

# INTEGRATED ANNUAL REPORT 2016



**CLICKS GROUP**  
LIMITED

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## ADDITIONAL ONLINE REPORTING

The Integrated Report is the group's primary reporting medium and this is supplemented by additional reports and information available online at [www.clicksgroup.co.za](http://www.clicksgroup.co.za)

### Financial reporting

- Annual financial statements 2016
- Five-year financial review
- Annual results 2016
- Annual results 2016 presentation

### Governance

- Corporate governance report 2016
- Application of King III principles 2016

### Forward-looking statements

The Integrated Report includes forward-looking statements which relate to the possible future financial position and results of the group's operations. These statements by their nature involve risk and uncertainty as they relate to events and depend on circumstances that may or may not occur in the future.

The group does not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information or future events or otherwise. The forward-looking statements have not been reviewed or reported on by the group's external auditor.

### Annual general meeting

- Notice to shareholders
- Form of proxy

### Sustainability

- Social and ethics committee report 2016
- Five-year sustainability review

## REVIEW OF 2016

Good trading performance as **Clicks gains market share**

**UPD maintains margin** in difficult year

Operating profit up **12.6%** to R1.6 billion

Diluted HEPS up **14.2%** to 438.5 cps

Total shareholder return of **35.3%**

**1 200 new jobs** created

# R32.6 billion

shareholder value created in 20 years of JSE listing

## OUTLOOK FOR 2017

**Consumer environment** to remain challenging

Continued **organic growth prospects** for Clicks into the longer term

**Record capital expenditure** of **R577** million to support growth

Directors and management confident of **sustaining performance** and **delivering on medium-term targets**

## MEDIUM-TERM TARGETS

	2016 – 2018 targets	Performance in 2016	2017 – 2019 targets
Return on equity (%)	50 – 60	<b>49.2</b>	<b>50 – 60</b>
Return on assets (%)	14 – 18	<b>13.8</b>	<b>14 – 18</b>
Inventory days	55 – 60	<b>66</b>	<b>60 – 65</b>
Operating margin (%)			
• Group	6.0 – 7.0	<b>6.5</b>	<b>6.0 – 7.0</b>
• Retail	7.0 – 8.0	<b>7.8</b>	<b>7.5 – 8.5</b>
• Distribution	2.0 – 2.5	<b>2.5</b>	<b>2.0 – 2.5</b>

# INTRODUCING THE REPORT

Clicks Group has pleasure in presenting its sixth Integrated Report to shareholders for the 2016 financial year. In this report we aim to demonstrate how the group's health, beauty and wellness strategy creates value for shareholders while balancing our responsibilities towards our other stakeholders.

## REPORTING SCOPE AND BOUNDARY

The report covers material information relating to the business model, strategy, material issues and related risks and opportunities, financial and operational performance, and governance for the period 1 September 2015 to 31 August 2016. In addition the report focuses on the strategic objectives, operating plans, targets and prospects for the 2017 financial year. The Integrated Report is supplemented by the annual financial statements which are also available on the website.

Reporting covers the group's main operating entities Clicks and UPD, which collectively account for 95% of turnover, and focuses on the operations in South Africa where the majority of revenue is generated.

The Integrated Report is aimed primarily at our shareholders who are the providers of financial capital. However, other key stakeholders also influence the group's ability to create sustainable value, including our customers, staff, suppliers, industry regulators and financial institutions.

There have been no changes from last year in the reporting scope and boundary.

The Integrated Report is aimed primarily at our shareholders who are the providers of financial capital.

## REPORTING COMPLIANCE

The reporting process has been guided by the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC), the King Code of Corporate Principles 2009 (King III), the JSE Listings Requirements and the Companies Act. Financial information is reported in accordance with International Financial Reporting Standards.

## MATERIALITY

The report focuses on information which the directors believe is material to investors' understanding of the group's ability to create value in the short, medium and longer term. The materiality test applied by the board is based on internal and external matters, both positive and negative, that substantively affect the group's ability to deliver its strategy and could have a material impact on revenue and profitability.

Management has extensive interaction with shareholders and analysts, and this provides insight into the issues that the investment community considers important in their valuation of the business.

## ASSURANCE

The content of the Integrated Report has been reviewed by the board and management but has not been independently assured.

The annual financial statements have been assured by the group's independent auditor, Ernst & Young Inc. (EY).

The non-financial and sustainability-related information contained in the report has been approved by the board's social and ethics committee. Accredited service providers and agencies have provided selected non-financial performance metrics, including market share statistics and the BBBEE rating. Management has verified the processes for measuring all other non-financial information.

## CAPITALS OF VALUE CREATION

The IIRC Framework recommends reporting to shareholders on the capital resources that are applied in the creation of value. These are classified as the financial, manufactured, intellectual, human, social and relationship, and natural capitals.

The performance and activities relative to these six capitals are covered throughout the report and highlighted on pages 10 and 11, although we have chosen not to present the Integrated Report according to these capitals.

## INTEGRATED REPORTING FRAMEWORK

The directors believe the group has materially reported in accordance with the IIRC Framework in the 2016 Integrated Report.

## DIRECTORS' APPROVAL

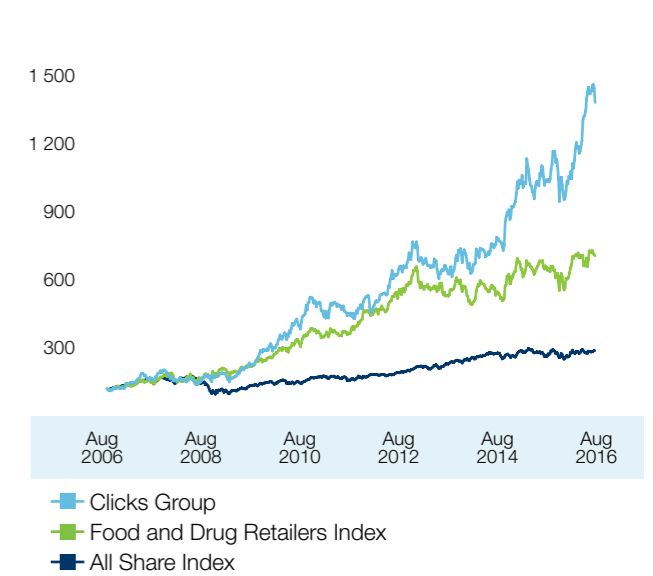
The board acknowledges its responsibility to ensure the integrity of the Integrated Report. The directors have collectively assessed the content and confirm the report addresses all material issues, and fairly represents the integrated performance of the group.

The audit and risk committee, which has oversight responsibility for integrated reporting, recommended the report for approval by the board. The 2016 Integrated Report was unanimously approved by the board on 10 November 2016 and signed on its behalf by:

  
**David Nurek**  
 Independent non-executive chairman

  
**David Kneale**  
 Chief executive officer

## 10-YEAR SHARE PRICE PERFORMANCE



2016 marked the 20th anniversary of the Clicks Group's listing on the JSE. Celebrating the milestone are, from left, Vikesh Ramsunder (chief operating officer, Clicks), Bertina Engelbrecht (group human resources director), David Kneale (chief executive officer), Vikash Singh (managing director of UPD) and Michael Fleming (chief financial officer).

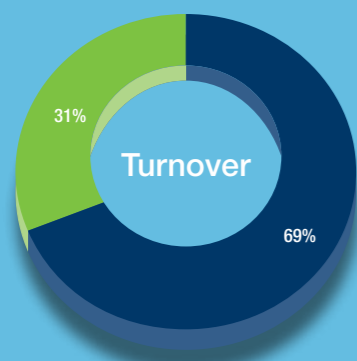
# GROUP PROFILE

Clicks Group is a retail-led healthcare group listed in the Food and Drug Retailers sector on the JSE.

Founded in 1968, the group has been listed on the JSE since 1996. Following changes in South African legislation in 2003 to allow corporate pharmacy ownership, the group entered the retail pharmacy market with the opening of the first Clicks pharmacy in 2004.

The group is today a leader in the healthcare market where Clicks is the country's largest pharmacy chain with 400 in-store pharmacies and a 19.6% share of the retail pharmacy market. UPD has a 24.1% share of the private pharmaceutical wholesale market.

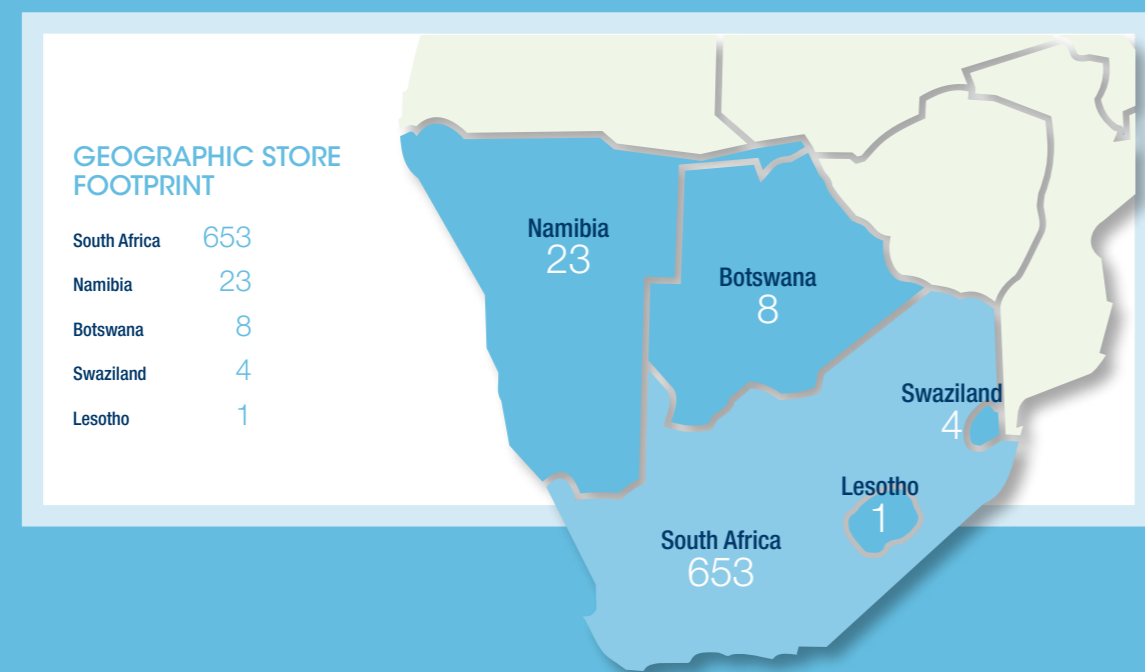
UPD was acquired in 2003 to provide the distribution capability for the group's healthcare strategy.



SEGMENT CONTRIBUTION

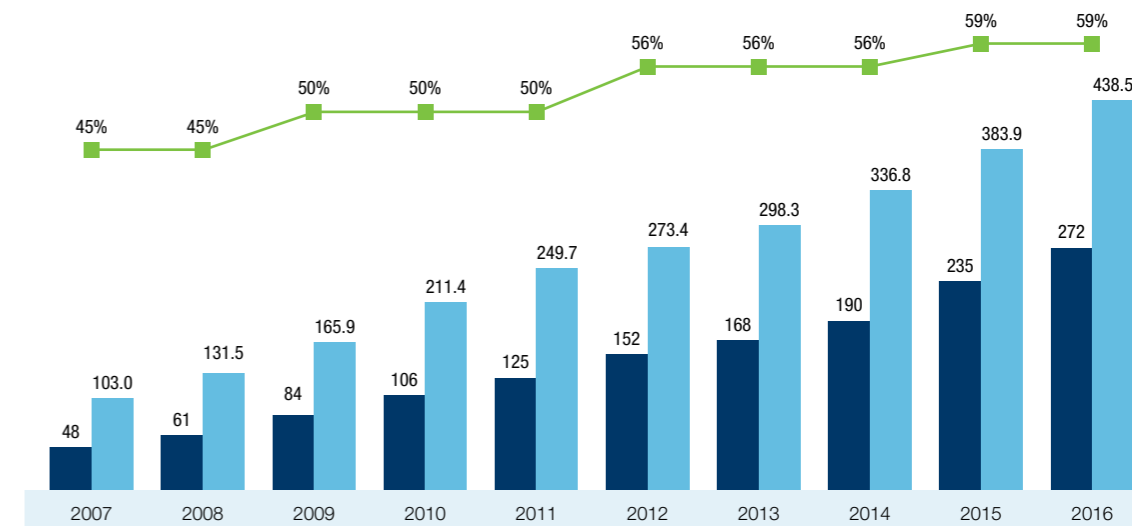


● Retail (includes Clicks, Musica, The Body Shop, GNC and Claire's)  
● Distribution (includes UPD and Clicks Direct Medicines)



## STRONG GROWTH MOMENTUM

**23.4%**  
dividend per share  
10-year CAGR



■ Dividend per share (cents)  
■ Diluted HEPS (cents)  
■ Dividend payout ratio

**20.0%**  
diluted HEPS  
10-year CAGR

## OUR VALUES

We are truly **passionate** about our customers

We believe in **integrity, honesty** and **openness**

We cultivate understanding through **respect** and **dialogue**

We are **disciplined** in our approach

We **deliver** on our goals

The group's history is available at [www.clicksgroup.co.za](http://www.clicksgroup.co.za)

GROUP PROFILE (CONTINUED)



Clicks is South Africa's leading health and beauty retailer, offering value for money in convenient and appealing locations. Clicks has the largest retail pharmacy chain in the country.

Clicks targets consumers in the growing middle to upper income markets (LSM 6 – 10). Clicks ClubCard is one of the largest loyalty programmes in South Africa with over 6.2 million active members.

**511** stores  
**19.6%** of retail pharmacy

**400** pharmacies  
**29.3%** of front shop health




UPD is South Africa's leading full-range pharmaceutical wholesaler and the only one with a national presence. UPD was acquired by the group in 2003 to provide the distribution capability for the group's healthcare strategy.

UPD fulfils the pharmaceutical supply needs of Clicks, major private hospital groups and over 1 200 independent pharmacies. UPD also provides bulk distribution services to pharmaceutical manufacturers.

**5** distribution centres  
**24.1%** of private pharmaceutical market

in South Africa and one in Botswana

Profile	Customers	Footprint	Market share
 <b>MUSICA</b> A WORLD AWAITS Musica is the country's leading entertainment retail brand and was acquired in 1992.	Musica focuses on the 16 – 35 year-old age group in the middle to upper income markets (LSM 6 – 10).	<b>115</b> stores	<b>69%</b> of CDs  <b>52%</b> of DVDs

FRANCHISE BRANDS

Profile	Standalone stores	Presence in Clicks
 The Body Shop sells natural, ethically-produced beauty products, and has been operated under a franchise agreement with The Body Shop International since 2001.	<b>53</b> stores	In <b>88</b> Clicks stores
 GNC is the largest global specialty health and wellness retailer, and has been operated under an exclusive franchise agreement for southern Africa since 2014.	<b>5</b> stores	In <b>261</b> Clicks stores
 Claire's is one of the world's leading specialty retailers of fashionable jewellery and accessories for young women and girls, and has been operated under an exclusive franchise agreement for southern Africa since 2015.	<b>5</b> stores	In <b>123</b> Clicks stores

# GROUP STRATEGY AND BUSINESS MODEL



## INTEGRATED AND CENTRALISED SUPPLY CHAIN

UPD provides an integrated healthcare supply chain channel for Clicks, with national coverage and up to twice daily delivery  
Centralised supply from distribution centres to all retail stores (achieved 96.4% centralised supply in 2016)

## INFORMATION TECHNOLOGY

Efficient and flexible bespoke and proprietary systems:

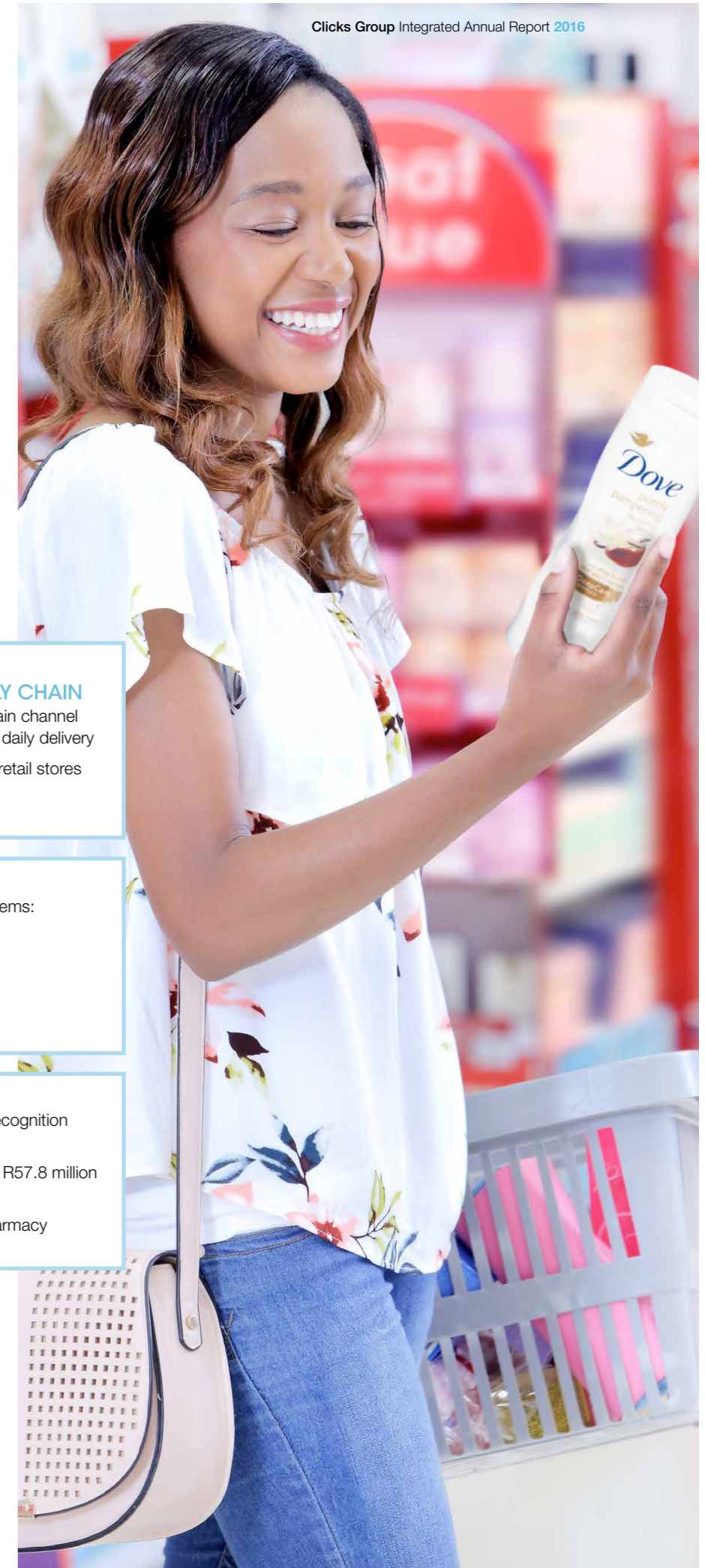
- Planning, ordering and store ranging
- Loyalty management
- Healthcare management
- Omni-channel management
- Warehouse management

## MOTIVATED AND SKILLED PEOPLE

Values-driven culture with equitable reward and recognition mechanisms

Committed to training and development (invested R57.8 million in 2016)

Building pharmacy capacity through in-house Pharmacy Healthcare Academy and bursary programme



GROUP STRATEGY AND BUSINESS MODEL (CONTINUED)

VALUE CREATION IN 2016

Inputs and capitals	Value created in 2016
<p><b>1</b></p> <p>The financial resources deployed by the company.</p> <p><b>FINANCIAL</b></p>	<p>Turnover <b>R24.2 billion</b></p> <p>Total shareholder return <b>35.3%</b></p> <p>Cash generated from operations <b>R1.8 billion</b></p> <p>Return on equity <b>49.2%</b></p>

<p><b>2</b></p> <p>The infrastructure used in selling merchandise, including the retail store network, distribution facilities, online store and information technology systems.</p> <p><b>MANUFACTURED</b></p>	<p>Opened <b>32 retail stores</b>; total stores 689</p> <p><b>39 new Clicks pharmacies</b>; total now 400</p> <p><b>Online</b> store launched</p> <p><b>9 distribution centres</b></p> <p><b>R433 million</b> capital investment</p>
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<p><b>3</b></p> <p>The collective knowledge and expertise across the business as well as the intellectual property of the group.</p> <p><b>INTELLECTUAL</b></p>	<p>Clicks <b>gained market share</b> in all key product categories</p> <p>Private label and exclusive brands <b>21.0%</b> of health and beauty sales</p> <p>Clicks independently rated as <b>leading health and beauty retailer in SA</b></p>
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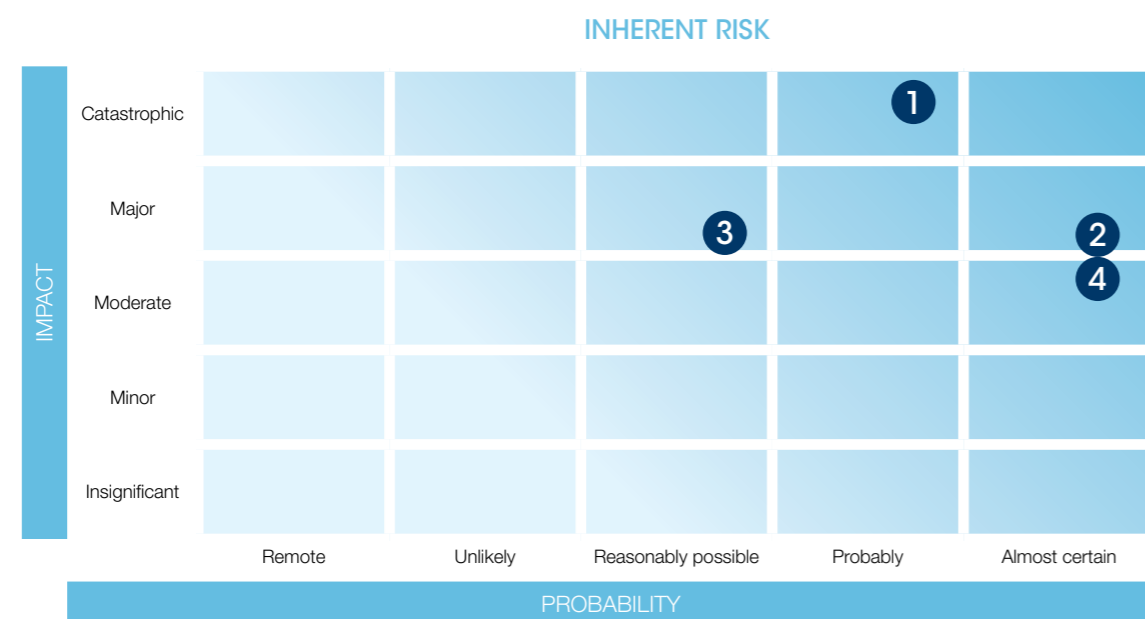
Inputs and capitals	Value created in 2016
<p><b>4</b></p> <p>The competency, capability and experience of the board, management and employees.</p> <p><b>HUMAN</b></p>	<p>Directors and executive management develop and execute the strategy to create value for shareholders</p> <p><b>14 093</b> permanent employees who provide customers with medicines, products and services</p> <p><b>R57.8 million</b> invested in employee skills development</p>

<p><b>5</b></p> <p>Relationships with stakeholders influencing the business, primarily shareholders, customers, suppliers and employees.</p> <p><b>SOCIAL AND RELATIONSHIP</b></p>	<p>Shareholders: <b>R876 million</b> returned to shareholders in dividends and share buy-backs</p> <p>Customers: <b>Over 1 million new ClubCard members</b>; now 6.2 million members</p> <p>Customers: <b>R309 million</b> cash-back paid to ClubCard members</p> <p>Employees: <b>R2.7 billion</b> paid to employees</p> <p>Suppliers: <b>R21.3 billion</b> paid to suppliers</p>
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<p><b>6</b></p> <p>The group's operations have a low environmental impact and therefore use limited natural capital.</p> <p><b>NATURAL</b></p>	<p>Commitment to <b>reduce carbon footprint</b> and generate savings through energy and water efficiency</p> <p><b>2 072 tons of recycling</b> in supply chain</p>
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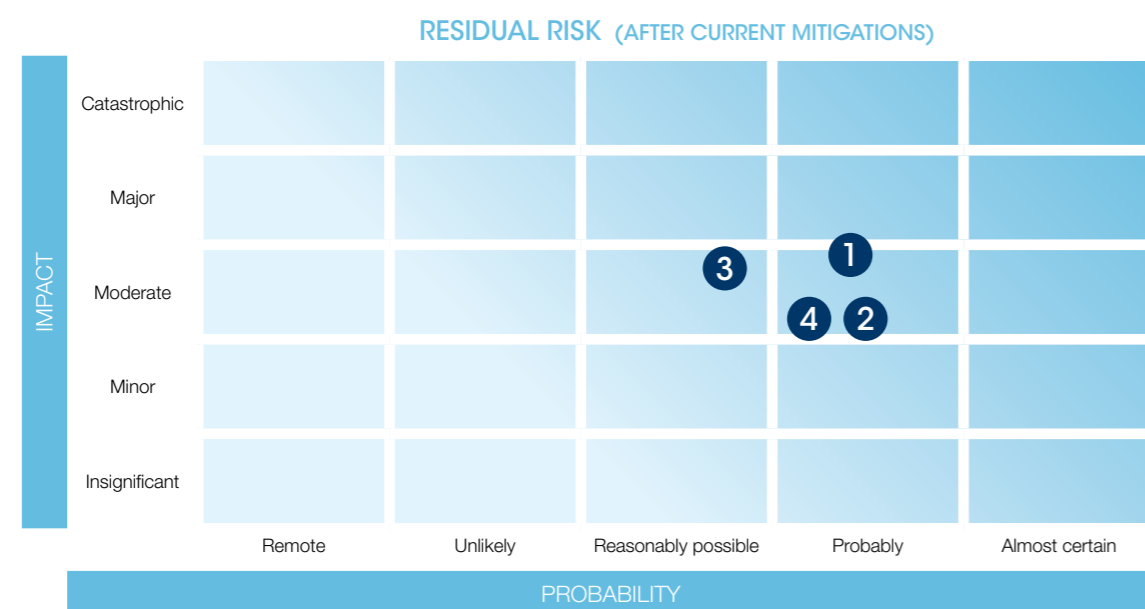


## MATERIAL RISKS



### TOP MATERIAL RISKS BY INHERENT RISK RATING

- 1  
 Trading environment
- 2  
 Increased retail competition
- 3  
 Regulatory impact
- 4  
 Shortages of critical skills



## MANAGING MATERIAL ISSUES

**MATERIAL ISSUES** have been identified which could impact positively or negatively on the group's ability to create and sustain value. These material issues are reviewed annually by the board and management where all relevant internal, industry and macroeconomic factors are evaluated. The needs, expectations and concerns of the stakeholder groups that are most likely to influence the group's ability to create sustainable value, notably shareholders, customers, suppliers and staff, are central to determining the material issues. Following the board's review for the 2017 financial year, the material issues are unchanged from 2016.



**RISKS** relating to each material issue are based on the major risks on the group's register. The accompanying graphic indicates the levels of risk before (inherent risk) and after (residual risk) mitigation plans have been implemented.

**OPPORTUNITIES** are presented for each material issue to indicate how the group is using its competitive advantage to manage the impacts of the material issues on value creation.

Central to determining the material issues are the **needs, expectations and concerns** of the stakeholder groups most likely to influence the group's ability to create sustainable value. These are our shareholders, customers, suppliers, financial institutions and employees.



MANAGING MATERIAL ISSUES (CONTINUED)

# 1 TRADING ENVIRONMENT

South Africa's retail trading environment, which has been severely constrained in recent years, is coming under increasing pressure owing to the deteriorating economic conditions in the country and greater demands on consumer disposable income. Social unrest, political uncertainty and the weakening labour market are limiting economic growth and this is being compounded by the volatile and depreciating currency. Consumer confidence is at lower levels than recorded during the global financial crisis of 2008/2009 and consumers are facing higher health insurance costs, rising food, utility and general living costs, as well as increasing debt servicing costs owing to rising interest rates.

### RISKS

- Further deterioration in the economic environment will depress consumer spending which is already under severe pressure.
- Lack of growth in private healthcare market.

### OPPORTUNITIES

- Clicks will continue to pursue a strategy to improve price competitiveness, grow sales volumes and entrench Clicks as a value retailer.
- Focus on differentiators, including extensive and convenient store and pharmacy footprint; private label and exclusive ranges; Clicks ClubCard loyalty; and consistently high levels of customer care.

# 2 COMPETITION

As a health and beauty retailer Clicks faces competition on several fronts, including corporate and independent pharmacy, national food retailers, general merchandise chains, and specialist health and wellness stores. The level of competition is being intensified by the sustained expansion of national food chains and corporate pharmacy, and new entrants into the local market. In the current constrained consumer spending environment retailers are increasingly price competitive and adopting aggressive promotional strategies to attract cash-strapped consumers and protect sales volumes. In this climate Clicks Group is one of the few listed retailers to have increased sales volumes while maintaining its operating margin.

### RISKS

- Expansion by corporate pharmacy and retail chains impacting on market share growth in Clicks.
- Increasing price competitiveness of retailers could negatively affect sales and profitability in Clicks.

### OPPORTUNITIES

- Clicks has an extensive store network and plans to open 25 new stores each year, expanding to 800 stores in the longer term.
- Continued expansion of the pharmacy network with the long-term plan to open pharmacies in all Clicks stores in South Africa.
- Continued recruitment of new members to the Clicks ClubCard.
- Ongoing improvements in pricing, product offer and customer service.

# 3 REGULATION

Healthcare markets are highly regulated across the world and approximately 50% of the group's turnover is in regulated pharmaceutical products. The group supports regulation that advances the government's healthcare agenda of making medicines more affordable and more accessible to all South Africans. However, the current regulatory regime imposes obstacles which inhibit access to affordable healthcare and also limits customer choice. Management actively engages with the Department of Health on an ongoing basis on current and proposed regulation and legislation which impacts the business and its customers.

### RISKS

- Legislative and regulatory changes introduced by the Department of Health (DoH), SA Pharmacy Council (SAPC) and Medicines Control Council (MCC) could impact on Clicks and UPD turnover and margins.
- Impacts include the ability to obtain pharmacy licences and to launch private label and exclusive scheduled and complementary medicines.

### OPPORTUNITIES

- Ensure Clicks and UPD are operating efficiently to maintain margins and profitability.
- Continue management engagement with the DoH, SAPC and MCC on legislation and regulation.
- Formal written and oral submissions to DoH, SAPC and MCC in response to draft legislation or regulations.
- As the market leaders in retail pharmacy and pharmaceutical wholesaling, position Clicks and UPD to benefit from market consolidation arising from changes in legislation and regulation.

# 4 PEOPLE

Attracting and retaining talent is critical to the group's sustained performance in an industry where scarce retail and healthcare skills are in high demand locally and internationally. This is addressed through the group's ongoing investment in its people through competitive remuneration packages and incentive schemes, career path planning, creating a stimulating working environment, transformation and empowerment, with R244 million invested in training and skills development over the past five years. A broad-based employee share ownership plan (ESOP) has enabled staff to share in the long-term growth and success of the business, and at the same time retain critical skills in the group. As the largest employer of pharmacy staff in the private sector in South Africa the group is actively building capacity to address the critical shortage of pharmacists which is a challenge the world over.

### RISK

- Inability to recruit, attract and retain talent for core business needs, including merchandise and planning, store management and pharmacy.

### OPPORTUNITIES

- Salaries and incentives externally benchmarked to ensure the group remains competitive.
- Broad-based ESOP improves retention and creates longer-term wealth.
- Bursary and internship programmes to attract pharmacy graduates.
- Retail graduate programme launched.
- Accredited training programmes for store management, key store roles, and merchandise and planning being developed.
- Senior leadership development programme strengthens pool of management talent.

# INVESTMENT CASE

Clicks Group offers **attractive organic growth prospects** for investors wanting non-cyclical equity exposure to the South African retail and healthcare sectors.



1

## FAVOURABLE MARKET DYNAMICS

- Healthcare markets are defensive and growing in South Africa
- Increasing proportion of population entering the private healthcare market
- Improving living standards, increasing urbanisation and longer life expectancy is contributing to a growing market for health and beauty products

2

## RESILIENT BUSINESS MODEL

- Over 80% of group turnover is in defensive merchandise categories
- As a value retailer Clicks is price competitive with national retailers
  - As a cash retailer Clicks is less interest rate sensitive than credit retailers

3

## MARKET LEADERSHIP

- Clicks and UPD occupy market-leading positions
- Clicks is the largest retail pharmacy chain in South Africa
  - UPD is the country's only national full-range pharmaceutical wholesaler

4

## EXPANDING RETAIL FOOTPRINT

- Over 500 conveniently located Clicks stores
- Targeting to open 25 stores each year
  - 25 Clicks stores opened in 2016
  - Goal to expand Clicks store base in South Africa to 800 in the long term

5

## EXPANDING PHARMACY BASE

- Objective to operate a pharmacy in every Clicks store in South Africa
- Pharmacies currently in 82% of stores
  - Targeting to open 30 – 35 pharmacies each year
  - 39 pharmacies opened in 2016
  - Retail pharmacy market share goal of 30% in the long term
  - Primary care clinics in 195 Clicks stores

6

## DIFFERENTIATED PRODUCT OFFER

- Private label and exclusive brands offer differentiated ranges at higher margins
- Target to grow private label to 25% of total Clicks sales; currently 21%
  - Exclusive health and beauty franchise brands differentiate Clicks offer

7

## GROWING CUSTOMER LOYALTY

- ClubCard is one of the largest retail loyalty programmes in South Africa
- 6.2 million active ClubCard members generate 77% of sales
  - Target to reach 7.5 million members over the next three years

8

## EFFICIENT SUPPLY CHAIN

- UPD provides an efficient healthcare supply chain channel for Clicks
- UPD offers wholesale and distribution services to pharmaceutical manufacturers
  - Centralised supply from company-owned distribution centres to all retail stores (96% of product through centralised distribution)

9

## EFFECTIVE CASH AND CAPITAL MANAGEMENT

- Highly cash-generative business
  - R5.4 billion cash generated by operations over past three years
- Returns enhanced through active capital management
  - Industry-leading return on equity averaging 53.3% over past three years
  - R2.3 billion returned to shareholders in dividends and share buy-backs in past three years
- Well invested store base and supply chain
  - R1.1 billion capital expenditure in past three years

10

## GLOBALLY COMPETITIVE OPERATING MARGINS

Retail and UPD operating margins rank in upper quartile of global drugstores and pharmaceutical wholesalers

# CHAIRMAN'S REPORT

The group has once again **shown its resilience in the face of growing economic headwinds** and produced another strong performance.

## RESILIENT FINANCIAL PERFORMANCE

South Africa is in the midst of one of the most challenging times in recent decades, with political uncertainty and instability, civil and social unrest, a deteriorating labour market and unprecedented currency volatility being a feature of the past year.

These factors are all compounding South Africa's already weak growth prospects, while the threat of a sovereign rating downgrade looms ominously over the country.

Retail spending has come under increasing pressure in this environment, with financially stressed consumers also encountering increasing interest rates, higher food, utility and education costs, and rising health insurance costs. Consumer and business confidence is understandably low.

However, the group has once again shown its resilience in the face of growing economic headwinds and produced another strong performance, particularly from the Clicks chain which has entrenched its leading position in the competitive health and beauty retail sector.

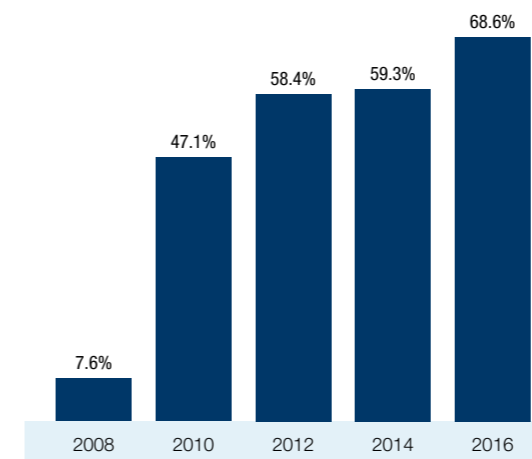
The group's performance for the year translated into an increase of 14.2% in diluted headline earnings per share to 438.5 cents. Shareholders will receive a total dividend of 272.0 cents per share, 15.7% higher than last year. Dividends have grown at an annual compound rate of 23.4% over the past ten years while the payout ratio has increased from 45% to 59% over the same time.

In the past three years the group has generated a total shareholder return of 134%, driven by our strategy of pursuing organic growth in the South African market.

**15.7%**  
increase in  
total dividend

**14.2%**  
growth in  
diluted HEPS

## OFFSHORE SHAREHOLDING



## 20 YEARS OF JSE LISTING

In March this year the group celebrated its 20th year of listing on the JSE. New Clicks Holdings, as our company was known, listed at a price of R3.70 with a market capitalisation of R915 million. In 2016 the share price reached an all-time high of R130.50, with the market capitalisation exceeding R30 billion.

Since its debut on the stock market in 1996 the group has generated shareholder value of R33 billion.

While the scale of the group has shown phenomenal growth over the past 20 years the business has also changed fundamentally. At the time of listing the group was not yet active in the retail pharmacy or wholesale pharmaceutical markets.

Today Clicks is the country's leading retail pharmacy chain and UPD is South Africa's foremost pharmaceutical wholesaler and distributor.

The JSE is one of the most admired exchanges globally and is to be commended for its high corporate and regulatory standards. This has certainly contributed to the Clicks Group attracting extensive foreign investment, with 69% of our shares currently held by offshore fund managers.

Our business model is resilient, with **over 80% of revenue in defensive merchandise categories.**

## COMPELLING INVESTMENT CASE

The strong organic growth prospects for the core Clicks chain creates a compelling investment case for investors seeking equity exposure to the retail and healthcare sectors in South Africa.

The healthcare markets in which we trade are defensive and growing, with an increasing proportion of the South African population entering private healthcare. Improving living standards, increasing urbanisation and longer life expectancy are all contributing to the growth in the health and beauty products market.

Our business model is resilient, with over 80% of revenue in defensive merchandise categories. Clicks and UPD have market-leading positions and their operating margins rank in the upper quartile of global drugstores and pharmaceutical wholesalers.



CHAIRMAN'S REPORT (CONTINUED)

As a board we recognise that **good governance can create sustainable value** and enhance long-term equity performance.

Clicks currently has over 500 stores and management has revised the longer-term store goal, confident that the chain can grow to 800 stores in South Africa over the next ten years. Clicks remains committed to its objective of incorporating a pharmacy into every Clicks store and growing its retail pharmacy market share to 30% in the long term.

The investment case is supported by sustained financial and operational performance, a proven capital management strategy which enhances returns to shareholders and the group's ability to generate strong free cash flows.

**BOARD AND GOVERNANCE**

As a board we recognise that good governance can create sustainable value and enhance long-term equity performance. It is pleasing to report that the group qualified for inclusion in the recently introduced FTSE/JSE Responsible Investment Index. As part of the evaluation for the index the group's environmental, social and governance (ESG) standards were independently evaluated, and we attained 100% for the governance pillar. This authoritative endorsement of the group's governance standards should provide assurance to our shareholders and potential investors.

Our board is stable with an appropriate balance of skills and expertise. The diversity of the directors in terms

of gender, race and their professional backgrounds encourages constructive debate and ensures that the board considers the needs of our wide range of stakeholders and interest groups. The independence of the board is reviewed annually and all six of the non-executive directors are classified as independent.

Dr Nkaki Matlala, who has served as an independent non-executive director since 2010, will be retiring from the board at the annual general meeting in January 2017. We thank Dr Matlala for his contribution over the past six years, particularly in his specialist field of healthcare, and wish him well.

The governance landscape in South Africa will be enhanced with the introduction of the King IV Code of Corporate Principles which will be effective from 2017. There have been significant corporate governance and regulatory developments, both locally and internationally, since the introduction of King III in 2009 which are being incorporated into the new code. The directors welcome governance codes which facilitate value creation without adding burdensome compliance requirements on companies.

**ACKNOWLEDGEMENTS**

The strong financial and operational performance over the past year is a credit to the group's leadership and I thank David Kneale and his executive team for ensuring that the business maintains its market-leading position. I also wish to acknowledge the role played by our 14 100 employees in delivering these results and for their commitment to meeting the needs of our customers.

My fellow non-executive directors have continued to provide valuable insight and oversight, and I thank them for their support.

Thank you to our customers, shareholders and investment analysts, suppliers and industry regulators for your continued support and engagement.



**David Nurek**  
Independent non-executive chairman



# CHIEF EXECUTIVE'S REPORT

The group has made excellent progress in delivering on its strategy of creating sustainable long-term shareholder value through a retail-led health, beauty and wellness offering.

## SUSTAINED STRONG RETAIL TRADING

Clicks Group delivered another strong trading performance in 2016 as all retail brands strengthened their competitive positions and recorded market share gains in the current constrained consumer environment.

Retail health and beauty sales, including Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 13.5% and all of our major product categories showed double-digit growth.

The core Clicks chain performed particularly well, reporting same store volume growth of 6% for the year.

This performance highlights the resilience of the health and beauty markets in which we trade and demonstrates the defensive nature of the group's business model.

Pharmacy and front shop health sales in Clicks are being underpinned by two key market trends: the greater use of generic medicines and the increasing shift to self-medication. Sales of generics increased by 19% and account for 48% of Clicks' sales, as we actively switch patients to lower-cost generic alternatives.

The global interest in wellness is particularly evident in South Africa as customers take responsibility for their own health and well-being, and are choosing to self-medicate. This is evident in the 19% growth in over-the-counter pharmacy sales and double-digit growth in front shop medicines and supplements.



6.2m  
Clicks ClubCard  
active members

1 200  
new jobs  
created

The group's portfolio of retail franchise brands also performed well, with sales growth of 14.2% in The Body Shop driven by new product ranges. GNC, the global leader in health and wellness supplements, is now available in over 260 Clicks stores and has shown impressive growth. However, regulatory challenges are hampering the launch of new products into the South African market (refer to "Burdensome regulations restricting growth" below).

Claire's, the most recent addition to our franchise brand stable, has shown a pleasing performance in its first full year in the group and has extended its footprint to 123 Clicks stores.

Musica continued to gain market share and now has over 69% of the country's CD market and 52% of the DVD market. The technology category, which includes headphones, speakers and turntables, showed double-digit growth as total sales in Musica increased by 1.2%. While we acknowledge that Musica is non-core to the group's strategy, the business remains cash generative and profitable, and we will continue to focus the brand's store footprint on destination retail locations.

UPD, the group's pharmaceutical distribution business, experienced a tough year, as we had anticipated, and grew turnover by 6.1%. The pharmaceutical market has shown minimal volume growth while the regulated single exit price (SEP) increase of 4.8% in 2016 was lower than the 7.5% granted in the previous year. Despite these headwinds UPD maintained its operating profit by driving efficiencies and through good cost management.

Overall group turnover increased by 9.5% to R24.2 billion with selling price inflation being contained to 4.9% for the year.

The trading performances of Clicks and UPD are covered in the operational review on pages 34 to 43. The financial performance is detailed in the chief financial officer's report on pages 28 to 33.

## DELIVERING ON OUR STRATEGY

The group has made excellent progress in delivering on its strategy of creating sustainable long-term shareholder value through a retail-led health, beauty and wellness offering.

The main driver of the group's strategy is the Clicks chain, which aims to be "the customer's first choice in health and beauty retailing". This strategy is founded on the five brand pillars of value, product differentiation, customer care, convenience and rewards as outlined on page 8.

Clicks is the largest retail pharmacy chain in the country with 400 in-store pharmacies, with primary care clinics in 195 of the pharmacies. A net 39 pharmacies were opened and the objective remains to operate a pharmacy in every Clicks store in South Africa. Our share of the retail pharmacy market has increased to 19.6%.

Front shop health market share increased to 29.3% with the baby category growing to 12.1%. In the highly competitive beauty category, skincare market share increased to 27.5% and haircare to 25.7%.

The Clicks store base was expanded to 511 following the opening of a net 25 new stores. The chain has 26 stores in neighbouring Botswana, Lesotho, Namibia and Swaziland.

Clicks extended its footprint further with the launch of its online store which offers 15 000 products, with a "click and collect" facility in all stores across South Africa.

Private label and exclusive brands ensure we offer customers differentiated product ranges. These products now account for 21.0% of total Clicks sales, with one out of every four front shop products sold only being available at Clicks. Our three exclusive franchise brands, The Body Shop, GNC and Claire's, entrench our product differentiation strategy, as does our partnership with Sorbet.



The group is planning another year of record capital investment of R577 million in 2017.

## CHIEF EXECUTIVE'S REPORT (CONTINUED)

During the year the group partnered with Sorbet Holdings when it acquired a 25% stake for R20 million in Sorbet Brands, the company which holds the trademarks to the Sorbet brand in southern Africa. Sorbet Brands is responsible for the development of the Sorbet product range which is exclusively available in Clicks stores and in the Sorbet chain of over 100 franchised beauty salons.

Clicks has made an extensive investment in improving customer service in store. This includes employing 300 new beauty advisers (960 in total) and 85 more healthcare and GNC consultants (540 in total), while over 200 pharmacy and clinic professionals were appointed.

Clicks ClubCard attracted over one million new members following the successful relaunch of the loyalty programme, bringing total membership to 6.2 million active customers. ClubCard members received over R300 million in cash back over the past year.

UPD, which provides an efficient healthcare supply chain for Clicks, is a market leader in both pharmaceutical wholesale and bulk distribution. Total managed turnover at R15 billion was consistent with last year owing to market pressures impacting the fine wholesale business and no new distribution contracts being awarded.

### INVESTING FOR GROWTH

The group has a well-invested store base and supply chain, evidenced by capital expenditure of over R1.1 billion in the past three years.

Record levels of capital expenditure of R433 million (2015: R370 million) have been invested in 2016 to support the group's growth strategies outlined above.

Over 60% of this investment was in new retail stores and refurbishments to maintain the quality of the existing store estate, with further spend on IT and retail infrastructure, and UPD warehousing and infrastructure.

The group is planning another year of record expenditure of R577 million in 2017. This will include R343 million allocated to 37 new retail stores, 30 to 35 new pharmacies and over 70 store refurbishments. Over R180 million has been allocated to IT systems and retail infrastructure, which will include the commencement of the expansion of the Clicks distribution centre in Centurion. The R47 million for UPD warehousing and infrastructure will include the extension of the pharmaceutical warehouse in Cape Town.

### INVESTING IN OUR FUTURE

In the past year Clicks Group created over 1 200 new jobs as we invested in improving customer service, as outlined above. The group now employs 14 100 permanent staff.

Clicks is also investing in developing management capacity within the chain and introduced a future store manager programme, with over 100 trainees in the first year.

Clicks is the largest employer of pharmacy staff in the private sector, with over 2 500 pharmacy and clinic professionals, and is actively building capacity to address the shortage of pharmacists. In the past year Clicks invested in bursaries for 106 pharmacy students, provided 83 pharmacy internships and trained over 280 pharmacy assistants through the in-house Healthcare Academy.

### BURDENSOME REGULATIONS RESTRICTING GROWTH

We believe the Medicines Control Council's (MCC) approach to complementary and alternative medicines (CAMS) and health supplements is restricting the growth of these markets and limiting customer choice. In the case of the Clicks Group this is directly impacting on GNC's ability to broaden its product offer with new lines.

While we support the need to regulate health supplements, we view the MCC's proposed regulations on CAMS as unclear, impractical and over-burdensome. We are working in conjunction with industry bodies, including the Health Products Association of South Africa (HPASA) and the Self-Medication Association of South Africa (SMASA), to lobby for changes to these regulations.

Our recommendations include the following:

- CAMS that are produced in licensed facilities in countries with mutual recognition agreements with South Africa should not go through the full registration process. The MCC should allow for a fast-track process for CAMS registered by a recognised authority outside the country.
- In registering a CAM the MCC should only focus on elements that most directly relate to safety and efficacy, while testing should be limited to the most unstable ingredients in the formulation only.
- Health supplements should be removed from the definition of a complementary medicine as it is not a medicine as defined by the Medicines Act.
- Separate standards should be implemented in consultation with industry to regulate supplements under food law.



106  
bursaries granted  
to pharmacy  
students

CHIEF EXECUTIVE'S REPORT (CONTINUED)

In the year ahead Clicks will continue to **focus on offering customers great value** by investing to maintain price competitiveness and offering effective promotions.

**OUTLOOK**

The directors believe that the group's strategy remains appropriate to provide competitive advantage in the current trading environment and will continue to deliver sustainable growth. The group strategy, as well as the strategies of Clicks and UPD, is therefore unchanged for the 2017 financial year.

In the year ahead Clicks will continue to focus on offering customers great value by investing to maintain price competitiveness and offering effective promotions. Product ranges will be differentiated through the faster growth of private label ranges and the chain's portfolio of exclusive and franchise brands.

ClubCard is core to driving engagement with our customers and rewarding them for their loyalty, and we are targeting to achieve 6.5 million active members in the year ahead.

Management will continue to make Clicks even more convenient to customers and plan to open 20 to 25 new stores and 30 to 35 new pharmacies.

UPD will face continuing margin pressure from the faster growth in generics while our independent pharmacy business is also likely to remain under pressure.

On the positive side, the increase in the single exit price (SEP) of medicine for 2017 at 5.7% will be higher

than the level of 2016 while the distribution business has scope for growth where it is currently only utilising approximately 70% of capacity.

We expect the weak consumer spending environment to continue into 2017 as low economic growth, together with ongoing political and social uncertainty, will place further financial pressure on consumers.

Our health and beauty markets are resilient and we will trade through this tough environment by providing value to customers and managing our costs efficiently.

One of the key elements of the group's investment case referenced on pages 16 and 17 is the strong organic growth opportunity for Clicks. We remain positive about the prospects for Clicks in the medium and long term, and believe we can expand the store footprint in South Africa to 800 over the next decade.

We are committed to investing in stores, IT and supply chain to facilitate growth, and in the development of our people to meet the needs of the business into the future.

The board and management are confident of the group's ability to sustain performance and deliver on its financial and operating targets.

**APPRECIATION**

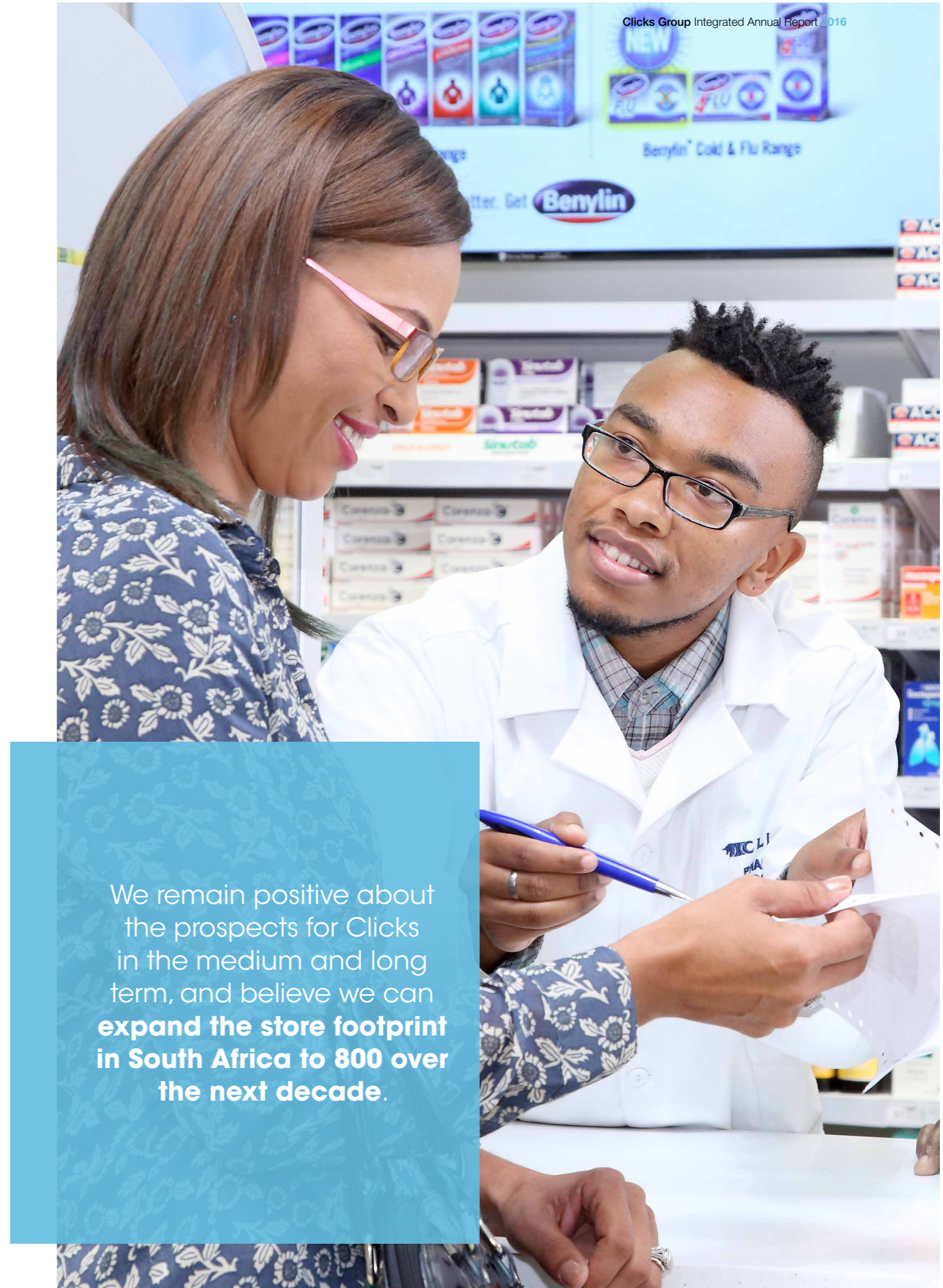
Our customers have continued to make us their first choice health and beauty retailer and we thank them for their loyal support.

Thank you to our chairman, David Nurek, and the non-executive directors for their insight and guidance, and support of the executive team.

The group's performance in demanding trading conditions is a credit to the quality of our people across the business. My thanks are due to all our staff at head office, stores and distribution centres across the country. In particular, I thank my colleagues on the group executive, Michael Fleming, Bertina Engelbrecht and Vikesh Ramsunder, for their leadership and support.



**David Kneale**  
Chief executive officer



We remain positive about the prospects for Clicks in the medium and long term, and believe we can **expand the store footprint in South Africa to 800 over the next decade.**

# CHIEF FINANCIAL OFFICER'S REPORT

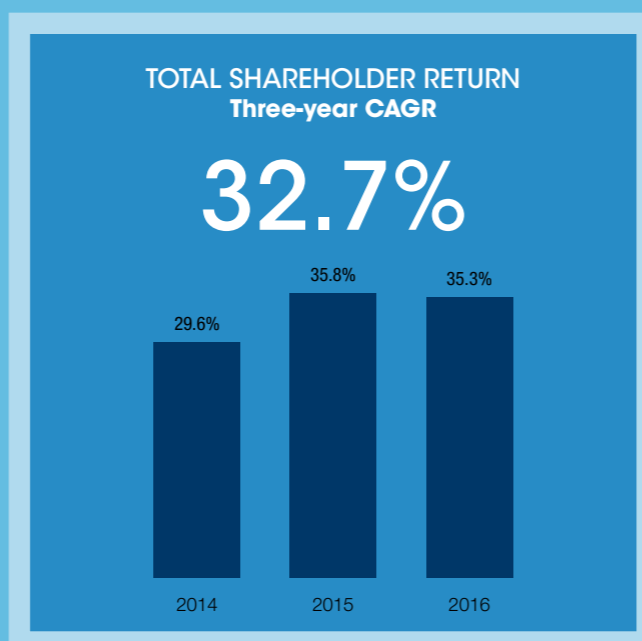
## INTRODUCTION

Clicks Group continued to deliver highly competitive returns to shareholders against the backdrop of a deteriorating economic environment, with the business generating strong organic revenue growth and cash flows while investing record levels of capital to fund longer-term growth.

Diluted headline earnings per share (HEPS) grew by 14.2% to 438.5 cents and the total dividend was increased by 15.7% to 272.0 cents per share. The group delivered a total shareholder return of 35.3%, based on the dividend payout and the growth in the share price over the year. Over the past three years the group has delivered a compound annual growth rate in total shareholder return of 32.7% per annum.

The group has paid cash distributions of R3.2 billion to shareholders since 2006, with the total cash returned to shareholders amounting to R6.7 billion over the past 10 years.

The group's medium-term financial targets rank in the upper quartile relative to comparable global health and beauty retailers such as Walgreens (USA), CVS (USA), Raia Drogasil (Brazil), Rite Aid (USA) and Celesio (Germany). The retail, distribution and group operating margin targets were achieved in 2016 while the group is marginally below the medium-term targeted ranges on inventory management, return on assets (ROA) and return on equity (ROE), which remains among the highest in the retail sector at 49.2%.



## FINANCIAL PERFORMANCE

The review of the group's financial performance for the year ended 31 August 2016 focuses on the key line items of the statements of comprehensive income and financial position which management considers material to the group's performance.

The following review should be considered together with the annual financial statements available on the website, the summary statements of comprehensive income and financial position and the five-year analysis of financial performance on pages 30 and 33 respectively.

### Statement of comprehensive income

#### Turnover

Group turnover increased by 9.5% to R24.2 billion (2015: R22.1 billion), with selling price inflation being contained to 4.9% for the year.

Turnover was consistent for both halves. There is generally minimal seasonal effect on the group's turnover as the festive season in the first half of the financial year is counter-balanced by the winter season, which is the peak trading period for the healthcare business.

Retail turnover, including Clicks, The Body Shop, GNC, Claire's and Musica, increased by 12.8%. Retail selling price inflation averaged 4.3% for the year. Comparable store sales growth of 9.8% was driven by strong promotional activity which resulted in real volume growth of 5.5%. The opening of a net 32 retail stores, including 25 Clicks outlets, accounted for 3% of retail turnover growth.

Distribution turnover grew by 6.1%, impacted by the lower regulated single exit price (SEP) increase of 4.8% in 2016 compared to 7.5% in 2015, the ongoing genericisation of medicines and the slower growth of the pharmaceutical market.

The trading performance of Clicks and UPD is covered in the operational review on pages 34 to 43.

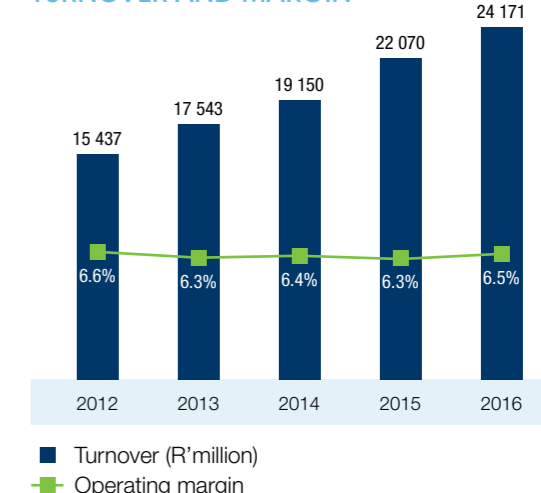
#### Total income

The investment in everyday competitive pricing, supported by effective promotional activity, contributed to the retail total income margin declining by 30 basis points to 33.7%.

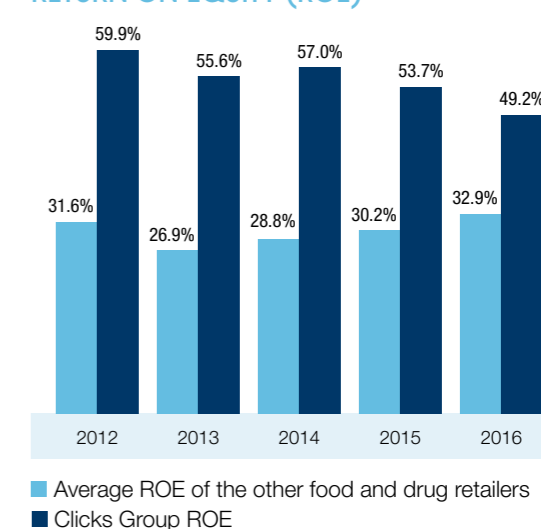
UPD maintained its total income margin at 7.8%.

Owing to the faster growth in the retail business the group's total income margin improved by 30 basis points to 26.3%, with total income increasing by 11.0% to R6.4 billion.

## TURNOVER AND MARGIN



## RETURN ON EQUITY (ROE)



**Cash inflow from operations before working capital changes increased to R1.85 billion.**



## CHIEF FINANCIAL OFFICER'S REPORT (CONTINUED)

## SUMMARY STATEMENT OF COMPREHENSIVE INCOME

R'million	2016	% of turnover	2015	% of turnover	% change
Turnover	24 171		22 070		9.5
Retail	16 640	68.8	14 758	66.9	12.8
Distribution	11 055	31.2	10 415	33.1	6.1
Intragroup	(3 524)		(3 103)		13.6
Total income	6 368	26.3	5 735	26.0	11.0
Operating expenses	(4 796)	19.8	(4 339)	19.7	10.5
Retail	(4 298)		(3 867)		11.2
Distribution	(591)		(550)		7.4
Intragroup	93		78		
Operating profit	1 572	6.5	1 396	6.3	12.6
Retail	1 306	7.8	1 151	7.8	13.5
Distribution	276	2.5	258	2.5	6.7
Intragroup	(10)		(13)		
Loss on disposal of property, plant and equipment	(6)		(9)		
Net financing costs	(53)		(57)		(7.8)
Share of profit of an associate	2		-		
Income tax	(421)		(375)		12.3
Profit for the year	1 094		955		14.6

## SUMMARY STATEMENT OF FINANCIAL POSITION

R'million	2016	2015	% change
<b>Non-current assets</b>	<b>2 507</b>	2 009	24.8
Property, plant and equipment	1 345	1 222	10.1
Other non-current assets	1 162	787	47.6
<b>Current assets</b>	<b>5 870</b>	5 547	5.8
Inventories	3 479	3 250	7.0
Trade and other receivables	2 013	1 871	7.6
Other current assets	378	426	(11.0)
Total assets	8 377	7 556	10.9
<b>Equity</b>	<b>2 452</b>	2 013	21.8
Non-current liabilities	406	308	31.5
Current liabilities	5 519	5 235	5.4
Trade and other payables	5 148	4 898	5.1
Other current liabilities	371	337	10.2
Total equity and liabilities	8 377	7 556	10.9

## Operating expenditure

The group's operating expenses increased by 10.5%.

Retail operating expenditure as a percentage of turnover improved to 25.8% from 26.2%. Expense growth of 11.2% reflects the investment in new stores, the addition of 39 pharmacies and the focus on enhancing customer service in stores. The 13.1% increase in employment costs includes the charge for the broad-based employee share ownership scheme which increased to R65 million (2015: R52 million) for the year. Comparable retail cost growth was contained at 6.4%.

UPD demonstrated excellent cost control in a difficult market and restricted expense growth to 7.4%. Expenses for the second half grew by only 2.5% after the business invested in once-off security upgrades in the first half.

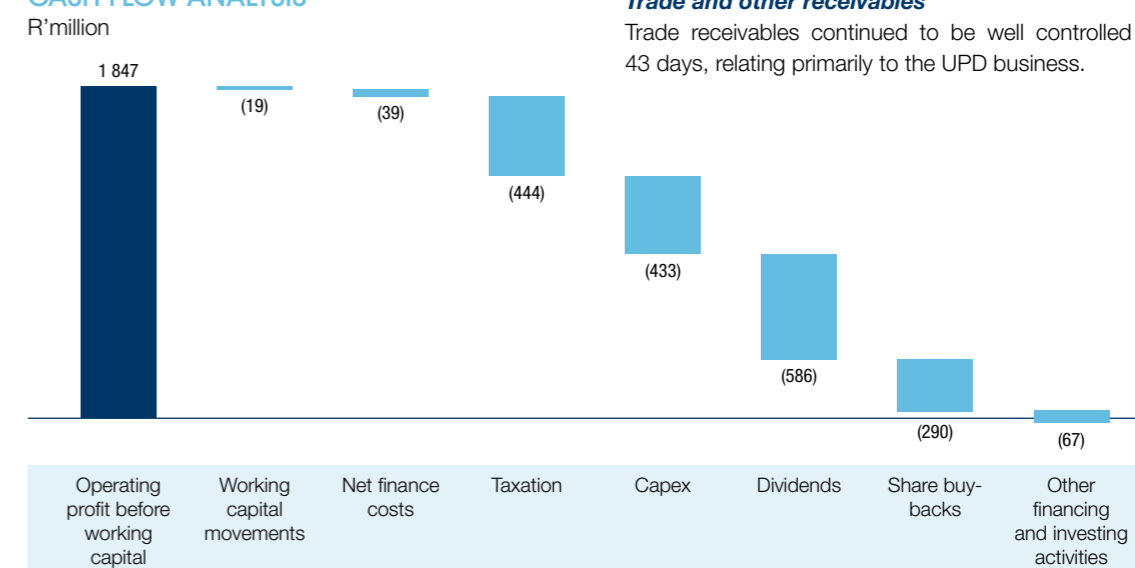
## Operating profit

Operating profit increased by 12.6% to R1.6 billion (2015: R1.4 billion) as both retail and distribution businesses maintained margin in the challenging trading conditions. The stronger growth of the retail business, which accounts for 83% of group profit, resulted in the group margin expanding by 20 basis points to 6.5%.

## Statement of financial position

The ratio of shareholders' interest to total assets was 29.3% (2015: 26.6%) and the average gearing level during the year was 23.9%.

## CASH FLOW ANALYSIS



The ratio of current assets to current liabilities at year-end was consistent at 1.1 times (2015: 1.1 times), indicating that working capital remains adequately funded.

The group continues to hedge direct exposures to foreign exchange rate fluctuations which impact between 8% and 9% of the cost of sales in the retail business. This ongoing hedging strategy was particularly effective during the first nine months of the financial year given the significant devaluation of the rand against all major currencies during 2016. The ongoing volatility of the rand continues to be challenging to forecast. In addition, the group hedged elements of the long-term incentive scheme for the 2016 – 2018 period. Further detail on the respective hedges and risk management is contained in note 16 in the annual financial statements on the group's website.

## Inventory

Group inventory days improved from 68 to 66 days which was outside the medium-term targeted range of 55 to 60 days. Overall group inventories were 7% higher than the prior year.

Retail inventory levels were 15.5% higher at year-end as the business focused on maximising availability, particularly in the current constrained environment where spending peaks sharply over month-ends. Clicks has also increased its inventory holding of higher-margin private label and exclusive branded product. UPD stock levels normalised at 40 days, down five days from the prior year.

## Trade and other receivables

Trade receivables continued to be well controlled at 43 days, relating primarily to the UPD business.

## CHIEF FINANCIAL OFFICER'S REPORT (CONTINUED)

**Cash and capital management**

Cash inflow from operations before working capital changes increased by R147 million to R1.85 billion. Working capital was well managed during the year resulting in a net cash outflow of R19.5 million for the year.

The group's capital management strategy is focused on investing in the organic growth of the business and returning surplus funds to shareholders through dividends and share buy-backs:

- Capital expenditure of R266 million was invested in opening 41 new retail stores and refurbishing 48 stores; R141 million in IT and retail infrastructure; and R26 million in UPD for warehousing and infrastructure.
- The group returned R876 million to shareholders through dividend payments of R586 million and share buy-backs of R290 million.

Over the past ten years the group has acquired R3.5 billion in shares at an average price of R23.86.

**DIVIDENDS**

The total dividend for the financial year was increased by 15.7% to 272 cents per share (2015: 235 cents), based on the dividend payout ratio of 59% of HEPS. This comprises the interim dividend of 76 cents (2015: 65.5 cents) and a final dividend of 196 cents (2015: 169.5 cents). A dividend of 27.2 cents per "A" share (2015: 23.5 cents) was declared for participants in the employee share ownership programme.

**MEDIUM-TERM FINANCIAL TARGETS**

Financial targets are disclosed on page 1 to provide guidance to shareholders on the group's medium-term performance expectations. The medium-term targets for 2017 to 2019 have been reviewed based on the performance for 2016 and the outlook for the next three years.

The board and management have reviewed and revised the following targets:

Performance metric	Revised target	Previous target
Operating margin: Retail (%)	7.5 – 8.5	7.0 – 8.0
Inventory days	60 – 65	55 – 60

The change in the retail operating margin and inventory days targets reflect the growing portfolio of private label and exclusive brands which will enhance margin but require investment in inventory to support growth.

## The group returned R876 million to shareholders through dividend payments and share buy-backs

The targets for ROE, ROA and operating margin (group and distribution) are unchanged.

**FINANCIAL PLANS FOR 2017**

Capital expenditure of R577 million is planned for the 2017 financial year:

- R343 million for 37 new stores across all retail brands, 30 to 35 new pharmacies, and 74 store refurbishments. Provision has also been made for capital expenditure to rebrand the Medicross pharmacies and Netcare hospital front shops subject to Competition Tribunal approval of the transaction;
- R187 million for IT systems and retail infrastructure; and
- R47 million for UPD warehousing and infrastructure.

Total retail trading space is expected to increase by approximately 5%.

The group remains committed to returning cash to shareholders which is surplus to the group's operational and capital investment requirements through dividends and share buy-backs.

**APPRECIATION**

Thank you to our shareholders both locally and internationally as well as the broader investment community for their ongoing interest and engagement with the group. My thanks are also due to the dedicated finance staff across the group for their support in constantly striving to achieve best reporting standards.



**Michael Fleming**  
Chief financial officer

**FIVE-YEAR PERFORMANCE REVIEW**

for the year ended 31 August

		5-year compound growth (%)	2016	2015	2014	2013 Restated*	2012 Restated*
<b>Statements of comprehensive income</b>							
Turnover	(Rm)	11.3	24 171	22 070	19 150	17 543	15 437
Operating expenses	(Rm)	9.8	(4 796)	(4 339)	(3 954)	(3 590)	(3 262)
Operating profit	(Rm)	10.9	1 572	1 396	1 218	1 104	1 012
Profit before tax	(Rm)	11.0	1 515	1 330	1 207	1 050	958
Headline earnings	(Rm)	10.9	1 099	960	838	756	693
<b>Statements of financial position</b>							
Non-current assets	(Rm)	12.1	2 507	2 009	1 772	1 602	1 505
Trade and other receivables	(Rm)	15.0	2 013	1 871	1 608	1 508	1 172
Inventories	(Rm)	14.1	3 479	3 250	2 614	2 225	2 080
Other current assets	(Rm)	(17.6)	8	25	3	18	9
Cash and cash equivalents	(Rm)	83.1	370	401	195	92	7
Total assets	(Rm)	14.5	8 377	7 556	6 192	5 445	4 773
Total equity	(Rm)	20.5	2 452	2 013	1 567	1 377	1 349
Non-current liabilities	(Rm)	8.9	406	308	286	252	286
Current liabilities	(Rm)	15.8	5 519	5 235	4 339	3 472	2 923
Call borrowings	(Rm)	(100.0)	–	–	–	344	215
Total equity and liabilities	(Rm)	14.5	8 377	7 556	6 192	5 445	4 773
<b>Statements of cash flows</b>							
Cash inflow from operating activities before dividends paid	(Rm)	14.7	1 345	1 290	1 464	1 008	759
Dividends paid	(Rm)	14.6	586	491	429	394	337
Capital expenditure	(Rm)	14.9	433	370	337	310	256
<b>Returns and margin performance</b>							
		5-year average					
Total income margin	(%)	26.8	26.3	26.0	27.0	26.8	27.7
Operating margin	(%)	6.4	6.5	6.3	6.4	6.3	6.6
Return on assets	(%)	14.5	13.8	14.0	14.4	14.8	15.3
Return on shareholders' interest	(%)	55.1	49.2	53.7	57.0	55.5	59.9
Inventory days		64	66	68	64	59	63
Asset turnover	(times)	3.1	2.9	2.9	3.1	3.2	3.2
Return on net assets	(%)	83.0	93.5	96.7	85.2	69.7	69.7
Shareholders' interest to total assets	(%)	26.9	29.3	26.6	25.3	25.3	28.2
Net debt to equity	(%)	(2.8)	(15.1)	(19.9)	(12.5)	18.3	15.4
<b>Share performance</b>							
		5-year compound growth (%)					
Headline earnings per share – basic	(cents per share)	13.1	462.4	399.2	341.7	302.0	273.5
Headline earnings per share – diluted	(cents per share)	11.9	438.5	383.9	336.8	298.3	273.4
Cash equivalent earnings	(cents per share)	14.4	576.5	527.2	433.7	386.2	362.9
Net asset value	(cents per share)	22.1	1 037	839	647	558	533
Dividends declared	(cents per share)	16.8	272.0	235.0	190.0	168.0	152.0
Dividend cover	(times)		1.7	1.7	1.8	1.8	1.8
Weighted average number of shares in issue (net of treasury shares)	('000)		237 565	240 603	245 364	250 297	253 154
Weighted average diluted number of shares in issue (net of treasury shares)	('000)		250 501	250 204	248 892	253 434	253 258
Shares repurchased	(Rm)		290	176	285	354	12
Shares repurchased	('000)		3 360	2 376	4 620	6 187	217

\* 2013 and 2012 results have been restated due to the adoption of IAS 19 (Revised) – Employee Benefits and IFRS 10 – Consolidated Financial Statements.

A comprehensive five-year review is available on the website at [www.clicksgroup.co.za](http://www.clicksgroup.co.za).

# OPERATIONAL REVIEW



Clicks ClubCard attracted over one million new members in 2016, bringing total active membership to 6.2 million customers.

Clicks delivered another resilient trading performance in the weak consumer economy, gaining market share in all key product categories. Sales increased by 13.5% driven mainly by volume growth through effective value promotions and price competitiveness.

The chain was rated as the country's leading health and beauty retailer for the seventh consecutive year in The Times Soutwestan Retail Awards 2016, delivering on its strategy of being the customers' first choice health and beauty retailer. Refer to page 8 for detail on the Clicks strategy and business model.

Clicks has continued to demonstrate its commitment to customer service, developing management potential and building capacity for the pharmacy profession. This included creating 1 200 new jobs to enhance service, introducing a future store manager training programme as well as investing in bursaries for pharmacy students, providing pharmacy internships and training pharmacy assistants. Refer to the chief executive's report on page 25 for detail on these initiatives.

Health and beauty sales*	% increase	% contribution to total sales
Pharmacy	14.2	27.3
Front shop health	14.9	23.1
Beauty and personal care	13.3	33.1
General merchandise	10.8	16.5
Total turnover	13.5	100.0

\* Includes Clicks, The Body Shop, GNC and Claire's.



19.6%  
retail pharmacy market share

27.0%  
front shop sales from private label

Retail pharmacy market share increased to 19.6% (2015: 18.7%) as pharmacy sales grew by 14.2%.

Generic medicines continued to grow faster as more patients are being switched to these lower priced alternatives, with sales increasing by 18.6% and accounting for 47.7% (2015: 45.4%) of pharmacy sales. Over-the-counter medicines, which do not require a prescription, grew by 18.1%.

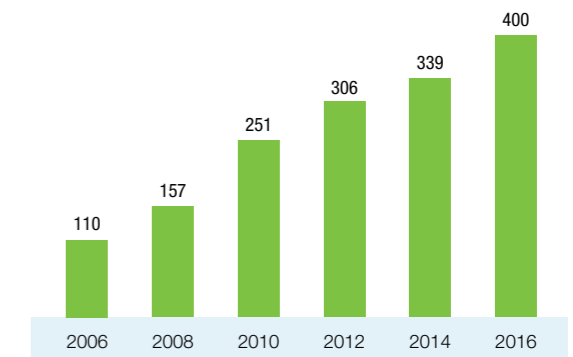
Front shop health showed strong sales growth of 14.9%. All of the key sub-categories performed well, including medicines which grew by 13.1%, supplements by 10.6% and first aid and diagnostics by 15.4%.

Baby merchandise continues to be the fastest growing category in Clicks, with sales increasing by 19.7% and market share growing to 12.1%.

Growth of 13.3% in beauty and personal care is attributable to effective promotions, product innovation and wider ranges in more stores. The skincare sub-category showed the strongest growth at 18.1% while fragrance benefited from extended ranges and increased sales by 16.5%. Haircare sales grew by 7.5% after relatively muted growth in recent years, with ethnic haircare up 13.7%.

General merchandise grew sales by 10.8%. In the core product categories, confectionery sales grew by 10.9% and electrical by 12.0%, with the market share of small household appliances increasing to 20.0%.

## GROWTH IN PHARMACIES



## CUSTOMER LOYALTY AND REWARDS

Clicks ClubCard has been part of the chain's DNA since its launch two decades ago. Following the successful relaunch of ClubCard in 2015 the loyalty programme has attracted over one million new members, bringing total membership to 6.2 million. The relaunch has enabled cashback rewards to be loaded directly onto customers' cards to increase convenience and modernise the programme, with over R300 million returned to customers in cashback benefits in the past year.

ClubCard members accounted for 77% of sales in Clicks and the average basket value of ClubCard members remains double that of non-ClubCard members.

## COMPETITIVE AND DIFFERENTIATED OFFER

Private label and exclusive brands increase the appeal of the Clicks brand, offer differentiated ranges at competitive prices and are also margin enhancing. Sales of private label products increased to 21.0% (2015: 19.8%) of total sales in Clicks, with front shop sales at 27.0% (2015: 25.7%).

The best-selling ranges of the group's exclusive health and beauty franchise brands, The Body Shop, GNC and Claire's, further differentiate the Clicks offer. The Body Shop has a presence in 88 Clicks stores, GNC in 261 stores and Claire's in 123 Clicks stores. Clicks is also the exclusive retail stockist of the Sorbet product range and this partnership was strengthened during the year when Clicks Group acquired a 25% stake in Sorbet Brands (for further detail refer to the chief executive's report on page 24).

Private label and exclusive brands increase the appeal of the Clicks brand, offer differentiated ranges at competitive prices and are also margin enhancing.



OPERATIONAL REVIEW: CLICKS (CONTINUED)

**STORES, PHARMACIES AND ONLINE**

Clicks continues to expand its store footprint to increase customer convenience. A net 25 new stores were opened to increase the brand's footprint to 511 at year-end. This includes 26 stores in neighbouring Namibia, Swaziland, Botswana and Lesotho. A further 45 stores across the chain were extended or refurbished to ensure the stores are modern and appealing to customers.

Market share (%)	2016	2015
Health		
Retail pharmacy*	19.6	18.7
Front shop health**	29.3	29.2
Baby**	12.1	11.2
Beauty and personal care		
Skincare**	27.5	26.8
Haircare**	25.7	25.4
General merchandise		
Small household appliances***	20.0	19.2

\* IMS.  
 \*\* AC Nielsen (comparatives restated).  
 \*\*\* GfK (comparative restated).

Clicks is the largest retail pharmacy chain with 400 in-store pharmacies, with a net 39 opened in the past year. Primary care clinics in pharmacies are an integral part of the healthcare offering to customers and a driver of pharmacy foot traffic. The number of clinics was increased by 38 to 195.

Clicks launched its online store late in the financial year, enabling customers to buy 15 000 products at [www.clicks.co.za](http://www.clicks.co.za), with a "click and collect" facility in all stores in South Africa. The online store increases customer convenience and in the near term is expected to generate sales similar to a small Clicks store.



Clicks launched its online store, enabling customers to buy 15 000 products at [www.clicks.co.za](http://www.clicks.co.za)



**OUTLOOK FOR 2017**

Clicks will continue to focus on offering good value through appealing promotions and differentiated product ranges.

Private label together with exclusive and franchise brands are targeted to contribute 25% of sales in the medium term. The presence of all three franchise brands will be expanded to additional Clicks stores in the year ahead. The private label generic medicine range will be extended by a further 32 products.

ClubCard membership is targeted to increase to 6.5 million.

Clicks will sustain store growth by opening 20 to 25 new stores in 2017, with the ultimate goal of reaching 800 Clicks stores in South Africa. A further 30 to 35 new pharmacies will be opened, while the goal remains to incorporate a pharmacy into every Clicks store. A further 10 clinics will be opened.

**Vikesh Ramsunder**  
 Chief operating officer

PERFORMANCE AGAINST OBJECTIVES IN 2016 AND PLANS FOR 2017



Plans and targets for 2016	Achieved in 2016	Plans and targets for 2017
<b>Developing a competitive and differentiated front shop product offer</b>		
Increase front shop private label and exclusive brand sales to 26%	Front shop private label and exclusive sales 27.0% (2015: 25.7%) of total sales	Increase front shop private label and exclusive brand sales to 28.0%
Expand presence of franchise brands in Clicks	Franchise brands in Clicks stores • The Body Shop: 88 stores (2015: 86) • GNC: 261 stores (2015: 257) • Claire's: 123 stores (2015: 1)	Expand presence of franchise brands in Clicks • The Body Shop: 103 stores • GNC: 300 stores • Claire's: 150 stores
<b>Creating a great customer experience in pharmacies</b>		
Expand private label scheduled generic medicines range	100 private label medicines (2015: 76)	Expand private label scheduled generic medicines range by 32 products
Grow repeat prescription service to 40% of repeat scripts	41.2% of scripts now on repeat prescription service	Grow repeat prescription service to 50% of repeat scripts
Expand clinic services and open 23 new clinics	Net 38 clinics opened 195 clinics at year-end	Expand clinic services and open 10 new clinics
<b>Growing the retail footprint</b>		
Open 20 to 25 new Clicks stores	Net 25 stores opened (2015: 22)	Open 20 to 25 new Clicks stores
50 stores to be expanded/refurbished	511 stores at year-end (2015: 486) 45 stores expanded/refurbished (2015: 38)	60 stores to be expanded/refurbished
Open 25 to 35 new pharmacies	Net 39 pharmacies opened (2015: 22) 400 pharmacies at year-end (2015: 361)	Open 30 to 35 new pharmacies
<b>Driving customer loyalty through ClubCard</b>		
Increase membership to 5.5 million	6.2 million members (2015: 5.0 million)	Increase membership to 6.5 million
Grow Baby Club to 250 000 members	311 000 Baby Club members	Grow Baby Club to 400 000 members
Grow Seniors Club to 650 000 members	752 000 Seniors Club members	Grow Seniors Club to 800 000 members
<b>Maintaining a motivated and skilled work force</b>		
200 pharmacy assistants to be enrolled	283 pharmacy assistants enrolled	300 pharmacy assistants to be enrolled
100 pharmacy bursary students	106 pharmacy bursary students	100 pharmacy bursary students
50 internships	83 pharmacy internships	90 internships

OPERATIONAL REVIEW: CLICKS (CONTINUED)

CLICKS EXECUTIVE MANAGEMENT



**Vikesh Ramsunder (45)**  
*Chief operating officer*  
 Joined the group in 1993  
 Previously managing director of UPD and prior to that was head of logistics at Clicks  
 Extensive retail, distribution and logistics experience



**Jacques de Kock (46)**  
*Head of supply chain*  
 Joined the group in 2010  
 Formerly group head of IT and before that worked for the Ikano Group in Europe  
 Over 15 years' international retail and FMCG experience in large supply chain and IT organisations



**Gordon Trail (45)**  
*Head of finance*  
 Joined the group in 2006  
 Previously head of group finance and head of internal audit  
 Prior to this held various financial positions with Alliance Boots in the UK



**Rachel Wigglesworth (51)**  
*Head of healthcare*  
 Joined the group in 2011  
 Previously commercial head at UPD  
 Pharmaceutical manufacturing, hospitals, pharmacy and commercial healthcare experience



**Sedick Arendse (46)**  
*Head of stores*  
 Joined the group in 2015  
 Previously chief sales and operations officer at Nashua  
 Extensive experience in retail operations, supply chain, brand development and management consulting



**Nandipha Ngumbela (41)**  
*Head of human resources*  
 Joined the group in 2015  
 Previously HR director at Chevron SA  
 Experience in human resources management, employee relations, organisation development, transformation and talent management



**Alex Anson-Esparza (46)**  
*Head of merchandise and marketing*  
 Joined the group in 2013  
 Previously European commercial director for a leading global travel retail operator  
 Extensive international retail experience, including Tesco Stores in the UK



**Chris Tugman (48)**  
*Group head of information technology*  
 Joined the group in 2016  
 Previously IT director at Massbuild, a division of Massmart  
 Experienced in IT systems implementations and management in retail and FMCG



# OPERATIONAL REVIEW



Despite multiple challenges **UPD maintained its operating margin at 2.5%** by driving efficiencies and through good cost management.

UPD produced a credible performance in a tough year and grew reported turnover by 6.1% in a pharmaceutical market which has shown minimal volume growth.

The regulated single exit price (SEP) medicine increase of 4.8% in 2016 was lower than the previous year's 7.5%.

UPD continues to face ongoing margin pressure from the faster growth in lower priced generics, which now account for 48.2% (2015: 45.7%) of medicines.

Despite these multiple challenges UPD maintained its operating margin at 2.5% by driving efficiencies and through good cost management.

Total managed turnover, combining fine wholesaling turnover with the turnover managed on behalf of bulk distribution agency clients, was constant at R15.2 billion as there was no net increase in distribution business.

UPD maintains its market-leading positions in both the pharmaceutical wholesale and bulk distribution markets.

Fine wholesale turnover	% change	% contribution
Clicks	13.5	44.9
Hospitals	4.2	31.8
Independent pharmacy	(9.4)	16.4
Other channels	(6.4)	6.9
Fine wholesale turnover	4.6	100.0

Fine wholesale turnover grew by 4.6%. Clicks remains UPD's largest single customer, with sales to Clicks pharmacies increasing by 13.5% and accounting for 44.9% of fine wholesale turnover.

Sales to the private hospital groups, including Life Healthcare, Mediclinic and Netcare, grew by 4.2% and contributed 31.8% of turnover.

UPD services approximately 1200 independent pharmacies and sales to this channel contracted by 9.4% but still account for 16.4% of turnover.

The new distribution centre in Port Elizabeth was completed shortly after year-end at a cost of R27 million. UPD owns its five distribution centres located in Gauteng (Lea Glen), Cape Town, Durban, Bloemfontein and Port Elizabeth.

Product availability, which is core to offering superior range and service to customers, was 96.5% and UPD maintained on-time deliveries at 98.5%.

Through its distribution business UPD offers local and international, generic and originator pharma manufacturers an efficient and cost-effective supply chain solution.

### OUTLOOK FOR 2017

In the year ahead UPD aims to increase wholesale market share through the growth of the Clicks pharmacy channel, benefiting from the planned opening of 30 to 35 new pharmacies in Clicks. At the same time management plans to increase Clicks' buying levels from UPD to 98.5% from the current 98.3%. UPD is also aiming to maintain volumes from the private hospitals, its other core customer group.

The proposed SEP increase for 2017 at 5.7% is higher than the level for 2016, with the first instalment of this increase of 2.9% granted in October 2016.

The increasing penetration of generics is expected to continue to place pressure on the margin and as UPD has a high fixed cost base the business is constantly focused on improving efficiencies. UPD's independent pharmacy business is also likely to remain under pressure.

Capital expenditure of R47 million has been committed for warehousing and infrastructure, including the expansion of the Cape Town distribution facility which is expected to be completed by the end of the 2017 financial year.

The business will tender for new agency distribution contracts as it is currently only utilising approximately 70% of its warehouse capacity.

In the current environment UPD will focus on becoming more efficient and maintaining its high levels of service to distribution agency clients. This will enable the business to make progress towards achieving its long-term strategic objective of growing market share in both fine wholesale and bulk distribution to 30%.



**Vikash Singh**  
Managing director

**98.5%**  
on-time deliveries



**24.1%**  
market share

**R15.2bn**  
total managed turnover

OPERATIONAL REVIEW: UPD (CONTINUED)

PERFORMANCE AGAINST OBJECTIVES IN 2016 AND PLANS FOR 2017



Plans and targets for 2016	Achieved in 2016	Plans and targets for 2017
<b>Growing private wholesale pharmaceutical market share to 30%</b>		
Increase market share to 26%	Market share 24.1%	Increase market share to 24.5%
Maintain volume of business with private hospital groups	Sales to hospital groups increased 4.2% with volumes growing at 2.2%	Maintain volume of business with private hospital groups
Increase Clicks' buying levels from UPD to 98%	Clicks' buying levels from UPD at 98.3%	Increase Clicks' buying levels from UPD to 98.5%
<b>Growing pharmaceutical distribution market share to 30%</b>		
Tender for additional agency distribution contracts	No new major agency distribution contracts secured	Tender for new agency distribution contracts
<b>Ensuring effective pharmaceutical quality management</b>		
Maintain licences	Licences maintained	Maintain licences
Continuous improvement in quality standards and implement electronic quality management system	Electronic quality management system implemented	Extend cold chain capabilities
<b>Driving operational excellence and cost reduction</b>		
Maintain on-time deliveries of 98%	98.5% on-time deliveries	Target 98.5% on-time deliveries
Reduce labour and transport costs	Labour and transport costs below inflation at 3.1% and 5.0% growth respectively	Reduce labour and transport costs
<b>Maintaining a motivated and skilled work force</b>		
Maintain employee turnover at 14%	Employee turnover 13.2% (2015: 14%)	Target employee turnover of 14%
Compliance training for all employees	Trained 1 600 employees, including casual labour	Compliance training for all employees, including administrative staff
Improve quality of talent and succession process	Recruited eight middle managers for executive learnership programme	Implement pharmacy assistants learnerships Recruit graduates for operations and supply chain management

UPD EXECUTIVE MANAGEMENT



**Vikash Singh (43)**  
*Managing director*  
Joined the group in 2006  
Previously head of operations and distribution at UPD, and prior to that was national finance and risk manager for logistics at Clicks  
Finance and logistics experience



**Chris Nursey (52)**  
*Head of information technology*  
Joined the group in 2011  
Previously senior manager (technology consulting) at Accenture  
Experience in application development and the implementation of large IT solutions in the FMCG, banking and resources industries



**Sanjeeth Baliraj (44)**  
*Head of finance and procurement*  
Joined the group in 2011  
Previously CFO and CIO for Imperial Car Rental/Europcar  
Finance and commercial experience in multinational FMCG production and logistics



**Julie Hulme (45)**  
*Business process executive*  
Joined the group in 2015  
Formerly quality assurance director (EMEA region) for Kimberly Clark Corporation  
Experience in FMCG, engineering and manufacturing



**Robert Magnus (47)**  
*Sales and marketing executive*  
Joined the group in 2013  
Previously national sales manager at Adcock Ingram Healthcare  
Healthcare sales experience across both the private and public sectors



**Palesa Seakamela (37)**  
*Quality compliance manager*  
Joined the group in 2014  
Previously quality and regulatory affairs manager at Afrox  
Experience in quality and regulatory compliance in pharmaceutical manufacturing and distribution



**JC Preller (41)**  
*Distribution executive*  
Joined the group in 2015  
Previously national sales manager at RAM Hand-to-Hand Couriers  
Supply chain and logistics experience across multiple industries with strong commercial and operation background



**Leon Steyn (44)**  
*General manager – Coastal*  
Joined the group in 2008  
Previously branch manager at UPD Cape Town  
Warehouse and distribution experience



**Selven Naicker (42)**  
*General manager – Inland*  
Joined the group in 2016  
Previously distribution centre manager for UTI Pharma  
Inventory and logistics experience

# BOARD OF DIRECTORS



**David Nurek**



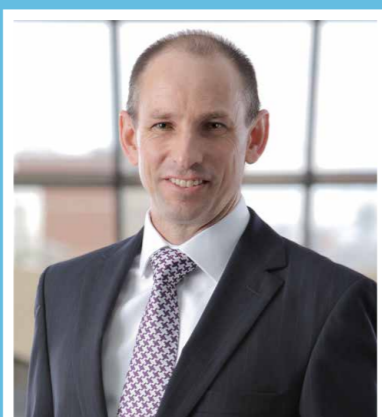
**Prof. Fatima Abrahams**



**John Bester**



**Bertina Engelbrecht**



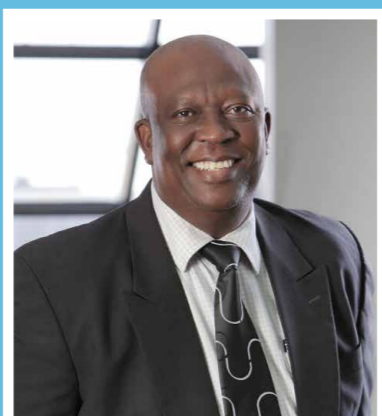
**Michael Fleming**



**Fatima Jakoet**



**David Kneale**



**Dr Nkaki Matlala**



**Martin Rosen**

**David Nurek (66)**

*Independent non-executive chairman*  
*Dip Law, Grad Dip Company Law*  
 Appointed 1997  
 Chairman of the social and ethics committee  
 Member of the remuneration and nominations committee  
 Directorships: Non-executive chairman of Distell Group, Lewis Group and Trencor  
 Expertise and experience: Legal, commercial and governance

**Prof. Fatima Abrahams (54)**

*Independent non-executive director*  
*B Econ (Hons) (cum laude), M Com and D Com*  
 Appointed 2008  
 Chairperson of the remuneration and nominations committee  
 Member of the social and ethics committee  
 Directorships: Iliad Africa, Lewis Group, The Foschini Group and Marsh. Chairperson of TSiBA Education.  
 Expertise and experience: Human resources and remuneration

**John Bester (70)**

*Independent non-executive director*  
*B Com (Hons), CA (SA), CMS (Oxon)*  
 Appointed 2008  
 Chairperson of the audit and risk committee  
 Member of the remuneration and nominations committee  
 Directorships: Non-executive chairman of Ascendis Health and non-executive director of HomeChoice Holdings, Personal Trust International, Sovereign Food Investments, Tower Property Fund and Western Province Rugby. Trustee of the Children's Hospital Trust.  
 Expertise and experience: Accounting and finance

**Bertina Engelbrecht (53)**

*Group human resources director*  
*B Proc, LL M, admitted attorney*  
 Appointed as a director in 2008  
 Member of the social and ethics committee  
 Expertise and experience: Human resources. Formerly general manager of Shell SA Energy.

**Michael Fleming (49)**

*Chief financial officer*  
*B Com, CTA, CA (SA)*  
 Appointed as a director in 2011  
 Expertise and experience: Accounting, finance and investor relations management. Formerly chief financial officer of Tiger Brands and non-executive director of Oceana Group.

**Fatima Jakoet (56)**

*Independent non-executive director*  
*B Sc, CTA, CA (SA), Higher certificate in financial markets*  
 Appointed 2008  
 Member of the audit and risk committee  
 Directorships: MMI Holdings, Tongaat Hulett, Rand Refinery, AfriSam and various MTN subsidiaries  
 Expertise and experience: Accounting and finance

**David Kneale (62)**

*Chief executive officer*  
*BA*  
 Appointed as a director in 2006  
 Member of the social and ethics committee  
 Expertise and experience: Retail and commercial. Formerly chief commercial officer of Boots plc.

**Dr Nkaki Matlala (63)**

*Independent non-executive director*  
*B Sc, M Sc, M D, M Med (Surgery), FCS*  
 Appointed 2010  
 Member of the audit and risk committee and the social and ethics committee  
 Directorships: Hospital Association of South Africa and chairman of Phodiso Holdings. Trustee of the University of Limpopo Trust.  
 Expertise and experience: Medical and healthcare

**Martin Rosen (66)**

*Independent non-executive director*  
 Appointed 2006  
 Member of the remuneration and nominations committee  
 Expertise and experience: Retail and marketing

## BOARD COMPOSITION AND DIVERSITY



● Male 67%  
 ● Female 33%



● Black 44%  
 ● White 56%



● Executive 33%  
 ● Independent non-executive 67%



# CREATING VALUE THROUGH GOOD GOVERNANCE

## APPROACH TO GOVERNANCE

The directors recognise that good governance can create shareholder value by enhancing long-term equity performance. While the board is unwavering in its adherence with legislation, regulations and codes, the group's commitment to good governance goes beyond compliance.

The directors believe that governance can contribute to value creation through:

- a greater degree of integrated reporting on financial and non-financial measures;
- improved quality of management reporting to the board;
- improved reporting to shareholders;
- enhanced accountability to shareholders;
- greater transparency and disclosure;
- equitable performance management and reward structures;
- effective leadership and decision-making;
- more effective risk management and mitigation; and
- avoiding sanction or penalties for non-compliance.

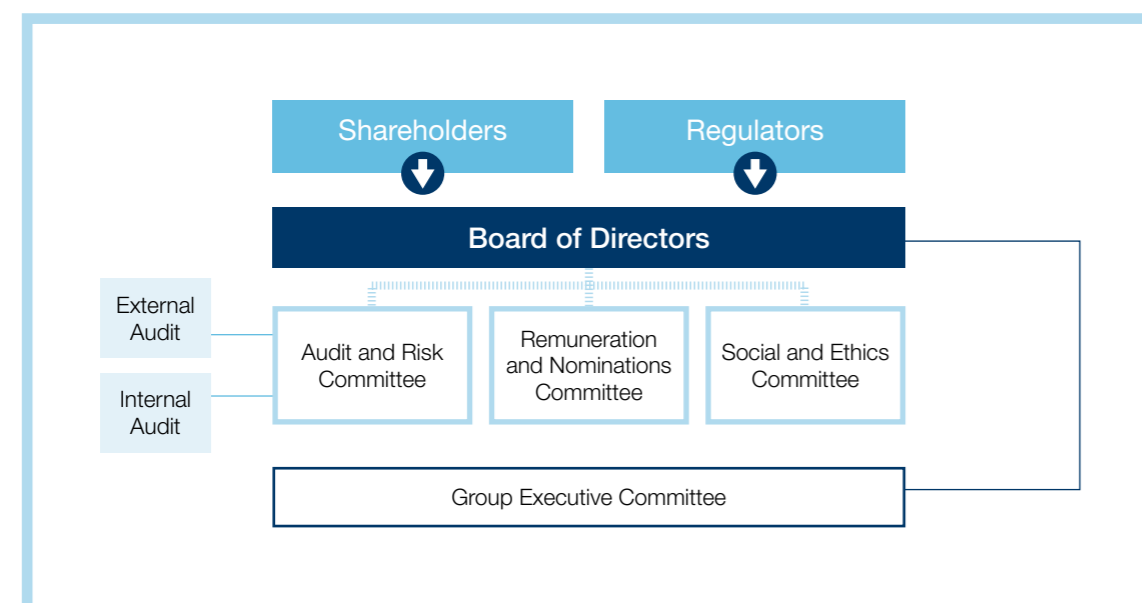
The group's robust governance and compliance framework is based on the principles of accountability, transparency, ethical management and fairness, and a philosophy of sound governance is entrenched across the business.

This abridged governance report is supplemented by the group's corporate governance report on the website which provides detailed disclosures on the functioning of the board and its committees, risk management, corporate accountability and compliance.

## ROLE OF THE BOARD

The directors are accountable for the sustainability of the business and are responsible to the shareholders of the company who elect them. The role of the board includes approving strategic plans, monitoring operational performance, ensuring effective risk management and internal controls, and monitoring legislative, regulatory and governance compliance. The board is also required to approve significant accounting policies and the annual financial statements, monitor transformation and empowerment, manage director selection and appointment, and ensure the group has effective remuneration policies and practices. Certain of these functions are delegated to board committees. The board charter details the authority, responsibility, composition and functioning of the board.

## GOVERNANCE STRUCTURE



## KEY ISSUES ADDRESSED IN 2016

The board continued to operate within its mandate and conducted its affairs as outlined in the board charter. In addition the board addressed the following issues:

- evaluated and approved the long-term agreement with Netcare to outsource its Medicross retail pharmacies and Netcare hospital front shop operations to Clicks;
- approved the Clicks Group's acquisition of a 25% stake in the newly created Sorbet Brands, a company which holds the trademarks to the Sorbet brand in southern Africa;
- reviewed the talent and succession plan for senior management;
- approved the capital expenditure for the expansion of the Clicks distribution centre in Centurion; and
- evaluated the potential impact of the complementary and alternative medicines (CAMS) regulations on the group.

## BOARD COMPOSITION

The board consists of nine directors, with three salaried executive directors and six independent non-executive directors.

Director	Status	Year appointed
David Nurek	Independent non-executive director	1997
Fatima Abrahams	Independent non-executive director	2008
John Bester	Independent non-executive director	2008
Bertina Engelbrecht	Executive director	2008
Michael Fleming	Executive director	2011
Fatima Jakoet	Independent non-executive director	2008
David Kneale	Executive director	2006
Nkaki Matlala	Independent non-executive director	2010
Martin Rosen	Independent non-executive director	2006

The executive directors have an average of 7.6 years' service on the board and the non-executive directors an average of 9.8 years.

Brief credentials on the directors and their expertise and experience are included on pages 44 and 45 of this report.

## INDEPENDENCE OF DIRECTORS

All six non-executive directors are classified as being independent in terms of King III. This was confirmed in the 2016 internal evaluation of the status of the non-executive directors which included an assessment of the chairman, David Nurek, who has served as a non-executive director for 19 years.

There are no shareholder interests represented on the board, further confirming the independence of the board.

## BOARD DIVERSITY

The diversity of the directors in terms of gender, race and their professional backgrounds encourages constructive debate and ensures that the board considers the needs of a wide range of stakeholder interests.

## DIRECTOR ELECTION

Regular election of directors ensures that shareholders are able to exercise their right to appoint directors they believe will add value to the company. One-third of the non-executive directors are required to retire at the AGM each year. Executive directors retire on the third-year anniversary of their appointment or most recent re-election to the board.

## ANNUAL PERFORMANCE EVALUATION

Good governance is maintained through the annual evaluation undertaken by the directors of the performance of the board, the chairman, the chief executive officer, individual directors and all board committees.

The 2016 evaluation indicated that the board and its committees have discharged their responsibilities adequately. The directors believe the board contributes to value creation in the company, is well balanced and has the relevant knowledge to make a meaningful contribution to the group's affairs.

## BOARD AND EXECUTIVE RELATIONSHIP

The roles of the chairman and chief executive are separate and clearly defined, ensuring that no director has unrestricted decision-making powers. The chairman, David Nurek, leads the board and the chief executive, David Kneale, is responsible for the executive management of the group.

The board and executive management team work closely in determining the strategic objectives of the group. Authority has been delegated by the board to the chief executive and the group executive committee for the implementation of the strategy and the ongoing management of the business.

CREATING VALUE THROUGH GOOD GOVERNANCE (CONTINUED)

BOARD AND COMMITTEE MEETING ATTENDANCE

	Board	Audit and risk	Remuneration and nominations	Social and ethics
<b>Number of meetings</b>	4	4	3	2
David Nurek	4*		3^	2*
Fatima Abrahams	4		3^^	2
John Bester	4	4*	3	
Bertina Engelbrecht	4			2
Michael Fleming	4			
Fatima Jakoet	4	4		
David Kneale	4			2
Nkaki Matlala	4	4		
Martin Rosen	3		2	2
<b>Meeting attendance 2016 (%)</b>	<b>97</b>	<b>100</b>	<b>92</b>	<b>100</b>
Meeting attendance 2015 (%)	95	92	100	90

\* Chair.  
 ^ Chairs nominations agenda items.  
 ^^ Chairs remuneration agenda items.

BOARD OVERSIGHT

Specialised governance functions are delegated to three committees to assist the board in meeting its oversight responsibilities. All board committees are chaired by independent non-executive directors and the composition of the committees conforms to the requirements of King III. Detailed disclosure on the roles and functioning of the committees is included in the corporate governance report on the website.

KING III APPLICATION

The group voluntarily applies the principles of the King Code of Governance Principles 2009 (King III) and the board remains satisfied with the manner in which the group has applied the recommendations of the code. Governance processes are regularly reviewed to align with legislative and regulatory changes and to reflect changes in the business to ensure processes remain relevant.

ETHICS AND VALUES

The group strives to achieve the highest ethical standards of business practice. A set of values and a behavioural code of conduct require staff to display integrity, mutual respect and openness, and affords them the right and obligation to challenge others who are not adhering to these values. Policies have been implemented which require all employees to adhere to ethical business practices in their relationships with colleagues, suppliers, intermediaries, shareholders and

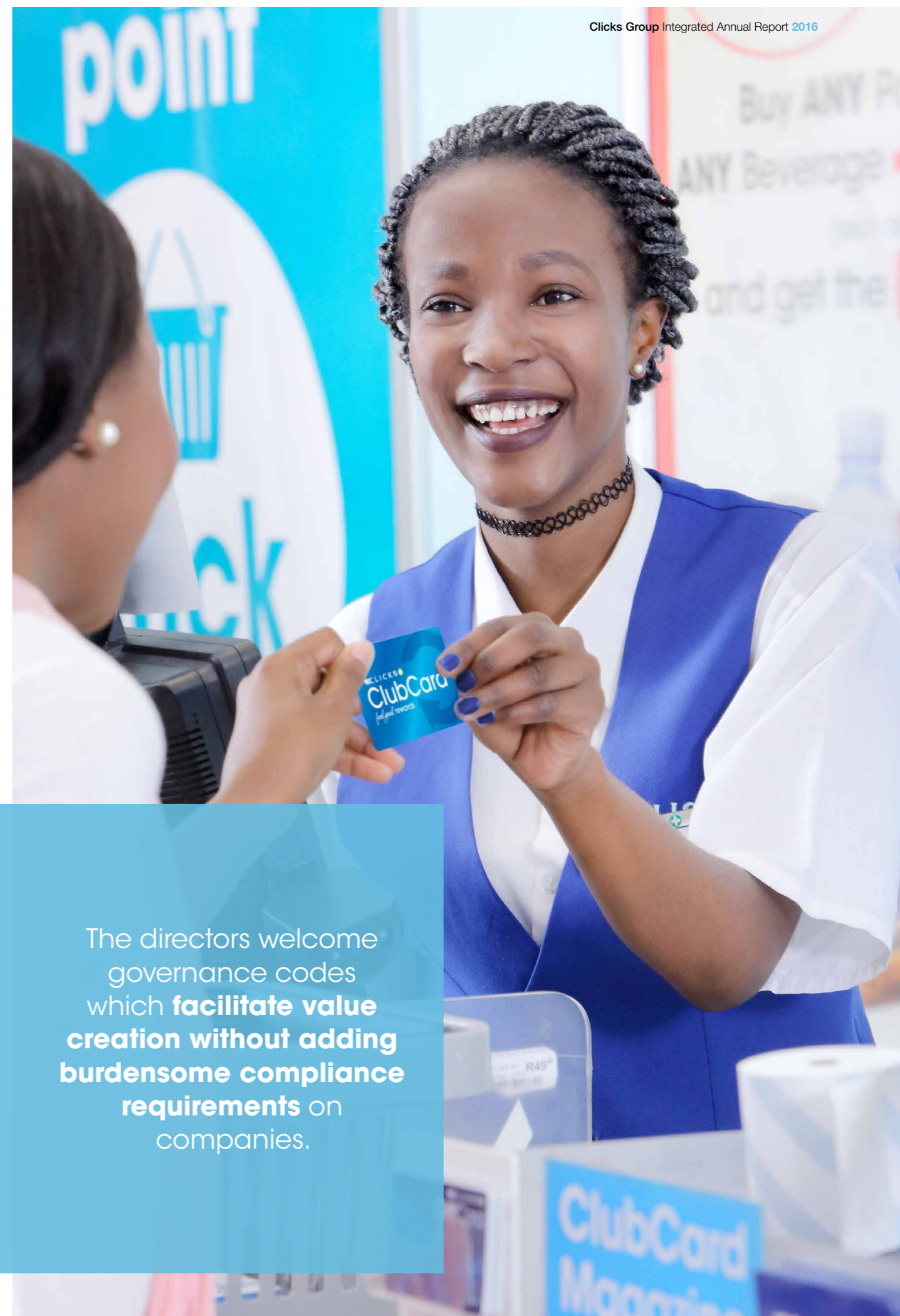
investors. These policies also set stringent standards relating to the acceptance of gifts from third parties and declarations of potential conflicts of interests.

ANTI-COMPETITIVE CONDUCT

Clicks Group does not engage in practices that could limit competition or that could adversely impact on customers. Robust risk management and supervisory oversight processes are in place to ensure adherence to competition law and regulations. The group occupies a market-leading position in healthcare retailing and supply in South Africa and guards the confidentiality of intellectual property, customer and supplier data, business processes and methodologies. Effective governance processes have ensured that the group has not been sanctioned for anti-competitive practices or for non-compliance with the Competition Act during the year.

GOVERNANCE FOCUS AREAS IN 2017

The governance landscape in South Africa will be further enhanced with the introduction of the King IV Code of Corporate Principles which will be effective from 2017. There have been significant corporate governance and regulatory developments, both locally and internationally, since the introduction of King III in 2009 which are being incorporated into the new code. The directors welcome governance codes which facilitate value creation without adding burdensome compliance requirements on companies.



The directors welcome governance codes which **facilitate value creation without adding burdensome compliance requirements** on companies.

# CREATING VALUE THROUGH GOOD CITIZENSHIP

## BROADENING ACCESS TO HEALTHCARE

Clicks Group supports the national healthcare agenda of making medicine more affordable and accessible for all South Africans. Being the largest employer of pharmacy staff in the private sector in the country, the group is actively building capacity through training and financial support to address the critical shortage of pharmacists.

**2 535**  
pharmacy and clinic professionals across Clicks

**400 clicks pharmacies** across South Africa to broaden access to healthcare

**195 clinics** in Clicks pharmacies provide **primary care health services**

**31.1 million prescriptions** filled for customers in 2016

**520 000 clinic services** provided in 2016

### PARTNERSHIPS

**294** Clicks stores **pickup points** for State patients on **chronic medication**

**Partnering with Western Cape and Northern Cape Departments of Health** to provide baby immunisation and family planning services

**R4.1 million** committed to **Public Health Enhancement Fund** over the past four years to improve public healthcare, address skills shortages and advance research

### BUILDING CAPACITY

**R18.2 million** invested in **bursaries for pharmacy students** since 2012

**83** pharmacy **internships** provided in 2016

**283** pharmacy assistants **enrolled** in 2016

**204 million**  
units of medicine delivered by UPD

## INVESTING IN OUR PEOPLE

Attracting and retaining talent is critical to the continued success of the business. The group is committed to the ongoing investment in its people through training and development, competitive remuneration and incentive schemes, career path planning, creating a stimulating working environment, transformation and empowerment.

**14 093**  
employees across retail stores, distribution centres and head office

**1 200** net new jobs created in 2016

**4 935** employees trained in 2016

**R57.8 million** invested in **training and development** in 2016

### EMPLOYMENT EQUITY AND DIVERSITY

Clicks Group is committed to creating a diverse workforce by attracting and developing previously disadvantaged people, women and employees with disabilities.

**91%** of permanent employees are black

**62%** of permanent employees are female

**160** employees with disabilities

**44%** black directors

**33%** female directors

**50%** black members of the group executive committee

### EMPLOYEE SHARE OWNERSHIP PLAN

Introduced in 2011 to enable employees to share in the long-term growth and success of the business, the broad-based employee share ownership plan (ESOP) is also a mechanism to attract and retain scarce talent while accelerating transformation. The scheme vests in 2018 and 2019.

**6 814** employees now shareholders

**87%** black employee shareholders

**64%** female employee shareholders

**R21.4 million** paid in dividends to participants in the scheme since 2012

CREATING VALUE THROUGH GOOD CITIZENSHIP (CONTINUED)

## INVESTING IN OUR COMMUNITY

Clicks Group continues to demonstrate its commitment to making a sustainable contribution to the communities in which it trades. This is achieved through both enterprise development, by accelerating the sustainability and financial independence of black enterprises, as well as social investment through financial and product donations to non-profit organisations and initiatives.

**Level 3**  
**BBBEE rating** in 2016  
 under previous codes  
 of good practice.  
 Rated level 6 under  
 new codes

### CLICKS HELPING HANDS TRUST

The Clicks Helping Hand Trust benefits the lives of ordinary South Africans by offering free preventative testing and wellness services through the footprint of over 190 Clicks clinics countrywide. Since the establishment of the Trust in 2011 over 120 000 lives have been positively impacted.

**Mom and baby wellness and family services** have reached over **55 000 families**

**HIV testing** provided to over **18 000 South Africans** through a campaign to encourage individuals to know their HIV status

**Heart disease testing** for more than **15 000 people** to encourage **healthier lifestyle choices**

**Diabetes testing** and education for over **15 000 people** on the prevention and **early detection** of the disease

**Girls on the Go campaign** to provide reusable and washable sanitary pads to **5 000 schoolgirls**

**R15.1m** invested in **socio-economic development projects** aligned to the group's focus on **health and well-being**

**R7.3m** invested in **enterprise development programmes**

### UPD OWNER-DRIVER SCHEME

UPD contracts small enterprise owner-drivers to deliver products from UPD to Clicks, independent pharmacies, hospitals and clinics.

**55 owner-drivers** contracted to **deliver products** for UPD

**R37 million** paid to the **driver scheme** in 2016

**R417 million** paid since the **start of the scheme** in 2003

### THE APPLIANCE BANK

The Appliance Bank (TAB) equips unemployed men with technical skills to repair donated damaged household appliances and the business skills to buy and on-sell the repaired electrical appliances. TAB currently only operates in Cape Town and is an off-shoot of the highly successful social entrepreneurship programme, The Clothing Bank.

Clicks donates all returned domestic electrical appliances to TAB

**17 men** recruited into the pilot programme and trading exceptionally well

## CREATING STAKEHOLDER VALUE

Management considers the legitimate needs, expectations and concerns of stakeholders that influence the group's ability to create sustainable value. The group's primary stakeholders are shareholders, customers, suppliers, government and industry regulators, and employees.

**R876m**  
 returned to shareholders through dividends and share buy-backs

**R444 million** paid to government in taxes

**R309 million** cash back to customers through ClubCard loyalty programme

**R21.3 billion** paid to suppliers

**R2.7bn** paid to employees for services and talent



## REWARDING VALUE CREATION

Clicks Group's remuneration policy is aimed at driving a high-performance culture that creates sustainable value for shareholders.

The remuneration policy, which is outlined in part 1 of this report, will again be proposed to shareholders for a non-binding vote at the annual general meeting (AGM) in January 2017. The application of the remuneration policy in 2016, and how the group has rewarded value creation, is covered in part 2 of this report.

The report focuses primarily on the remuneration of the Clicks Group executive and non-executive directors, with the remuneration paid to directors for the 2016 financial year detailed on pages 61 to 63.

Clicks Group values the views and insights of investors, and encourages shareholders to proactively engage with management on remuneration issues to enable informed decisions to be made when voting on the group's remuneration policy.

### PART 1: REMUNERATION POLICY

The group's remuneration policy is based on the total rewards strategy and integrates the five key elements that attract, motivate and retain human capital to achieve the desired business results, namely:

- compensation;
- benefits;
- performance and recognition;
- learning and development; and
- work-life balance.

The reward principles of market competitiveness, internal equity, equitable treatment and pay for performance are entrenched in the policy.

The policy is transparent with a pay framework that clearly differentiates between occupational levels of work and pay grades that facilitate remuneration benchmarking for each job within a skill pool.

The remuneration mix includes a combination of monetary and non-monetary rewards provided to employees in exchange for their time, efforts, talent and performance at an individual, team and company level.

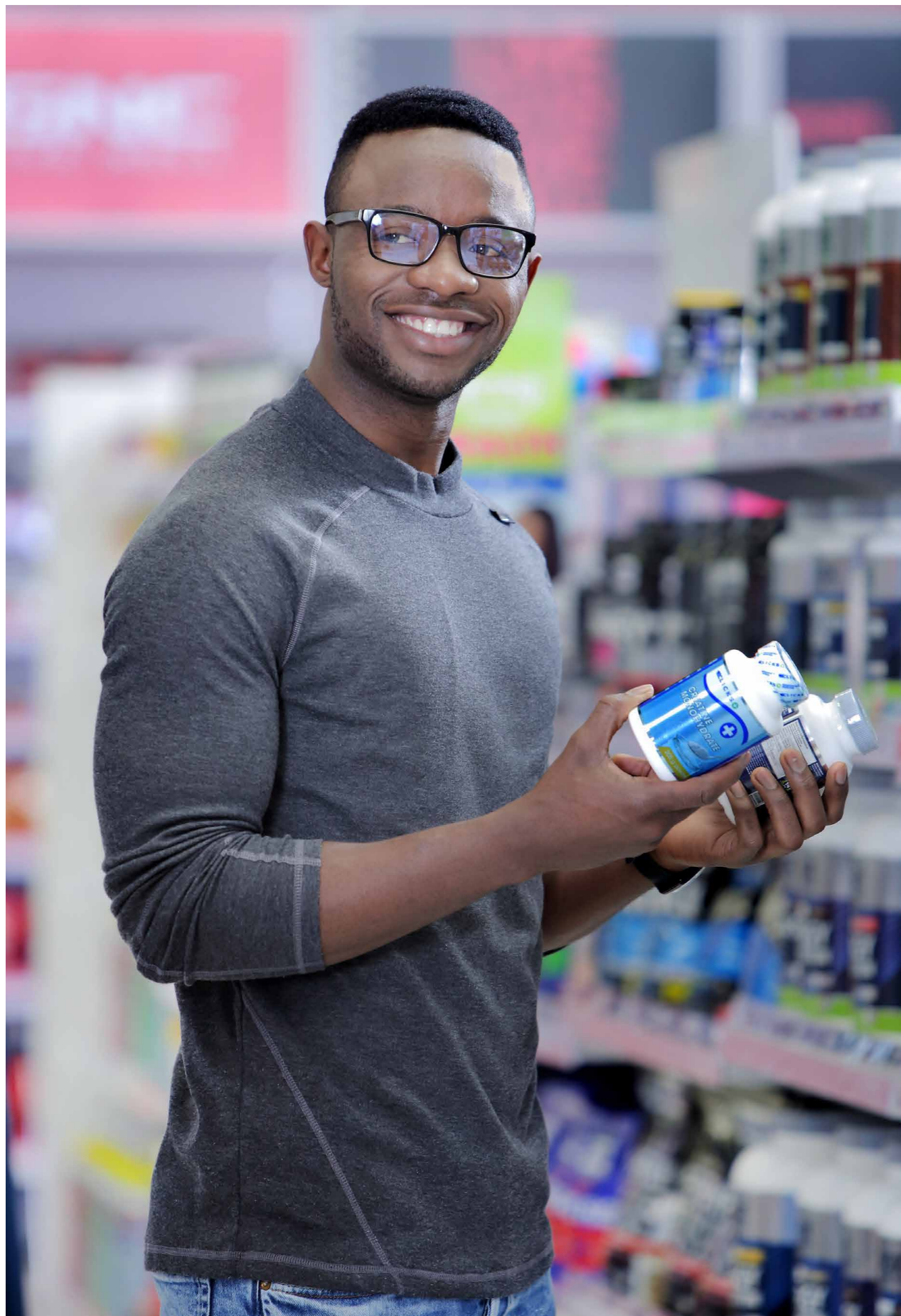
Monetary rewards include annual guaranteed pay, variable pay such as short and long-term incentives that relate to performance to agreed targets, as well as other benefits.

Non-monetary rewards are less tangible and range from formal and informal recognition programmes, training and job rotation opportunities and exposure to stimulating work assignments, all of which are designed to motivate, affiliate and retain employees.

Employees receive a total reward statement annually which provides a personalised comprehensive view of all their rewards.

Pay levels are set with reference to benchmarked national and retail market data; premiums are paid for scarce and critical skills such as pharmacy, buying and planning, finance and IT skills based on such market data; and are reviewed annually to ensure the group remains competitive in the employment market.

Annual salary increases are merit based, with increases being directly related to the employee's annual performance rating. The range of increase percentages per performance rating is applied consistently across the group, including to the executive directors. The annual increase for an employee in the bargaining unit is based on a collective bargaining process (refer to the section on management and staff on page 57).



## REWARDING VALUE CREATION (CONTINUED)

### REMUNERATION STRUCTURE

The total rewards framework provides flexibility to meet the differing needs of employees.

Annual guaranteed pay is determined by considering the following factors:

- the size of the job, based on the Hay job evaluation methodology;
- the nature of the job relative to its defined market position, including any market premiums for scarce and critical skills;
- individual performance as assessed during the biannual performance review process; and

- individual position in the pay band range relative to competence and talent positioning.

The remuneration and nominations committee (the committee) reviews the group's overall pay framework annually against defined market benchmarks per job grade, job size or skill pool.

The group's benchmarking and market information is based on independent surveys, including the PricewaterhouseCoopers REMchannel, Deloitte Top Executive and The Hay Group surveys. The group also participates in a bi-annual benchmarking exercise to maintain a competitive remuneration position in respect of pharmacists and pharmacy managers.

### EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of executive directors consists of three components:

Guaranteed remuneration	Variable and performance-related remuneration	
Annual guaranteed pay, comprising base salary, retirement and other benefits; allows for flexible retirement fund contributions	Annual short-term cash-based incentive bonus	Long-term incentive schemes
<b>Performance measurement</b> Annual individual performance review	Average monthly return on net assets (RONA)  Operating profit	Diluted headline earnings per share growth over a three year period subject to performance hurdles  Total shareholder return growth over a three-year period subject to performance hurdles

#### Guaranteed remuneration

Base salaries are set according to an annual benchmarking exercise of the executive roles in similar-sized market capitalisation companies on the JSE using data in the Deloitte Top Executive survey. This benchmarking exercise recognises the complexity in the group's business model and the regulatory environment within which the group operates.

The annual performance review of all employees focuses on both financial and non-financial levers across the following metrics:

- Financial performance
- Business process improvement metrics, including transformation targets, where this can be influenced by the employee.
- Customer satisfaction
- Learning and growth

All employees are required to achieve a satisfactory performance rating to fully qualify for participation in the short-term incentive scheme.

The performance of the chief executive officer is assessed by the chairman and the board, while the performance of the other executive directors is evaluated by the chief executive officer and reviewed by the committee.

The annual pay increase of the executive directors is directly related to individual performance ratings and aligned to the annual increase ranges per performance rating as determined by the committee and applied consistently across the group.

The sustainability of the group's business is critical in determining remuneration and the board is satisfied that the performance targets do not encourage increased risk-taking by the executives.

A significant portion of short-term and long-term remuneration is variable and designed to incentivise executive directors.

#### Short-term incentive scheme

A bonus of 40% (60% in the case of the chief executive officer) of annual guaranteed pay is paid on the achievement of an on-target performance with the performance hurdles of at least 95% of the targeted group RONA and operating profit.

Performance exceeding the targeted performance may result in the payment of a higher bonus. This is, however, self-funded and only paid if the group exceeds the targeted operating profit. The scheme also provides for a stretch performance incentive to drive extraordinary performance. The stretch performance hurdle is met when the targeted group RONA is achieved and the targeted operating profit has been exceeded by at least 5%.

Bonus payments are capped at 120% of annual guaranteed remuneration for the chief executive officer and at 80% for the other executive directors.

The achievement of targets is reviewed by the committee before any incentive payments are made to executive directors and is also subject to review by the group's external auditor.

#### Long-term incentive schemes

Executive directors participate in the cash-settled long-term incentive schemes which are detailed on pages 58 and 59.

### MANAGEMENT AND STAFF

Senior managers receive an annual guaranteed salary and participate in the short-term incentive bonus scheme. Salaries may include premiums for scarce and critical skills. A limited number of senior managers participate in the long-term incentive scheme, based on strategic contribution to their business unit and their individual performance levels.

An annual performance-based salary increase is paid to all permanent monthly non-bargaining unit employees. The annual increase date is 1 September which is aligned with the group's financial year and budgeting period.

Collective salary increases are negotiated with the representative trade union for the Clicks bargaining unit. The negotiation team is headed by the Clicks human resources executive. Trade union membership comprises 18% of the total group employees

(2015: 28%). The employees in the bargaining unit also participate in the group's short-term incentive schemes.

All store employees' compensation complies with the sectoral determination or statutory requirements in all countries in which the group operates and the minimum rates of pay as determined for the retail industry are either met or exceeded.

### EMPLOYEE SHARE OWNERSHIP PROGRAMME

The employee share ownership programme (ESOP) was implemented in 2011 to attract and retain scarce and critical skills, accelerate transformation, build employee commitment and enable employees to share in the growth and success of the business. Executive directors and senior employees participating in the group's LTI schemes did not participate in the ESOP.

Entry to the scheme closed in 2015 and the scheme vests in 2018 and 2019.

Through the ESOP scheme 10% of the group's issued shares (after the issue of "A" shares equating to 29.2 million "A" shares) were placed in a share trust for allocation to all full-time permanent staff. Employees with more than five years' service, pharmacists and senior employees from designated employment equity groups received a 15% enhancement of their share allocation.

Shares are held by 6 814 employees, with black staff holding 87% and women 64% of the shares. Pharmacists comprise 5% of the ESOP beneficiaries. Participating employees receive a cash dividend annually, equal to 10% of the total dividend paid to ordinary shareholders each year.

### GROUP RETENTION SCHEMES

The group retention schemes are aimed at retaining talented employees by providing them with a long-term financial incentive which is aligned with shareholders' interests.

The schemes target high-potential employees, black staff and employees with scarce and critical skills. There are currently 35 employees participating in the scheme, of which 26% are black and 49% are women.

## REWARDING VALUE CREATION (CONTINUED)

**INCENTIVE SCHEMES**

Short-term and long-term incentives are an integral part of the total rewards framework and aim to align employee performance with the interests of shareholders.

**Short-term incentive schemes**

All permanent employees in the group participate in the short-term incentive schemes which reward the achievement of performance targets of the business.

**RONA-based short-term incentive scheme**

Performance for the group's RONA-based short-term incentive scheme is measured at the group, business unit and team level against agreed targets. Although the scheme rewards team performance, individual performance as measured through the group's annual performance appraisal process may limit the value of the payment should an employee not meet individual performance targets.

Performance exceeding the targeted performance may result in the payment of a higher bonus, provided this is funded by an increase in the operating profit. Bonuses for management and staff are capped at two times the value of an on-target bonus.

**Retail store incentive scheme**

The retail store incentive scheme rewards staff in retail stores for outperforming quarterly store sales targets.

**Long-term incentive schemes**

Long-term incentive (LTI) schemes are aimed at aligning executive remuneration with shareholder interests by rewarding executives for the creation of shareholder value over the medium term. Participation in the long-term incentive schemes is limited to senior executives.

The LTI schemes are regularly reviewed and enhanced to align with evolving best practice locally and internationally, based on engagement with major shareholders.

The schemes are cash settled and based on share appreciation units. As there are no shares issued in terms of the LTI schemes, there is no share dilution. Awards are made annually, with each scheme having a three-year performance period.

**2013 to 2016 LTI scheme**

Appreciation units are allocated to participants in the scheme based on a multiple of the annual guaranteed pay. The base value for each appreciation unit is calculated at the date of allocation by multiplying the group's reported diluted headline earnings per share (HEPS) by an internal price earnings ratio of 12.

An exercise value is determined at the end of the three-year period by multiplying the published diluted HEPS for the year by the factor of 12.

The difference between the exercise value and the base value is the amount paid out in cash.

Participants are required to apply 25% of the after-tax cash settlement value to purchase Clicks Group shares in the open market and to retain these shares for a minimum of one year.

Following engagement with shareholders to further align executive and shareholder interests, the LTI scheme was enhanced by implementing performance hurdles. These performance hurdles are as follows:

**Diluted headline earnings per share**

Performance hurdle	Range (based on three-year CAGR in diluted HEPS)	Percentage of LTI payout
Weak	0% or negative growth	0%
Below target	Up to 7.9% growth	70%
On target	8% to 14.9% growth	100%
Above target	15% to 19.9% growth	150%
Exceptional	Above 20% growth	200%

**2014 to 2017, 2015 to 2018 and 2016 to 2019 schemes**

The LTI schemes align executive and long-term investor interests by including both an earnings performance metric as well as exposing participants to market volatility.

The value of appreciation units granted is apportioned equally between two performance components:

- (1) diluted HEPS, as applied in the 2013 to 2016 scheme above; and
- (2) total shareholder return (TSR).

The financial incentive received by the participants is the gain earned on the appreciation units over a three-year period. The TSR units are also subject to the following performance hurdles:

**Total shareholder return**

Performance hurdle (based on three-year CAGR in TSR)	Percentage of LTI payout
Below 10%	Unit allocation forfeited
Above 15%	Unit allocation increased by 50%
Above 20%	Unit allocation increased by 100%

TSR is defined as "the overall return to shareholders which is equal to the 20-day volume weighted average price (VWAP) appreciation of a Clicks Group Limited

share plus dividend payments reinvested over the three-year performance period divided by the VWAP of a Clicks Group Limited share at the commencement of the three-year performance period, expressed as a percentage".

Refer to the chief financial officer's report on page 28 for detail on the group's TSR CAGR performance of 32.7% per annum over the past three years.

The remuneration multiple used to determine the number of appreciation units granted is unchanged from previous schemes.

A cap has been introduced to limit the value payable at the end of the three-year performance period to no more than five times the annual guaranteed pay of participants in the scheme. The Clicks Group has implemented a programme to hedge against the economic risk linked to the share price based on the anticipated payout of the TSR portion of the long-term incentive.

The requirement for scheme participants to purchase shares with the proceeds does not apply to this scheme as the TSR portion of the LTI is already correlated to the Clicks Group share price plus dividends paid to shareholders over a three-year period.

Currently 14 (2015: 14) executives participate in the schemes. The appreciation units allocated to executive directors under the three schemes is detailed in the table below. The relevant amounts have been expensed through the statement of comprehensive income.

	2014 – 2017 scheme		2015 – 2018 scheme		2016 – 2019 scheme	
	HEPS units allocated at R40.42 per unit	TSR units allocated at R66.34 per unit	HEPS units allocated at R46.07 per unit	TSR units allocated at R93.82 per unit	HEPS units allocated at R52.62 per unit	TSR units allocated at R126.03 per unit
Bertina Engelbrecht	145 967	88 936	143 484	70 454	136 830	57 129
Michael Fleming	221 178	134 760	207 736	102 004	198 404	82 837
David Kneale	597 476	364 034	571 438	280 590	547 320	228 517

Short-term and long-term incentives are an integral part of the **total rewards framework** and aim to align employee performance with the interests of shareholders.

## REWARDING VALUE CREATION (CONTINUED)

**EXECUTIVE SERVICE CONDITIONS**

The chief executive officer is subject to a 12-month notice period and the other executive directors to a six-month period. The retirement age for the chief executive is 65 while the other executive directors retire at the age of 63. None of the executive directors are appointed on fixed-term contracts.

**NON-EXECUTIVE DIRECTORS**

The fee structure is aligned to the King III remuneration guidelines that non-executive directors receive a base fee for serving on the board or any committee, together with an attendance fee per meeting. The base fee comprises approximately 75% of the total fee. The chairman of the board or any committee receives a higher fee. Directors' fees are paid for a calendar year.

The group's policy is to pay non-executive director fees in a range of 80% to 120% of the median of a comparator group of eight JSE-listed retail companies. The fee structure for non-executive directors is benchmarked annually.

In line with best governance practice, non-executive directors do not participate in incentive schemes and none of the non-executive directors have service contracts with the group.

**REMUNERATION GOVERNANCE**

The committee is responsible for overseeing all elements of remuneration, including the remuneration philosophy and policy, and the implementation of the policy. The committee operates under the authority delegated by the board and ensures the group has a competitive remuneration policy and governance framework which is aligned with the group's strategic and organisational performance objectives.

As recommended by King III, the committee comprises only independent non-executive directors. The committee is chaired by Professor Fatima Abrahams and includes John Bester, David Nurek and Martin Rosen. The chief executive officer and the group human resources director attend committee meetings by invitation to provide input on remuneration issues and are recused from discussions that relate to their own performance appraisal and remuneration. Detail on the committee meeting attendance is included on page 48.

An external rewards specialist is retained to advise the committee on remuneration trends and benchmarking of both executive and non-executive remuneration. The members of the committee have independent access to the adviser and may request professional advice on any remuneration issue.

The primary responsibilities of the committee include:

- ensuring the remuneration policy is aligned to and promotes the achievement of the group's strategic objectives and encourages individual performance;
- ensuring that annual guaranteed pay, scarce skills premiums, benefits and incentives, are appropriately benchmarked to ensure the group is competitive in the employment market;
- ensuring all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued;
- reviewing and approving the performance evaluation of the chief executive officer and executive directors against agreed deliverables;
- reviewing incentive schemes to ensure alignment to shareholder value creation and that the schemes are administered in terms of the rules; and
- reviewing the remuneration of non-executive directors and recommending adjustments to the fees at the AGM.

## PART 2: REWARDING VALUE CREATION IN 2016

**Annual salary increase**

The average performance-linked increase effective from 1 September 2016 is 6.6% (2015: 5.6%). An annual salary increase of 7.7% was granted to all staff in the bargaining unit in South Africa.

**Short-term incentive schemes**

RONA-based short-term incentive scheme: The group, Clicks, UPD and group services exceeded the short-term targets and R94.3 million will be paid in accordance with the scheme rules (2015: R77.5 million). This includes incentives paid in terms of the retail store incentive scheme where R25.5 million (2015: R9.8 million) was paid to retail store staff for the 2016 year.

**Employee share ownership scheme**

A dividend of R6.3 million (2015: R4.9 million) was paid to scheme participants in 2016.

**Group retention schemes**

During the financial year R10.9 million (2015: R5.5 million) was paid out to participants in the schemes.

**Long-term incentive scheme**

The group achieved a three-year 13.7% per annum CAGR in diluted HEPS for the year ended 31 August 2016. This represented an on-target achievement and the remuneration committee approved the long-term incentive payment of R64.7 million (2015: R53.0 million) to scheme participants.

**DIRECTORS' REMUNERATION****Executive directors' remuneration**

Director (R'000)	Salary	Pension fund	Other benefits	Total annual guaranteed package	RONA short-term incentive	Performance based long-term incentive**	Total variable pay	Total
<b>2016</b>								
Bertina Engelbrecht	2 833	472	–	3 305	1 368	5 155	6 523	9 828
Michael Fleming	4 140	587	57	4 784	1 981	7 826	9 807	14 591
David Kneale	7 807	966	2	8 775	5 449	20 876	26 325	35 100
<b>Total</b>	<b>14 780</b>	<b>2 025</b>	<b>59</b>	<b>16 864</b>	<b>8 798</b>	<b>33 857</b>	<b>42 655</b>	<b>59 519</b>
<b>2015</b>								
Bertina Engelbrecht	2 579	371	–	2 950	1 239	4 041	5 280	8 230
Michael Fleming	3 819	594	57	4 470	1 877	6 304	8 181	12 651
David Kneale	7 037	1 011	2	8 050	5 072	16 668	21 740	29 790
Keith Warburton*	1 425	190	27	1 642	n/a	n/a	n/a	1 642
<b>Total</b>	<b>14 860</b>	<b>2 166</b>	<b>86</b>	<b>17 112</b>	<b>8 188</b>	<b>27 013</b>	<b>35 201</b>	<b>52 313</b>

\* Resigned as an executive director on 28 January 2015, with remuneration disclosed until this date.

\*\* Payments relating to the performance for the year ended 31 August are paid in November. The expense is provided for over the three-year vesting period in the relevant financial year.



## REWARDING VALUE CREATION (CONTINUED)

## Non-executive directors' remuneration

Director (R'000)	2016 Directors' fees	2015 Directors' fees
David Nurek	950	878
Fatima Abrahams <sup>1</sup>	409	368
John Bester	521	476
Fatima Jakoet	359	326
Nkaki Matlala	417	376
Martin Rosen	270	260
<b>Total</b>	<b>2 926</b>	<b>2 684</b>

<sup>1</sup> Includes R21 740 (2015: R19 800) for performing the role of chairperson of The Clicks Group Employee Share Ownership Trust.

## Total directors' remuneration

R'000	2016	2015
Executive directors (including the long-term incentive scheme)	59 519	52 313
Non-executive directors	2 926	2 684
<b>Total directors' remuneration</b>	<b>62 445</b>	<b>54 997</b>

## Directors' shareholdings at 31 August

Director	2016 Beneficial shares			2015 Beneficial shares		
	Direct	Indirect	Total	Direct	Indirect	Total
David Nurek	–	100 000	100 000	–	200 000	200 000
John Bester	12 000	10 000	22 000	12 000	10 000	22 000
Bertina Engelbrecht	98 755	–	98 755	91 701	–	91 701
Michael Fleming	20 837	–	20 837	24 833	–	24 833
David Kneale	259 802	–	259 802	309 256	–	309 256
Martin Rosen	–	2 000	2 000	–	2 000	2 000
<b>Total</b>	<b>391 394</b>	<b>112 000</b>	<b>503 394</b>	<b>437 790</b>	<b>212 000</b>	<b>649 790</b>

The total number of ordinary shares in issue is 246 137 763 and the percentage of issued share capital held by directors is 0.20% (2015: 0.26%). Details of dealings in Clicks Group shares by directors during the financial year are contained in the directors' report in the annual financial statements on the website.

## NON-EXECUTIVE DIRECTORS' FEES

The fee structure for non-executive directors is benchmarked annually against a retail comparator group of The Foschini Group, Mr Price Group, Pick n Pay Stores, Shoprite Holdings, The Spar Group, Truworths International, Massmart Holdings and Woolworths Holdings.

Following the 2016 benchmarking survey the proposed fees for non-executive directors for 2017 have been revised to bring the board and committee members within the group's policy range of 80% to 120% of the comparator median.

The proposed total fees for non-executive directors for the 2017 calendar year represents an increase of 13.2% over the previous year. The fees for the 2017 calendar year are subject to approval by shareholders at the AGM in January 2017.

Board position	2017*			2016*		
	Proposed base fee R	Proposed meeting fee R	Proposed total fee R	Base fee R	Meeting fee R	Total fee R
Board chairman**	825 000	275 000	1 100 000	727 500	242 500	970 000
Board member	210 000	70 000	280 000	180 000	60 000	240 000
Chair: Audit and risk committee	195 000	65 000	260 000	177 375	59 125	236 500
Member: Audit and risk committee	108 750	36 250	145 000	97 500	32 500	130 000
Chair: Remuneration and nominations committee	82 500	27 500	110 000	75 000	25 000	100 000
Member: Remuneration and nominations committee	46 500	15 500	62 000	45 000	15 000	60 000
Chair: Social and ethics committee	n/a	n/a	n/a	n/a	n/a	n/a
Member: Social and ethics committee	45 000	15 000	60 000	45 000	15 000	60 000

\* Fees relate to the calendar year.

\*\* Fees for the board chairman are inclusive of all committee memberships.

# SHAREHOLDER ANALYSIS

at 31 August 2016

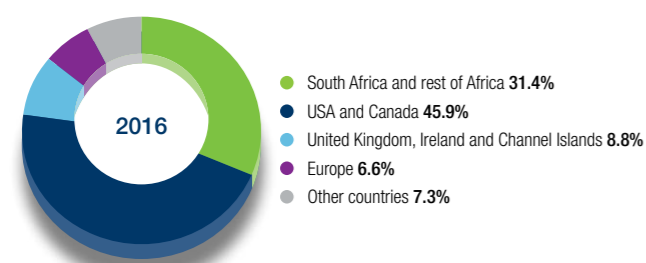
	Number of shares	Percentage of shares
<b>Public and non-public shareholders</b>		
Public shareholders	236 020 474	95.9
Non-public shareholders		
Shares held by directors	503 394	0.2
Treasury stock held by New Clicks South Africa Proprietary Limited	9 443 445	3.8
The New Clicks Holdings Share Trust	170 450	0.1
Total non-public shareholders	10 117 289	4.1
Total shareholders	246 137 763	100.0

According to the company's register of shareholders, read in conjunction with the company's register of disclosure of beneficial interests made by registered shareholders acting in a nominee capacity, the following shareholders held 3% or more of the issued share capital at 31 August 2016:

	2016 Percentage of shares	2015 Percentage of shares
<b>Major beneficial shareholders holding 3% or more</b>		
Government Employees Pension Fund	15.6	17.8
GIC Private Limited	4.4	3.5
Fidelity International Growth Fund	3.2	4.0
Mawer International Equity Pooled Fund	3.0	2.7

	2016 Percentage of shares	2015 Percentage of shares
<b>Major fund managers managing 3% or more</b>		
Public Investment Corporation (SA)	14.5	15.2
Baillie Gifford & Co (UK)	5.3	4.4
Fidelity Management & Research (US)	5.0	7.4
Mawer Investment Management (CA)	4.7	3.8
GIC (Singapore)	4.3	3.4
Wasatch Advisors (US)	3.7	2.3
Aberdeen Asset Management (UK)	3.6	3.2
<i>Fund managers no longer managing over 3%:</i>		
Coronation Fund Managers (SA)	1.2	6.5
MFS Investment Management (US)	2.4	3.5

## GEOGRAPHIC DISTRIBUTION OF SHAREHOLDERS



# SHAREHOLDERS' DIARY

<b>Annual general meeting</b>	26 January 2017
<b>Preliminary results announcements</b>	
Interim results to February 2017	on or about 21 April 2017
Final results to August 2017	on or about 26 October 2017
<b>Publication of 2017 Integrated Annual Report</b>	November 2017
<b>Ordinary share dividend</b>	
<b>2016 final dividend</b>	
Last day to trade with dividend included	24 January 2017
Date of dividend payment	30 January 2017
<b>2017 interim dividend</b>	
Last day to trade with dividend included	July 2017
Date of dividend payment	July 2017
<b>2017 final dividend</b>	
Last day to trade with dividend included	January 2018
Date of dividend payment	January 2018

# CORPORATE INFORMATION

## Clicks Group Limited

Incorporated in the Republic of South Africa  
Registration number 1996/000645/06  
Income tax number 9061/745/71/8

JSE share code: CLS  
ISIN: ZAE000134854  
ADR ticker symbol: CLGY  
ADR CUSIP code: 18682W205

## Registered address

Cnr Searle and Pontac Streets  
Cape Town 8001  
Telephone: +27 (0)21 460 1911

## Postal address

PO Box 5142  
Cape Town 8000

## Company secretary

Matthew Welz, LLB  
E-mail: matthew.welz@clicksgroup.co.za

## Auditors

Ernst & Young Inc. (EY)

## Principal bankers

The Standard Bank of South Africa

## JSE sponsor

Investec Bank Limited

## Transfer secretaries

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