
- The second part of the term loan is for R200 million repayable at the end of four years at a variable interest rate linked to JIBAR.
- The loan is secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

Related party loans are considered to be short-term in nature as they are payable on demand and bear interest at prime rate.

19. Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 26.

Expenses and assets are recognised net of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from SARS, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables which are stated inclusive of VAT. The net amount of sales tax recoverable from, or payable to, SARS is included as part of receivables or payables in the statement of financial position.

	2018 R'000	2017 R'000
Trade payables	**705 890**	606 905
Operating lease obligation	**21 927**	17 065
Related parties (note 25)	**499 744**	828 179
Other payables	**171 234**	185 658
VAT	**28 677**	19 850
	1 427 472	1 657 657

Trade and other payables are non-interest-bearing and are substantially on terms of 7 to 60 days.

Other payables consist of payables relating to payroll as well as general accruals.

Refer to note 26 on liquidity risk management. Refer to notes 16 and 23 for further information on the leases.

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

20. Employee-related obligations

Short-term employee obligations are measured at the undiscounted amount required to settle the present obligation at the reporting date. Included in short-term employee obligations are bonus and leave pay.

The expected cost of short-term employee benefits are recognised in the form of paid absences as follows:

- in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and
- in the case of non-accumulating paid absences, when the absences occur.

The expected cost of profit-sharing and bonus payments are recognised when, and only when:

- there is a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, there is no realistic alternative but to make the payments.

When an employee has rendered service to the Company during a period, the Company shall recognise the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. The expense is recognised in profit or loss.

	2018 R'000	2017 R'000
Leave pay	**92 213**	79 140
Bonus	**36 838**	32 219
	129 051	111 359

The bonus is dependent on the Group performance as well as individual ratings.

21. Deferred revenue

Deferred revenue liability is recognised for expected loyalty benefit points and gift vouchers redeemed by customers for purchases made by participating customers for the loyalty points and gift vouchers purchased for cash during the last three years, based on past experience of the level of redemptions. It is expected that a majority of these will be redeemed in the next financial year and all will have been redeemed within two years of the reporting date. Assumptions used to calculate the liability are based on current redemption rates at existing stores which are between 80% and 90% (2017: 80% and 90%).

Loyalty benefit point scheme

The Group operates a loyalty scheme which allows retail customers to accumulate points that entitle them, subject to certain criteria, to use these points in the future in any store in exchange for goods or services. The fair value which includes the expected redemption rate attributed to the points awarded, is deferred as a liability and recognised as revenue on redemption of the points by customers. The Group experiences low levels of unredeemed loyalty points due to the ease with which customers can redeem them at point of sale.

Gift vouchers

The fair value of gift vouchers which includes the expected redemption rate attributed to the vouchers, is deferred as a liability and recognised as revenue on redemption of the gift vouchers by customers.

	2018 R'000	2017 R'000
Loyalty benefit points scheme	**55 548**	51 750
Gift vouchers	**28 796**	45 558
	84 344	97 308

22. Dividends to shareholders

	2018 R'000	2017 R'000
5 June 2017	63 206	–
13 November 2017	161 097	–
30 March 2016	–	870 000
	224 303	870 000

Dividends per share	Cents	Cents
Interim paid	18.7	109.5
Final declared/paid	12.8	7.3

23. Commitments

	2018 R'000	2017 R'000
Commitments under non-cancellable operating leases, payable as follows:		
Within one year	355 114	313 655
Within five years	1 332 142	1 401 995
Over five years	748 161	1 033 422
	2 435 417	2 749 072

24. Notes to the statement of cash flows

Cash and cash equivalents are accounted for as loans and receivables and bank overdrafts are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 26.

Cash and cash equivalents comprise cash on hand and deposits held on call, all of which are available-for-use by the Company.

	2018 R'000	2017 R'000
24.1 Cash generated by operations		
Profit before tax	945 674	875 791
Adjustments for:		
– Depreciation and amortisation	100 999	114 620
– Finance costs	121 450	149 423
– Finance income	(6 748)	(19 636)
– Increase in employee obligations	17 692	18 393
– (Decrease)/increase in deferred revenue	(12 964)	19 778
– Dividend income	(14 282)	(24 206)
– (Profit)/loss on sale of tangible and intangible assets	(213)	407
– Increase from lease liability straight-lining and changes in lease terms	28 622	4 810
– Increase in provision for bad debt	1 127	230
– Impairment of investment in associate	–	100
– Contingent consideration	(8 866)	–
– Loan waiver	140 407	–
	1 312 898	1 139 710

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

24. Notes to the statement of cash flows *continued*

	2018 R'000	2017 R'000
24.2 Movement in working capital		
(Decrease)/increase in loans receivable	(256 221)	18 845
Decrease in loans payable	44 795	27 067
Increase in inventories	(151 113)	(88 588)
Increase in trade and other receivables	(85 717)	(137 087)
(Decrease)/increase in trade and other payables	(230 935)	384 912
	(679 191)	205 149
24.3 Taxation paid		
Net amount(payable)/receivable at beginning of the year	(10 067)	53 916
Amount charged excluding deferred tax	(303 180)	(253 234)
Net amount payable at end of the year	31 465	10 067
	(281 782)	(189 251)
Cash and cash equivalents comprise the following:		
24.4 Cash and cash equivalents		
Cash on hand and balances with banks	–	270 460
Bank overdrafts	(108 316)	–
	(108 316)	270 460

Cash at bank earns interest at floating rates based on daily bank deposit rates.

In the current year the Absa loan was secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

The following material non-cash items occurred during the period:

24.5 Material non-cash items

	2018	2017
Shares issued for acquisition of non-controlling interest	15 000	461 458
Loan waiver	140 407	–

24.6 Changes in financing activities

			Non-cash changes				
	2017	Cash flows	New leases/ transaction	Acquisitions	Release/ fair value changes	Present value interest unwinding	2018
Bank loans	796 000	(150 000)	–	–	–	–	646 000
Contingent consideration	97 312	(22 941)	–	–	(8 866)	10 744	76 249
Finance lease	–	(1 227)	6 134		–	–	4 907

25. Related party transactions

Related party transactions constitute the transfer of resources, services or obligations between the Company and a party related to the Company. For the purposes of defining related party transactions with key management, key management has been defined as directors and includes close members of their families and entities controlled or jointly controlled by these individuals.

Outstanding balances as at 28 February 2018 and 2017 are unsecured and settlement occurs in cash.

The ultimate controlling party of the Company is Ivlyn Proprietary Limited that holds 52.7% (2017: 53.2%) of the shares in Dis-Chem Pharmacies Limited.

Directors' direct and indirect holdings of shares in the company is disclosed in the Directors Report.

2018

Related party transactions with a company that is controlled/jointly controlled by a person that has significant influence over Dis-Chem:

Related party	Sales/ (purchases) R'000	Loan receivable/ (payable) R'000	Trade and other receivable R'000	Trade and other payable R'000
Dis-Chem Distribution	(8 591 853)	(11 037)	-	(498 465)
Dis-Chem Ballito	(864)	(2 941)	1 281	-
Dis-Chem Flamewood	(239)	(13 968)	2 007	-
Dis-Chem Krugersdorp	(803)	(4 326)	897	-
Dis-Chem Glen Fair	(327)	(16 265)	1 546	-
Dis-Chem Rynfield	(313)	(2 842)/15 000	848	-
Dis-Chem Three Rivers	(518)	(9 185)/4 455	1 594	-
Dis-Chem Amanzimtoti	(745)	(11 708)	2 084	-
Dis-Chem Oncology	(299)	(2 842)	142	-
Dis-Chem Festival Mall	(320)	(8 613)/10 132	859	-
Dis-Chem Worcester	(441)	7 130	478	-
Dis-Chem Park Station	(412)	8 124	605	-
Dis-Chem Maponya Mall	(269)	(4 573)/11 550	-	(683)
Dis-Chem Ballito Lifestyle	(307)	(718)	1 227	-
Dis-Chem Jubilee Mall	(594)	13 325	2 195	-
Pharm-Logistical Services	(1 143)	67 879	-	(596)
The Local Choice	(79)	(11 894)	28 167	-
Dis-Chem Namibia	-	5 797	1 236	-
Dis-Chem Swakopmund	-	4 910	1 382	-
Dis-Chem Dunes Mall Pharmacy	-	1 041	5 047	-
CJ Enterprises	(1 112 283)	87 939	-	-
MSDS No 3 Proprietary Ltd	-	1 643	-	-
Josneo Proprietary Ltd	-	(20 113)	-	-

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

25. Related party transactions *continued*

2017

Related party transactions with a company that is controlled/jointly controlled by a person that has significant influence over Dis-Chem:

Related party	Sales/ (purchases) R'000	Loan receivable/ (payable) R'000	Trade and other receivable R'000	Trade and other payable R'000
Dis-Chem Distribution	21/(7 159 652)	(11 037)	–	(789 544)
Dis-Chem Ballito	781/(392)	(4 427)	87	–
Dis-Chem Flamewood	163/(96)	50/(8 756)	197	–
Dis-Chem Krugersdorp	333/(345)	(6 079)	–	(97)
Dis-Chem Glen Fair	433/(483)	(5 220)	–	(34)
Dis-Chem Rynfield	530/(107)	15 000/(1 940)	27	–
Dis-Chem Three Rivers	532/(348)	5 686/(6 304)	21	–
Dis-Chem Amanzimtoti	637/(391)	(8 480)	21	–
Dis-Chem Oncology	591/(329)	(11 235)	20 918	–
Dis-Chem Festival Mall	223/(251)	10 132/(7 296)	24	–
Dis-Chem Worcester	428/(367)	8 827	14	–
Dis-Chem Park Station	382/(475)	7 039	45	–
Pharm-Logistical Services	633/(1 044)	29 161	6 016	–
Dis-Chem Namibia	–	5 785	1 192	–
Dis-Chem Swakopmund	–	4 270	30	–
CJ Marketing	–	–	28 253	–
CJ Enterprises	(658 078)	(7 000)	–	(38 504)
MSDS No 3 Proprietary Ltd	–	15 133	–	–

For further information in regards to loans receivable/payable, trade receivables and trade payables refer to notes 14, 18, 13 and 19 respectively.

	2018 R'000	2017 R'000
Compensation of key management		
Short-term employee benefits	**42 068**	43 058
Post-employment benefits	**288**	456
Non-executive directors' fees	**3 919**	951
	46 275	44 465

25. Related party transactions *continued*

Executive and non-executive emoluments to directors

	Services as director R'000	Salary and allowances R'000	Bonuses[1] R'000	Retirement and related benefits R'000	Other benefits R'000	Total R'000
2018						
Non-executive directors						
LM Nestadt	2 628	-	-	-	-	2 628
MJ Bowman	335	-	-	-	-	335
A Coovadia	290	-	-	-	-	290
JS Mthimunye	316	-	-	-	-	316
MSI Gani	350	-	-	-	-	350
Executive directors						
IL Saltzman	-	12 388	3 744	72	226	16 430
LF Saltzman	-	10 155	2 550	72	91	12 868
RM Morais	-	5 029	1 290	72	251	6 642
SE Saltzman (alternate)	-	4 827	1 161	72	356	6 416

	Services as director R'000	Retirement Salary and allowances R'000	Bonuses[1] R'000	Retirement and related benefits R'000	Other benefits R'000	Total R'000
2017						
Non-executive directors						
LM Nestadt#	625	-	-	-	-	625
MJ Bowman#	119	-	-	-	-	119
A Coovadia#	72	-	-	-	-	72
JS Mthimunye#	135	-	-	-	-	135
MSI Gani^	-	-	-	-	-	-
Executive directors						
IL Saltzman	-	11 752	-	72	120	11 944
LF Saltzman	-	9 691	-	72	-	9 763
RM Morais	-	4 995	-	72	37	5 104
SE Saltzman (alternate)	-	4 800	-	72	146	5 018
NM Hegarty*	-	2 849	-	42	15	2 906
SRN Goetsch*	-	2 853	-	42	15	2 910
BI Epstein*	-	2 809	-	42	109	2 960
KS Sterling*	-	2 853	-	42	14	2 909
LLS van der Watt*	-	-	-	-	-	-

* Resigned 13 October 2016
\# Appointed 13 October 2016
^ Appointed 3 May 2017
(1) Bonuses relates to amount physically paid in the current period

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

26. Financial risk management objectives and policies

Financial assets and liabilities

Initial recognition

Financial instruments, or their component parts, are classified on initial recognition as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets and liabilities recognised on the statement of financial position include cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less, and are measured at amortised cost.

For the purposes of the cash flow statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding short-term bank borrowings as overdrafts are an integral part of the Company's cash management policies.

Cash and cash equivalents are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset.

Trade and other receivables

Trade receivables, which generally have seven to 30-day terms, are recognised and carried at original invoice value less an allowance for uncollectable amounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Where the effect of the time value of money is significant, receivables have been reflected at amortised cost using the effective interest rate method.

Bad debts are written off when identified.

Trade and other payables

Trade and other payables are recognised initially at fair value net of directly attributable transaction costs.

Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

Subsequent measurement

Loans and receivables (including trade and other receivables and cash and cash equivalents)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

26. Financial risk management objectives and policies *continued*

Loans and borrowings (including trade and other payables)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

At fair value (including FEC and contingent consideration)

After initial recognition, items are subsequently measured at fair value with any fair value gains and losses recognised in other costs.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows from the asset is retained, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the rights to receive cash flows from the asset have been transferred and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the rights to receive cash flows from an asset has been transferred but all the risks and rewards of the asset has been substantially transferred or retained nor has control of the asset been transferred, the asset is recognised to the extent of continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that could be required to be repaid.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets

At each reporting date it is assessed whether a financial asset or group of financial assets are impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

26. Financial risk management objectives and policies *continued*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss. In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as default or delinquency in payments, the probability of insolvency or significant financial difficulties of the debtor or group of debtors) that all of the amounts due under the original terms of the invoice will not be collected. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value measurement

In addition to the financial instruments carried at fair value (available for sale financial instruments), the fair values of financial instruments measured at amortised cost are disclosed should it be determined that the carrying value of these instruments does not reasonably approximate their fair value at each reporting date. 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the company.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The valuation techniques that are used to measure fair value are appropriate in the circumstances and for which sufficient data is available, 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 consolidated 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 assets and liabilities that are recognised in the financial statements at fair value, or for which the fair value is disclosed, on a recurring basis, it is determined whether transfers have occurred between the levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

26. Financial risk management objectives and policies *continued*

The Company's principal financial instruments comprise loans, cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the company's operations. The company has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk, and credit risk. The board reviews and agrees policies for managing each of these risks, which are summarised below:

	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset - loans and receivables R'000	Non-financial instruments and leases R'000
2018					
Assets					
Property, plant and equipment	-	-	-	-	421 370
Intangible assets	-	-	-	-	54 266
Deferred taxation	-	-	-	-	111 136
Investment in subsidiaries	-	-	-	-	1 573 904
Inventories	-	-	-	-	1 578 549
Trade and other receivables	530 160	-	-	530 160	10 698
Loans receivable	245 590	-	-	245 590	-
Taxation receivable	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-
Liabilities					
Finance lease liability	-	-	-	-	4 907
Operating lease obligation	-	-	-	-	181 260
Contingent consideration	76 249	76 249	-	-	-
Loans payable	771 326	-	771 326	-	-
Trade and other payables	1 376 868	-	1 376 868	-	50 604
Employee-related obligations	-	-	-	-	129 051
Deferred revenue	-	-	-	-	84 344
Taxation payable	-	-	-	-	31 465
Bank overdraft	108 316	-	108 316	-	-

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

26. Financial risk management objectives and policies *continued*

	Financial instrument R'000	At fair value R'000	liability at amortised cost R'000	Financial asset – loans and receivables R'000	Non-financial instruments and leases R'000
2017					
Assets					
Property, plant and equipment	–	–	–	–	303 824
Intangible assets	–	–	–	–	16 832
Deferred taxation	–	–	–	–	102 644
Investment in subsidiaries	–	–	–	–	1 573 904
Inventories	–	–	–	–	1 427 436
Trade and other receivables	439 591	–	–	439 591	16 711
Loans receivable	123 309	–	–	123 309	–
Taxation receivable	–	–	–	–	–
Cash and cash equivalents	270 460	–	–	270 460	–
Liabilities					
Finance lease liability	–	–	–	–	–
Operating lease obligation	–	–	–	–	157 500
Contingent consideration	97 312	97 312	–	–	
Loans payable	873 908	–	873 908	–	–
Trade and other payables	1 620 742	–	1 620 742	–	36 915
Employee-related obligations	–	–	–	–	111 359
Deferred revenue	–	–	–	–	97 308
Taxation payable	–	–	–	–	10 067
Bank overdraft	–	–	–	–	–

26. Financial risk management objectives and policies *continued*

Credit risk

The carrying amount of financial assets represents the maximum credit exposure which relates to trade and other receivables, loans receivables and positive cash and cash equivalents.

Trade and other receivables

The company is exposed to credit risk in relation to trade and other receivables from its retail.

	2018 R'000	2017 R'000
The maximum exposure to credit risk for trade receivables (excluding inter-company)	**93 398**	102 998
The maximum exposure to credit risk for other receivables	**385 167**	279 748

In relation to the retail business, trade receivables primarily relate to amounts recoverable from medical aids. These receivables are deemed to be low credit risk as medical schemes pay within 14 days and all amounts are neither past due nor impaired. The majority of other receivables relates to rebates receivable from suppliers and are deemed to be low credit risk as the net position with the supplier is a creditor.

Cash and cash equivalents

With respect to the credit risk arising from cash resources, the company's exposure to credit risk arises from the default of the counterparty with the maximum exposure equal to the carrying amount of these resources.

The company manages and monitors daily funding requirements and has limited foreign currency exposure. Surplus funds are invested with banking institutions of a high credit standing.

Loans

The company is exposed to credit risk in relation to loans with related and other parties. The risk is managed through formal procedures for granting of these loans. The recoverability of these loans are assessed annually. Based on past payment history, the credit quality of these loans are considered to be of a high credit standing.

Interest rate risk

The company's exposure to the risk of changes in market interest rates relates primarily to the Absa loan with a floating interest rate linked to JIBAR as well as interest incurred on overdraft facilities (note 6).

As part of the process of managing the company's interest rate risk, interest rate characteristics of new borrowings and refinancing of existing borrowings are positioned according to anticipated movements in interest rates. Funds on call earn interest at prevailing market call rates. Interest payable on bank borrowings fluctuates in accordance with prime bank lending rates while the Absa loan fluctuates with the JIBAR rate.

If the interest rate, with all other variables held constant, increased or decreased by 50 average basis points at year-end, the impact of the company's profit before tax would be approximately R3.2 million (2017: R5.9 million). The sensitivity analysis presented was based on the average balance of the funds during the period on the bank borrowings and Absa loan.

Liquidity risk

During the current year, Dis-Chem had a general banking facility of R100 million with Nedbank, an Absa loan of R646 million, related party loans of R121 million as well as an overdraft prime lending facility of up to R800 million.

In the prior year, Dis-Chem had a general banking facility of R100 million with Nedbank, a corporate call account with Investec as a working capital overdraft facility of R600 million (the "Investec Facility") and an unsecured facility up to R1 500 000 000 (the "Bridge Facility") with Absa Bank Limited. The Investec Facility and the Bridge Facility were replaced in December 2016 by the Absa loan of R800 million as well as an overdraft prime lending facility of up to R700 million.

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

26. Financial risk management objectives and policies *continued*

The table below summarises the maturity profile of the company's financial liabilities at year-end, based on contractual and undiscounted payments.

	On demand R'000	Less than 12 months R'000	Greater than 12 months R'000	Total R'000
2018				
Trade and other payables	-	1 376 868	-	1 376 868
Loans payable excluding Absa loan	125 326	-	-	125 326
Bank overdraft	-	108 316	-	108 316
Contingent consideration	-	22 789	70 665	93 454
Absa loan linked to JIBAR	-	205 884	570 101	775 985
Undiscounted payments	125 326	1 713 857	640 766	2 479 949
Less: future finance charges	-	(56 923)	(90 267)	(147 190)
	125 326	1 656 934	550 499	2 332 759

	On demand R'000	Less than 12 months R'000	Greater than 12 months R'000	Total R'000
2017				
Trade and other payables	-	1 620 742	-	1 620 742
Loans payable excluding Absa loan	77 908	-	-	77 908
Contingent consideration	-	25 056	104 257	129 313
Absa loan linked to JIBAR	-	221 550	775 986	997 536
Undiscounted payments	77 908	1 867 348	880 243	2 825 499
Less: future finance charges	-	(73 603)	(159 934)	(233 537)
	77 908	1 793 745	720 309	2 591 962

Fair value

The information below analyses financial assets and liabilities that are carried at fair value or financial assets and liabilities that have carrying amounts that differ from their fair values:

	Level 1 R'000	Level 2 R'000	Level 3 R'000
2018			
Financial liabilities at fair value through profit and loss			
- Contingent consideration	-	-	76 249
2017			
Financial liabilities at fair value through profit and loss			
- Contingent consideration	-	-	97 312

The fair value of the contingent consideration payable is measured with reference to the performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 11.4% (2017: 12.9%) used to determine the present value of the future cash flows.

26. Financial risk management objectives and policies *continued*

	2018 R'000	2017 R'000
Reconciliation of recurring Level 3 fair value movements:		
Opening balance	**97 312**	–
Acquisitions	**–**	94 027
Payment	**(22 941)**	–
Interest	**10 744**	3 285
Release to other income*	**(10 735)**	–
Fair value adjustment	**1 869**	–
Closing balance	**76 249**	97 312

* Relates to an amount, reflected in other income, that was not paid by the company due to performance conditions not being met and expected future performance not being met.

A reasonable movement in the unobservable inputs would not significantly impact the fair value of the contingent consideration as at the end of the reporting period and therefore not significantly impact profit after tax or equity.

There were no transfers of financial instruments between Level 1, Level 2 and Level 3 fair value measurements during the year ended February 2018 and 2017.

27. Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The company considers share capital and retained income as capital. The board of directors considers capital requirements from time to time and makes adjustments accordingly.

No changes were made in the objectives, policies and processes for managing capital during the years ended 28 February 2018 and 28 February 2017.

28. Restatement due to common control accounting policy

During the current year, the Company acquired the assets and liabilities of 16 wholly-owned subsidiaries. Due to our common control accounting policy, this necessitates the restatement of prior year amounts to reflect the combination as if it had occurred from the beginning of the earliest period presented, regardless of the actual date of the combination. The Company believes this provides reliable and more relevant information to users as it

Notes to the company annual financial statements *continued*

FOR THE YEAR ENDED 28 FEBRUARY 2018

28. Restatement due to common control accounting policy *continued*

enhances the comparability of results from period to period. Any adjustments required due to transactions between the entities in the past has been taken to equity.

The impact of the above transaction restatement is as follows on the Company:

	2017 (previously stated) R'000	Acquisition of assets and liabilities R'000	Inter-company elimination and common control R'000	Total R'000
ASSETS				
Property, plant and equipment	282 839	20 985	-	303 824
Intangible assets	8 752	8 080	-	16 832
Deferred taxation	90 789	11 855	-	102 644
Investment in subsidiaries	1 842 046	-	(268 142)	1 573 904
Inventories	1 183 997	243 439	-	1 427 436
Trade and other receivables	428 111	28 191	-	456 302
Loans receivable	153 497	136 268	(166 456)	123 309
Cash and cash equivalents	266 458	4 002	-	270 460
Equity and reserves				
Share capital	6 140 554	-	-	6 140 554
Common control reserve	(23 207)	-	(239 295)	(262 502)
Retained loss	(4 747 112)	167 507	(28 847)	(4 608 452)
LIABILITIES				
Operating lease obligation	132 586	24 914	-	157 500
Contingent consideration	73 309	-	-	73 309
Loans payable	647 000	-		647 000
Trade and other payables	1 442 966	214 691	-	1 657 657
Employee-related obligations	99 290	12 069	-	111 359
Deferred revenue	102 835	(5 527)	-	97 308
Contingent consideration – current	24 003	-	-	24 003
Loans payable – current	355 724	37 640	(166 456)	226 908
Taxation payable	8 541	1 526	-	10 067
Statement of comprehensive income				
Turnover	11 070 211	2 389 546	(11 373)	13 448 384
Cost of sales	(8 118 479)	(1 894 815)	11 373	(10 001 921)
Other income	611 134	9 468	(57 948)	562 654
Other expenses	(2 653 689)	(355 323)	13 547	(2 995 465)
Transaction costs on listing	(8 074)	-	-	(8 074)
Finance income	19 525	111	-	19 636
Finance costs	(149 319)	(104)	-	(149 423)
Taxation	(188 456)	(41 885)	-	(230 341)

28. Restatement due to common control accounting policy *continued*

	2016 (previously stated) R'000	Acquisition of assets and liabilities R'000	Inter-company elimination and common control R'000	Total R'000
ASSETS				
Property, plant and equipment	225 980	16 777	–	242 757
Intangible assets	13 839	400	–	14 239
Deferred taxation	67 644	12 107	–	79 751
Investment in subsidiaries	1 221 508	–	–	1 221 508
Investment in associates	1 466	–	–	1 466
Inventories	1 103 114	235 734	–	1 338 848
Trade and other receivables	297 383	21 800	–	319 183
Loans receivable	182 633	75 420	(115 899)	142 154
Taxation receivable	52 421	1 495	–	53 916
Cash and cash equivalents	256 348	4 730	–	261 078
Equity and reserves				
Share capital	1 352 074	–	–	1 352 074
Common control reserve	(23 207)	–	–	(23 207)
Other reserves	–	–	30 556	30 556
Retained loss	(828 913)	126 615	(30 556)	(732 854)
LIABILITIES				
Operating lease obligation	121 594	23 226	–	144 820
Trade and other payables	1 115 271	138 395	–	1 253 666
Employee-related obligations	82 912	10 054	–	92 966
Deferred revenue	79 544	(2 014)	–	77 530
Loans payable – current	90 571	72 169	(115 899)	46 841
Bank overdraft	1 432 490	18	–	1 432 508

29. Events after reporting date

The directors are not aware of any matter or circumstance arising since the end of the financial year up to the date of this report that would require amendment or additional disclosure in these annual financial statements, except for:

- The potential acquisition of Quenets Proprietary Limited. The Quenets acquisition is still awaiting Competition Commission approval and therefore control has not yet passed to Dis-Chem.
- The offer of 276 269 shares on the Forfeitable share Plan and 2 223 574 options on the Share Appreciation Rights Plan. These offers need to be accepted by the participants by 30 June 2018. The directors have authorisation to allot and issue up to 42 963 684 ordinary no par value shares in terms of the long-term incentive plan.


Dis-Chem

05

SHAREHOLDER INFORMATION

Analysis of ordinary shareholders

AS AT 28 FEBRUARY 2018

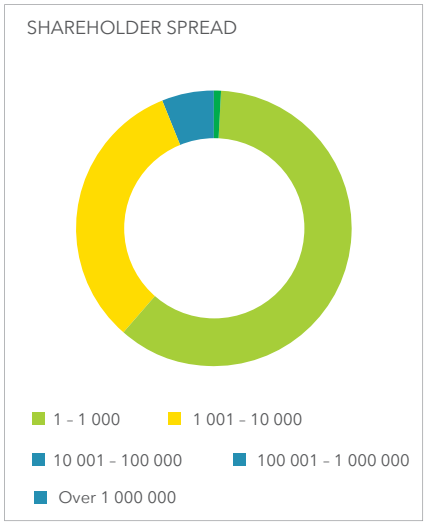
Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	8 353	60,34%	2 679 172	0,31%
1 001 – 10 000	4 424	31,96%	14 556 081	1,69%
10 001 – 100 000	835	6,03%	23 889 006	2,78%
100 001 – 1 000 000	187	1,35%	55 400 755	6,44%
Over 1 000 000	45	0,33%	763 559 469	88,78%
Total	13 844	100,00%	860 084 483	100,00%

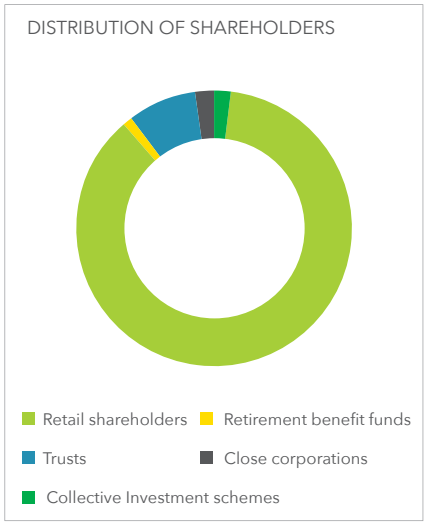
Distribution of shareholders	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Assurance Companies	35	0,25%	10 580 053	1,23%
Close Corporations	88	0,64%	314 302	0,04%
Collective Investment Schemes	239	1,73%	113 832 705	13,24%
Custodians	23	0,17%	36 000 539	4,19%
Foundations & Charitable Funds	47	0,34%	1 183 907	0,14%
Hedge Funds	3	0,02%	356 841	0,04%
Insurance Companies	7	0,05%	124 044	0,01%
Investment Partnerships	53	0,38%	288 061	0,03%
Managed Funds	43	0,31%	7 367 264	0,86%
Medical Aid Funds	19	0,14%	548 106	0,06%
Organs of State	11	0,08%	28 499 453	3,31%
Private Companies	285	2,06%	589 607 868	68,55%
Public Companies	6	0,04%	774 512	0,09%
Public Entities	6	0,04%	292 326	0,03%
Retail Shareholders	11 756	84,92%	25 880 725	3,01%
Retirement Benefit Funds	151	1,09%	22 499 794	2,62%
Scrip Lending	11	0,08%	2 725 433	0,32%
Sovereign Funds	4	0,03%	7 662 544	0,89%
Stockbrokers & Nominees	17	0,12%	2 335 147	0,27%
Trusts	1 040	7,51%	9 210 859	1,07%
Total	**13 844**	**100,00%**	**860 084 483**	**100,00%**

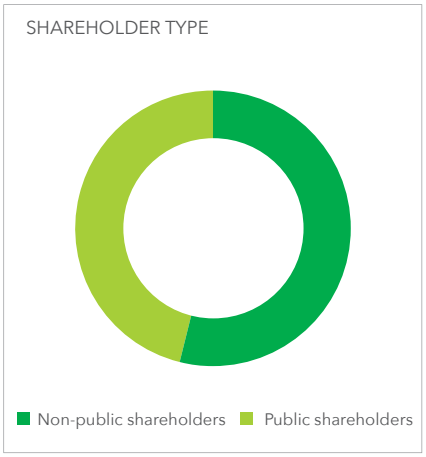
Shareholder type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-public shareholders:				
Directors and associates	8	0,06%	468 210 185	54,44%
Public shareholders	13 836	99,94%	391 874 298	45,56%
Total	13 844	100,00%	860 084 483	100,00%

Fund managers with a holding greater than 3% of the issued shares	Number of Shares	% of issued capital
Fidelity Worldwide Investment	35 307 012	4,11%
Capital Research and Management Company	34 627 650	4,03%
Total	69 934 662	8,13%

Beneficial shareholders with a holding greater than 3% of the issued shares	Number of Shares	% of issued capital
Ivlyn No1 (Pty) Ltd	453 041 396	52,67%
Stansh (Pty) Ltd	51 340 504	5,97%
SMALLCAP World Fund Inc (Capital Group)	34 627 650	4,03%
Fidelity Worldwide Investment	33 322 555	3,87%
Total	572 332 105	66,54%







Notice of annual general meeting

Notice is hereby given that the 18th Annual General Meeting of shareholders of Dis-Chem Pharmacies Limited ("Dis-Chem" or "the Company") will be held at Standard Bank, 30 Baker Street, Rosebank, on Friday, 27 July 2018 at 10:00. To ensure that registration procedures are completed by 10:00, please register for the Annual General Meeting from 09:30. Only those shareholders listed in the shareholders' register as at Friday, 20 July 2018 will be eligible to vote at the Annual General Meeting. Accordingly, the last day to trade to be recorded in the register is Tuesday, 17 July 2018.

The purpose of the Annual General Meeting is to propose the passing of the following ordinary and special resolutions:

1. ORDINARY RESOLUTION NUMBER 1

Approval of annual financial statements

Resolved that the annual financial statements of the Company and its subsidiary companies for the year ended 28 February 2018, together with the reports of the Directors, Auditors and Audit and Risk Management Committee be and are hereby considered and adopted.

2. ORDINARY RESOLUTION NUMBER 2

Appointment of auditors and designated auditor

Resolved that Ernst and Young Inc. be and are hereby re-appointed auditors of the Company and that Mr Derek Engelbrecht is hereby appointed the designated auditor to hold office for the ensuing year.

The Company's Audit and Risk Committee has recommended the re-appointment of Ernst & Young Inc. as auditors of the Company with Mr Derek Engelbrecht being appointed the designated auditor for the current financial year.

3. ORDINARY RESOLUTION NUMBER 3

Re-election of director

Resolved that Mr Mark John Bowman, who retires in terms of the Company's Memorandum of Incorporation, be re-elected a director of the Company.

The *curriculum vitae* for Mr. Bowman appears on page 23 of this annual report.

4. ORDINARY RESOLUTION NUMBER 4

Re-election of director

Resolved that Ms Anuschka Coovadia, who retires in terms of the Company's Memorandum of Incorporation, be re-elected a director of the Company.

The *curriculum vitae* for Ms Coovadia appears on page 23 of this annual report.

5. ORDINARY RESOLUTION NUMBER 5

Appointment of Audit and Risk Committee member

Resolved that Ms Anuschka Coovadia be appointed a member of the Company's Audit and Risk Committee and that this appointment shall be valid up to the date of the next Annual General Meeting of the Company.

6. ORDINARY RESOLUTION NUMBER 6

Appointment of Audit and Risk Committee member

Resolved that Mr Mark John Bowman be appointed a member of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next Annual General Meeting of the Company.

7. ORDINARY RESOLUTION NUMBER 7

Appointment of Audit and Risk Committee member

Resolved that Mr Mohamed Salim Ismail Gani be appointed a member of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next Annual General Meeting of the Company.

8. ORDINARY RESOLUTION NUMBER 8

Appointment of Audit and Risk Committee member

Resolved that Mr Johannes Sanyana Mthimunye be appointed a member and chairman of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next Annual General Meeting of the Company.

9. ORDINARY RESOLUTION NUMBER 9

Remuneration Report and Implementation Report

Section 3.84 (k) of the JSE Listings Requirements require the Company to submit its Remuneration Report and Implementation Report every year to shareholders for consideration and to provide shareholders with an opportunity to indicate whether they do or do not support the material provisions of the remuneration report and policy of the Company and the implementation thereof. Shareholders are referred to the Remuneration Report and Implementation Report set out on pages 36 to 41 of the integrated annual report.

As the above are not matters that are required to be resolved or approved by shareholders, no minimum voting threshold is required. Nevertheless, for record purposes, the minimum percentage of voting rights that is required for each resolution to be adopted as non-binding advisory votes is 50% (fifty percent) of the voting rights plus 1 (one) vote to be cast on the resolution.

Ordinary resolution 9.1

Resolved that, as a non-binding advisory vote, the Remuneration Report, as tabled, be and is hereby approved.

Ordinary resolution 9.2

Resolved that, as a non-binding advisory vote, the Implementation Report, as tabled, be and is hereby approved.

10. SPECIAL RESOLUTION NUMBER 1

Non-executive directors' fees for the financial year ending 28 February 2019 and quarter ending 31 May 2019

Resolved that the fees (excluding VAT), to be paid to the non-executive directors for their services as directors of the Company, for the year ending 28 February 2019 and the quarter ending 31 May 2019 (being a quarter of the fees payable for the year ending 28 February 2019) be approved as follows:

	28 February 2019	31 May 2019
Chairperson	R2 830 200.00	R707 550.00
Non-executive director	R262 643.00	R65 661.00
Chairperson of the Audit Committee	R276 228.00	R69 057.00
Member of the Audit Committee	R177 274.00	R 44 319.00
Chairperson of the Remuneration and Nomination Committee	R132 956.00	R 33 239.00
Member of the Remuneration and Nomination Committee	R71 321.00	R17 830.00
Chairperson of the Social and Ethics Committee	R64 529.00	R16 132.00
Member of the Social and Ethics Committee	R35 490,00	R8 872.00
Chairperson of Special Committees	R6 890.00 per hour	R6 890.00 per hour
Member of Special Committees	R6 360.00 per hour	R6 360.00 per hour

The reason for this special resolution is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company for the financial year ending 28 February 2019 and for the quarter ending 31 May 2019 in accordance with section 66(9) of the Companies Act, 2008. The passing of this special resolution will have the effect of approving the remuneration of each of the non-executive directors of the Company for the financial year ending 28 February 2019 and quarter ending 31 May 2019. The fees payable for the quarter ending 31 May 2019 will be based on a quarter of the fees as approved above. Shareholders will be requested to approve any adjustment to the fees payable for the quarter ending 31 May 2019 at the 2019 Annual General Meeting.

Notice of annual general meeting *continued*

11. SPECIAL RESOLUTION NUMBER 2

Loans or other financial assistance

Resolved that the Board of Directors may, subject to the Companies Act, 2008 ("the Act") and the Memorandum of Incorporation, authorise the Company to provide direct or indirect financial assistance:

- By way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purpose of any securities of the Company or a related or inter-related company, as contemplated in section 44 of the Act, at any time during a period commencing on the date of passing of this special resolution and ending at the expiry of two years from the date of adoption of this special resolution number 2; and/or
- To a director of the Company or of a related or inter-related company, or to a related or inter-related company or corporation, or to a member of a related or inter-related company, or to a person related to any such company, corporation, director, prescribed officer or member, as contemplated in section 45 of the Act, at any time during a period commencing on the date of passing of this special resolution and ending at the expiry of two years from the date of the adoption of this special resolution number 2.

The reason for special resolution number 2 is to approve generally the provision of financial assistance to the parties stated in the said special resolution number 2. Any financial assistance given will be subject to the Company complying with the Solvency and Liquidity Test as more fully set out in section 4 of the Companies Act, 2008.

12. ORDINARY RESOLUTION NUMBER 10

General authority over unissued shares

Resolved that 5% i.e. 43 004 224 of the authorised unissued ordinary shares in the Company be and are hereby placed under the control of the directors until the date of the next Annual General Meeting, subject to the provisions of the JSE Listings Requirements and the condition that no issue of these shares will be made if it could have the effect of changing control of the Company.

No issue of these shares is contemplated at the present time and no issue will be made that could effectively change the control of the Company without the prior approval of shareholders in a general meeting.

13. ORDINARY RESOLUTION NUMBER 11

General authority to issue shares for cash

Resolved that the directors of the Company be and are hereby authorised, by way of a general authority, to issue shares for cash (as contemplated in terms of the JSE Listings Requirements) for up to 5% i.e. 43 004 224 of the issued shares in the capital of the Company (net of any treasury shares) as and when they in their discretion deem fit, subject to the Companies Act, No. 71 of 2008, as amended, the Memorandum of Incorporation of the Company and the JSE Listings Requirements as presently constituted and which may be amended from time to time.

The reason for the above ordinary resolution number 11 is to give the directors authority to issue up to 10% of the unissued shares for cash to enable the Company to pursue suitable business opportunities as and when they arise.

Additional requirements imposed by the JSE Listings Requirements

It is recorded that the Company may only make an issue of shares (as defined in the JSE Listings Requirements) for cash under the above general authority if the following JSE Listings Requirements are met:

(a) The shares, which are the subject of the issue for cash, must be of a class already in issue, or where this is not the case, must be limited to such equity securities or rights that are convertible into a class already in issue;

(b) The general authority shall only be valid until the Company's next Annual General Meeting or for 15 (fifteen) months from the date of passing of this ordinary resolution, whichever period is shorter;

(c) A SENS announcement will be published giving full details, including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 (thirty) days prior to the date that the price of the issue was agreed in writing between the Company and party/ies subscribing for such shares at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) of the number of shares in issue prior to that issue;

(d) That issues in the aggregate in any 1 (one) financial year may not exceed 10% (ten percent) of the number of the shares of the Company in issue of that class of shares before such issue, taking into account the dilution effect of convertible equity securities and options in accordance with the JSE Listings Requirements;

(e) In determining the price at which an issue of shares may be made in terms of this general authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed to between the Company and the party/ies subscribing for the shares; and

(f) Any issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to related parties.

14. ORDINARY RESOLUTION NUMBER 12

Directors' or Company Secretary's authority to implement special and ordinary resolutions

Resolved that any director of the Company or the Company Secretary be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting.

15. SOCIAL AND ETHICS COMMITTEE

A report on the Social and Ethics Committee, in terms of Regulation 43 of the Companies Act, 2008, has been included in the annual report (page 42). The report sets out the matters as required in terms of the Social and Ethics Committee's terms of reference. Shareholders will not be asked to vote on any matters contained in the Social and Ethics Committee's terms of reference but may raise any questions they may have regarding the said terms of reference.

Voting and proxies

All ordinary resolutions (except for Ordinary resolution number 14) will, in terms of the Companies Act, 2008, require the support of more than 50% of the voting rights of shareholders exercised thereon to be approved.

A general issue of shares for cash must be approved by ordinary resolution with a 75% majority of shareholders voting in favour thereof. Accordingly ordinary resolution number 14 will require the support of more than 75% of the voting rights of shareholders exercised thereon to be approved.

All the Special resolutions will, in terms of the Companies Act, 2008, require the support of at least 75% of the total voting rights exercised thereon to be approved.

General instructions and information

The annual report to which this notice of the Annual General Meeting is attached, provides details of:

- the directors of the Company on page 22;
- the major shareholders of the Company on page 164 – 165;
- the director's shareholding in the Company on page 41; and
- the share capital of the Company in note 18 on page 107.

All shareholders are encouraged to attend, speak and vote at the Annual General Meeting.

Entitlement to attend and vote at the Annual General Meeting in person or by proxy

All shareholders are encouraged to attend, speak and vote at the Annual General Meeting.

If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant ("CSDP") to hold your shares in your own name in the Company sub-register), as at Friday, 20 July 2018:

- you may attend and vote at the Annual General Meeting; or alternatively; and
- you may appoint an individual as a proxy, (who need not also be a shareholder of the Company) to attend, participate in and speak and vote in your place at the Annual General Meeting, by completing the attached form of proxy and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited, the details of which are set out on page 178 of the annual report. Please note that your

Notice of annual general meeting *continued*

proxy may delegate his/her authority to act on your behalf to another person, subject to the restrictions set out in the attached form of proxy. Please also note that the attached form of proxy must be delivered to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited as aforesaid, before your proxy may exercise any of your rights as a shareholder at the Annual General Meeting.

Any shareholder of the Company that is a company may authorise any person to act as its representative at the Annual General Meeting. Section 63(1) of the 2008 Companies Act, requires that persons wishing to participate in the Annual General Meeting (including the aforementioned representative) provide satisfactory identification before they may so participate.

Please note that if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic ("STRATE") held through a CSDP or broker (or their nominee) and are not registered as an "own name dematerialised shareholder" then you are not a registered shareholder of the Company, but your CSDP or broker (or their nominee) would be.

Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:

- if you wish to attend the Annual General Meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; or alternatively
- if you are unable to attend the Annual General Meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the Annual General Meeting and/or request your CSDP to appoint a proxy.

You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the Company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the Annual General Meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited, the details of which are set out on page 178 of the annual report.

By order of the Board

WT Green
Company Secretary
Johannesburg
22 June 2018

Form of proxy

Form of proxy for use at the Annual General Meeting of Dis-Chem Pharmacies Limited ("the Company") to be held at Standard Bank, situated at 30 Baker Street, Rosebank, at 10:00 on 27 July 2018. Shareholders listed in the shareholder register as at Friday, 20 July 2018 will be eligible to vote at the Annual General Meeting.

This form of proxy is not to be used by beneficial owners of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless you are recorded on the sub-register as an own name dematerialised shareholder. Generally, you will not be an own name dematerialised shareholder unless you have specifically requested your CSDP to record you as the holder of the shares in your own name in the Company's sub-register.

This form of proxy is only for use by certificated, own name dematerialised shareholders and CSDPs or brokers (or their nominees) registered in the Company's sub-register as the holder of dematerialised ordinary shares.

Each shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy (who need not also be a shareholder of the Company) to attend, participate in and speak and vote in place of that shareholder at the Annual General Meeting, and at any adjournment thereafter.

Please note the following:

- The appointment of your proxy may be suspended at any time to the extent that you choose to act directly and in person in the exercise of your rights as a shareholder at the Annual General Meeting.
- The appointment of the proxy is revocable.
- You may revoke the proxy appointment by:
  - (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and
  - (ii) delivering a copy of the revocation instrument to the proxy, and to the Company.

Please note that any shareholder of the Company that is a company may authorise any person to act as its representative at the Annual General Meeting. Please also note that section 63(1) of the Companies Act, 2008 requires that persons wishing to participate in the Annual General Meeting (including the aforementioned representative) provide satisfactory identification before they may so participate.

Note that voting will be performed by way of a poll so each shareholder present or represented by way of proxy will be entitled to vote.

I/We _____ Address: _____

Contact telephone number: _____

being the holder/s of _____ ordinary shares in the Company, hereby appoint:

1. _____ or failing him/her,

2. _____

or failing him/her,

3. The Chairman of the Annual General Meeting, as my/our proxy to attend, participate in and speak and vote at the meeting in my/our place and on my/our behalf at the Annual General Meeting which will be held for the purpose of considering and, if deemed fit, passing the resolutions to be proposed thereat and at any adjournment thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name/s, in accordance with the instructions set out below.

My/our proxy may delegate to another person his/her authority to act on my behalf at the Annual General Meeting, provided that my/our proxy:

- may only delegate his/her authority to act on my behalf at the Annual General Meeting to a director of the Company;
- must provide written notification to the transfer secretaries of the Company, namely Computershare Investor Services Proprietary Limited, of the delegation by my/our proxy of his/her authority to act on my behalf at the Annual General Meeting; and
- Must provide to his/her delegee a copy of his/her authority to delegate his/her authority to act on my behalf at the Annual General Meeting.

Form of proxy *continued*

Number of votes (one vote per ordinary share)	For	Against	Abstain
ORDINARY RESOLUTION NUMBER 1: Approval of annual financial statements as at 28 February 2018			
ORDINARY RESOLUTION NUMBER 2: Appointment of the auditors and designated auditor			
ORDINARY RESOLUTION NUMBER 3: Re-election of Mr. MJ Bowman as a director			
ORDINARY RESOLUTION NUMBER 4: Re-election of Ms. A Coovadia as a director			
ORDINARY RESOLUTION NUMBER 5: Appointment of Audit and Risk Committee member Ms. A Coovadia			
ORDINARY RESOLUTION NUMBER 6: Appointment of Audit and Risk Committee member Mr. MJ Bowman			
ORDINARY RESOLUTION NUMBER 7: Appointment of Audit and Risk Committee member Mr. MSI Gani			
ORDINARY RESOLUTION NUMBER 8 Appointment of Audit and Risk Committee member Mr. JS Mthimunye			
ORDINARY RESOLUTION NUMBER 9.1 Approval of Remuneration Policy and Report			
ORDINARY RESOLUTION NUMBER 9.2 Approval of Implementation Report			
SPECIAL RESOLUTION NUMBER 1: Approval of non-executive directors' remuneration			
SPECIAL RESOLUTION NUMBER 2: Approval loans or other financial assistance			
ORDINARY RESOLUTION NUMBER 10: General authority over unissued shares			
ORDINARY RESOLUTION NUMBER 11: General authority to issue shares for cash			
ORDINARY RESOLUTION NUMBER 12: Authority any director or Company Secretary to sign documents			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you desire to vote.

Signed at _____ on _____ 2018

Signature: _____ Telephone number: _____

(Authority of signatory to be attached if applicable – see note 8)

Notes to the form of proxy

Summary of shareholders rights in respect of proxy appointments as contained in section 58 of the Companies Act, 2008

Please note that in terms of section 58 of the Companies Act, 2008:

- This form of proxy must be dated and signed by the shareholder appointing the proxy;
- You may appoint an individual as a proxy, including an individual who is not a shareholder of the Company, to participate in and speak and vote at the Annual General Meeting on your behalf;
- Your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this form of proxy;
- This form of proxy must be delivered to the Company, or to the transfer secretaries of the Company, namely Computershare Investor Services Proprietary Limited, before your proxy exercises any of your rights as a shareholder at the Annual General Meeting;
- The appointment of your proxy or proxies will be suspended at any time to the extent that you choose to act directly and in person in the exercise of any of your rights as a shareholder at the Annual General Meeting;
- The appointment of your proxy is revocable unless you expressly state otherwise in this form of proxy;
- As the appointment of your proxy is revocable, you may revoke the proxy appointment by:
  (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and

  (ii) delivering a copy of the revocation instrument to the proxy and to the Company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the later of (i) the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the Company and the proxy as aforesaid;

- If this form of proxy has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act, 2008 or the Company's Memorandum of Incorporation to be delivered by the Company to you will be delivered by the Company to you or your proxy or proxies, if you have directed the Company to do so, in writing and paid any reasonable fee charged by the Company for doing so;
- Your proxy is entitled to exercise, or abstain from exercising, any voting right of yours at the Annual General Meeting, but only as directed by you on this proxy form;
- The appointment of your proxy remains valid only until the end of the Annual General Meeting or any adjournment or postponement thereof or for a period of 6 (six) months, whichever is shortest, unless it is revoked by you before then on the basis set out above.

1. Only shareholders listed in the shareholder register as at Friday, 20 July 2018 will be eligible to vote at the Annual General Meeting to which this proxy forms part.

2. The person whose name stands first on the proxy form and who is present at the Annual General Meeting will be entitled to act as a proxy to the exclusion of those whose names which follow thereafter.

3. If no proxy is inserted in the spaces provided, then the Chairperson shall be deemed to be appointed as the proxy to vote or abstain as the Chairperson deems fit.

4. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy form will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat.

5. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

6. Forms of proxy must be lodged at the Head Office of the Company, 23 Stag Road, Midrand or posted to the Company Secretary at PO Box 260362, Excom, 2023, or lodged with or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 62053, Marshalltown, 2107, South Africa).

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Company Secretary or waived by the Chairperson of the Annual General Meeting if he is reasonably satisfied that the right of the representative to participate and vote has been reasonably verified. CSDPs or brokers registered in the Company's sub-register voting on instructions from beneficial owners of shares registered in the Company's sub-register, are requested that they identify the beneficial owner in the sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the Company Secretary or to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 62053, Marshalltown, 2107), together with this form of proxy.

8. Any alteration or correction made to this form of proxy must be initialed by the signatory/ies, but any such alteration or correction will only be validly made if it is accepted by the Chairperson.

9. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Company Secretary.

Shareholders' diary

Final results to 28 February 2018	4 May 2018
Last day to trade *cum* dividend on the JSE: FY2018 final dividend	22 May 2018
Payment date: FY2018 final dividend	28 May 2018
Publication of FY2018 Integrated Annual Report	29 June 2018
Annual General Meeting	27 July 2018
Interim results to 31 August 2018	October 2018
Last day to trade *cum* dividend on the JSE: FY2019 interim dividend	November 2018
Last day to trade *cum* dividend on the JSE: FY2019 final dividend	May 2019
Payment date: FY2019 final dividend	May 2019

Definitions

Adjusted headline earnings	Adjusted headline earnings per share (AHEPS) is a performance measure derived from HEPS for three categories of items: • Items deemed to relate to the capital structure of the group. These items relate to the capital structure of the group but is not explicitly provided for in the HEPS circular. • Items related to neither retail nor wholesale general operations. These items represent income and expenses that arise outside of the group's core retail and wholesale business. • Items not expected to reoccur. These items are income and expenses that management does not expect to reoccur in the foreseeable future.
Capital expenditure – to maintain operations	Capital expenditure incurred to maintain or replace assets e.g. the refurbishment of an existing store.
Capital expenditure – to expand operations	Capital expenditure for acquisitions or capital improvements to increase productive capacity e.g. the opening of a new store
Creditor days	Creditor days estimates the average time it takes the business to settle its debts with trade suppliers. It is calculated as the average trade and other payables divided by turnover for the period multiplied by 365 days
Debtors' days	The debtors days ratio measures how quickly cash is being collected from debtors. It is calculated as the average trade and other receivables divided by turnover for the period multiplied by 365 days.
Dividend payout ratio	The dividend pay-out ratio is the amount of dividends paid to stockholders relative to the amount of total net income of the company. The target ratio for Dis-Chem is between 40 to 50%.
Dividend per share	Dividend per share is the payment to investors for each share of stock owned. It is calculated as earnings per share (EPS) multiplied by the payout ratio.
Earnings per share	Earnings per share is the portion of a company's profit allocated to each outstanding share of common stock.
EBITDA	Earnings before interest, tax, depreciation and amortisation is a measure of the company's operating performance. It is calculated as EBIT plus depreciation and amortisation.
EBIT	Earnings before interest and tax (EBIT) is a measure of the firm's profit that includes all expenses except interest and income tax expense
Gross profit margin	Gross profit margin is a financial metric used to assess the company's financial health and business model by revealing the proportion of money left over from revenues after accounting for the cost of goods sold (COGS). It is calculated by dividing gross profit by revenues.
Headline earnings	Profit attributable to holders of the parent adjusted for the after-tax effect of goodwill, impairment and certain other capital items.
Headline earnings per share	The per share value of profit attributable to holders of the parent.
Inventory days	The number of days of sales in inventory. It is calculated as the average inventory divided by cost of goods sold (COGS) multiplied by 365 days.
Like-for-like revenue growth	This is a measure of growth in sales, adjusted for new or divested businesses. Dis-Chem takes into account stores that have never been open for at least two full financial years.
Net asset value per share (WANOS)	This is the company's total assets less its total liabilities, divided by its weighted number of shares outstanding.
Net asset value per share (actual shares at year-end)	This is the company's total assets less its total liabilities, divided by its actual number of shares outstanding at year-end.
Operating margin	Operating margin is a measure of profitability. it indicates how much of each ZAR of revenues is left over after both cost of goods sold (COGS) and operating expenses are considered. It is calculated as operating profit divided by turnover.
Return on equity (ROE)	Return on equity (ROE) is a measure of profitability that calculates how many ZARs of profit a company generates with each ZAR of shareholders' equity. It is calculated as profit attributable to the equity holders of the parent divided by the average shareholders' equity.
Total working capital days	Measures a company's efficiency and short-term health. It is calculated as debtors' days plus inventory days less creditors' days.
Weighted average number of shares	This is a calculation that takes into consideration any changes in the number of outstanding shares over a specific reporting period. A share split is taken into account as if the shares were issued for the whole year and all earlier years.

Corporate information

Dis-Chem Pharmacies Limited
Registration number 2005/0097/66/06

Registered office
23 Stag Road
Glen Austin
1685

Company secretary
WT Green

Registered auditors
Ernst & Young Inc.
102 Rivonia Road
Sandton
Johannesburg
2196
South Africa

JSE code
DCP

ISIN
ZAE000227831

Sponsor
The Standard Bank of South Africa Limited
3rd Floor, East Wing
30 Baker Street
Rosebank
2196
Johannesburg

Transfer secretaries
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank
Johannesburg
2196
South Africa

Investor Relations
investorrelations@dischem.co.za


Dis-Chem