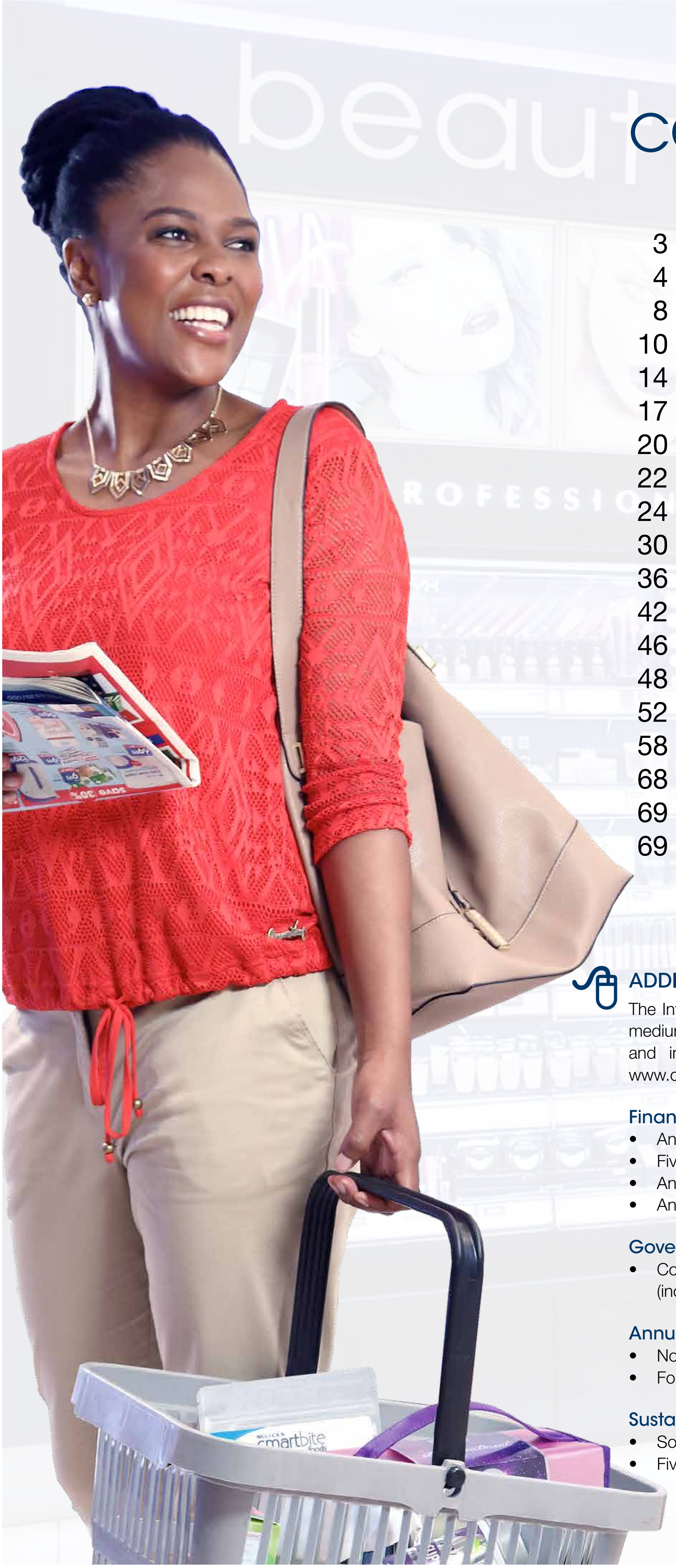
INTEGRATED ANNUAL REPORT 2017

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 which is also available online at www.clicksgroup.co.za

Financial reporting

- Annual financial statements 2017
- Five-year financial review
- Annual results 2017
- Annual results 2017 presentation

Governance

- Corporate governance report 2017 (incorporating King IV)

Annual general meeting

- Notice to shareholders
- Form of proxy

Sustainability

- Social and ethics committee report 2017
- Five-year sustainability review

2017 IN REVIEW

Strong trading with market share gains in Clicks and UPD

Opened 111 Clicks stores and expanded footprint to 622 stores

7 million active Clicks ClubCard loyalty members

Cash generated by operations exceeds R2 billion

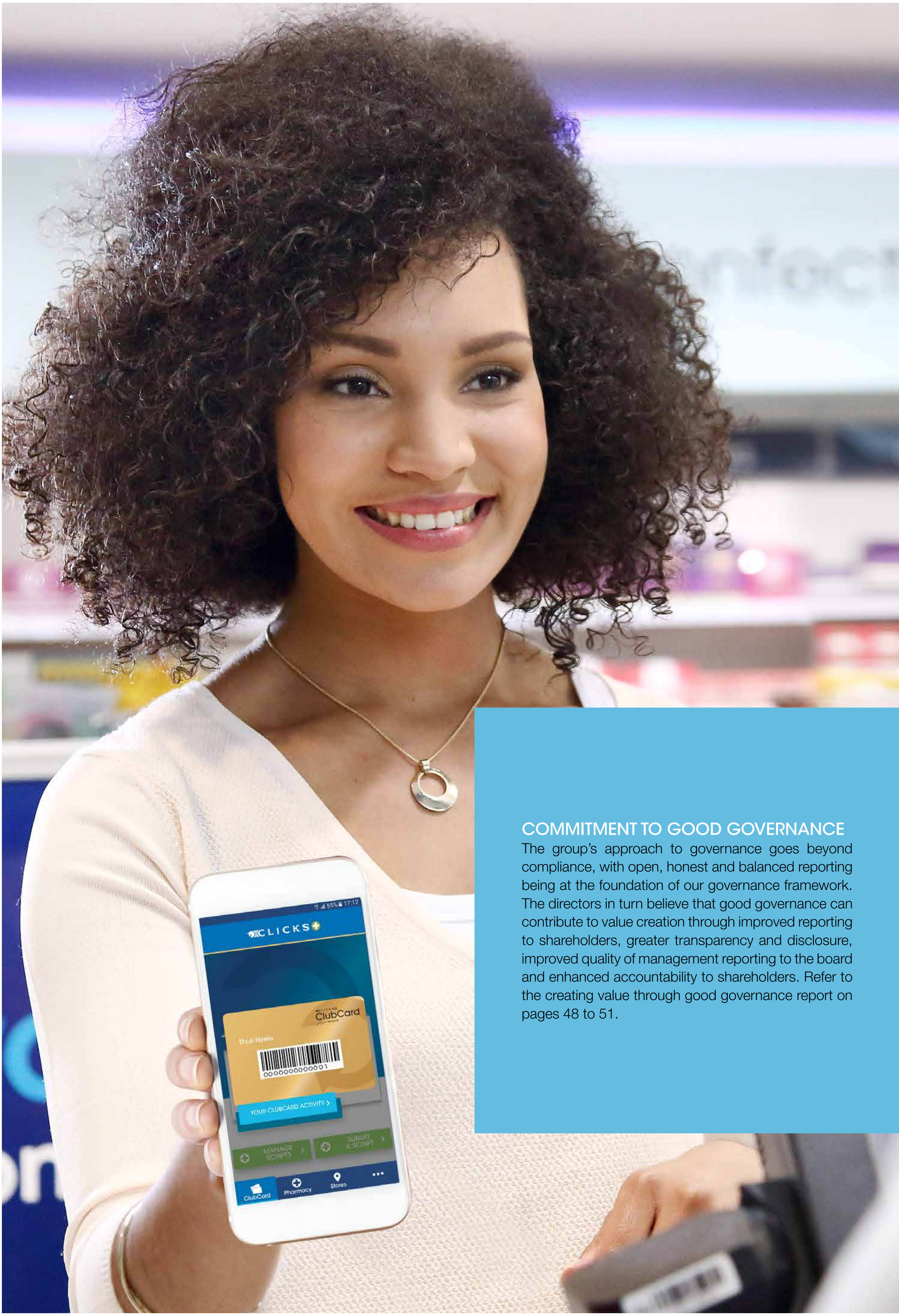
Diluted HEPS up 14.5% to 502 cents

Dividend up 18.4% to 322 cents per share

Level 5 BBBEE rating under new codes

First-time inclusion in FTSE4Good Index

R7.5 billion shareholder value created



COMMITMENT TO GOOD GOVERNANCE

The group's approach to governance goes beyond compliance, with open, honest and balanced reporting being at the foundation of our governance framework. The directors in turn believe that good governance can contribute to value creation through improved reporting to shareholders, greater transparency and disclosure, improved quality of management reporting to the board and enhanced accountability to shareholders. Refer to the creating value through good governance report on pages 48 to 51.

INTRODUCING THE REPORT

Clicks Group has pleasure in presenting its Integrated Report to shareholders for the 2017 financial year. The report is aimed at demonstrating how the group's health, beauty and wellness strategy creates value for shareholders while balancing our responsibilities towards our other stakeholders.

The Integrated Report is aimed at our shareholders who are our primary providers of capital. We do, however, recognise that other key stakeholders also influence the group's ability to create sustainable value, including our customers, staff, suppliers, industry regulators and funding institutions.

REPORTING SCOPE AND BOUNDARY

The report covers material information relating to the business model, strategy, material issues and related risks and opportunities, stakeholder engagement, financial and operational performance, and governance for the period 1 September 2016 to 31 August 2017. In addition the report focuses on the strategic objectives, operating plans, targets and prospects for the 2018 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 96% of turnover, and focuses on the operations in South Africa where the majority of revenue is generated.

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

REPORTING COMPLIANCE

The reporting process has been guided by the Integrated Reporting Framework (the IR framework) of the International Integrated Reporting Council, the King IV Report on Corporate Governance (King IV), the JSE Listings Requirements and the Companies Act. The application of King IV for the 2017 financial year is covered in the corporate governance report 2017 which is available on our website.

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.

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.

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.

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, the integrated performance and the group's strategy, as well as the short, medium and longer-term prospects.

The audit and risk committee, which has oversight responsibility for integrated reporting, recommended the report for approval by the board. The 2017 Integrated Report was unanimously approved by the board on 10 November 2017.

David Nurek
Independent
non-executive chairman

David Kneale
Chief executive officer

GROUP PROFILE

Clicks Group is a retail-led healthcare group which is 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.

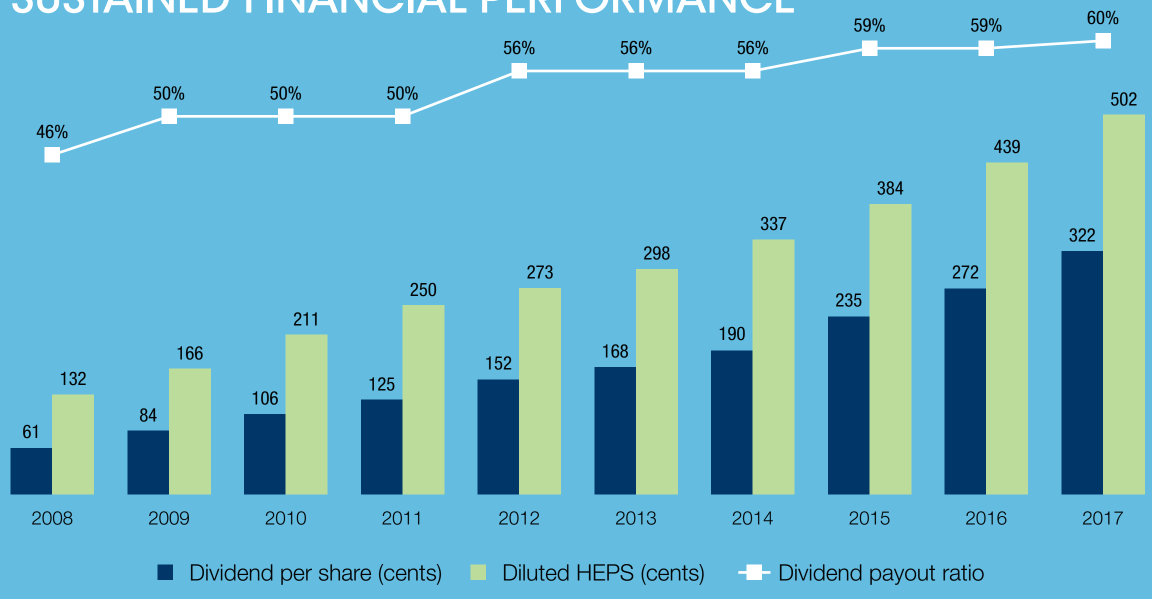
The group is today a leader in the healthcare market where Clicks is the country's largest pharmacy chain with 473 in-store pharmacies and a 22.2% share of the retail pharmacy market. UPD has a 25.6% share of the private pharmaceutical wholesale market.

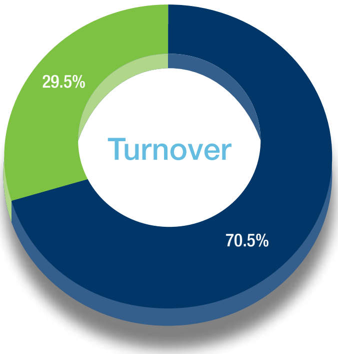
17.2%
diluted HEPS 10-year CAGR

20.9%
dividend per share 10-year CAGR

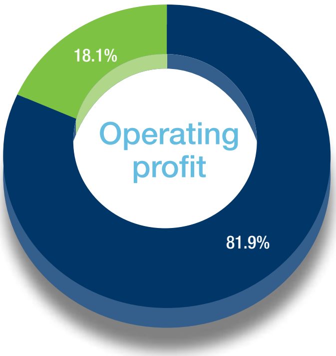
28.9%
total shareholder return 10-year CAGR

SUSTAINED FINANCIAL PERFORMANCE





SEGMENT CONTRIBUTION



- **Retail** (includes Clicks, The Body Shop, GNC, Claire's and Musica)
- **Distribution**

GROUP BRANDS

Clicks, Musica, The Body Shop, GNC and Claire's are market-leading brands and have a combined footprint of 795 stores, including 38 in the neighbouring countries of Namibia, Botswana, Swaziland and Lesotho.

- Clicks is South Africa's leading health and beauty retailer, offering value for money in convenient and appealing locations, and through an online transactional platform.
- The Body Shop sells natural, ethically-produced beauty products and has been operated under a franchise agreement with The Body Shop International since 2001.
- Claire's is one of the world's leading specialty retailers of fashionable jewellery and accessories for young women and girls, and the group concluded an exclusive franchise agreement in July 2015.
- GNC is the largest global specialty health and wellness retailer, and has been operated under an exclusive franchise agreement for southern Africa since 2014.
- Musica is the country's leading entertainment retail brand and was acquired in 1992.

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

STORE FOOTPRINT

	Standalone stores				
	South Africa	Rest of Africa	Total	Pharmacies	Presence in Clicks stores
Clicks	594	28	622	473	
The Body Shop	51	2	53		122
Claire's	7	–	7		142
GNC	–	–	–		375
Musica	105	8	113		
Total	757	38	795		

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**

CLICKS

feel good pay less

Customers

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 7.0 million active members. 75% of ClubCard customers are women and 62% are in the 25 to 49 age group.

622
stores

473
pharmacies

Market share

22.2% of retail pharmacy

28.3% of skincare

View Clicks video at **www.clicksgroup.co.za**

UPD
WE DELIVER HEALTHCARE

Customers

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
in South Africa
and one in Botswana

Market share
25.6% of private pharmaceutical market

View centralised distribution video at **www.clicksgroup.co.za**

GROUP STRATEGY

> *Clicks Group's strategy is to create sustainable long-term shareholder value through a retail-led health, beauty and wellness offering.*

STRATEGIC DRIVERS OF LONGER-TERM GROWTH

1

Favourable market dynamics

Healthcare markets are defensive and offer long-term growth opportunities in South Africa. Improving living standards, increasing urbanisation and longer life expectancy is contributing to a growing market for health and beauty products. An increasing proportion of the population is entering the private healthcare market. The increasing use of generic medicines will continue to make healthcare more affordable.

2

Capacity to expand retail footprint and pharmacy network

The goal is to expand the Clicks store base in South Africa to 900 in the long term, with a pharmacy operating in every store. The retail pharmacy market share goal is 30% in the long term (currently 22.2%). Primary care clinics in 195 Clicks stores support the health service offering. The retail footprint is complemented by an online store to increase customer convenience and Clicks Direct Medicines provides a national direct-to-patient courier service.

3

Differentiated product offer

Private label and exclusive brands offer differentiated ranges at higher margins. Clicks is a brand consumers trust implicitly and the brand has demonstrated its ability to transcend product categories and markets. The portfolio of exclusive franchise brands of The Body Shop, GNC, Sorbet and Claire's augment Clicks' private label brands in the health and beauty categories.

4

Ability to leverage customer loyalty

Clicks ClubCard is one of the largest retail loyalty programmes in South Africa with 7 million active members. ClubCard offers customers attractive cashback rewards and a range of affinity partner benefits. Clicks has extensive opportunities to utilise ClubCard data analytics and marketing capability to increase the customer basket size and value, and frequency of shopping.

5

Opportunity to grow UPD

UPD provides an efficient healthcare supply chain which supports the growth of the Clicks business. UPD offers national wholesale services to private hospitals and independent pharmacy, including Link pharmacies, as well as a distribution service to local and international pharmaceutical manufacturers based on price, quality control and speed to market. The growth opportunity for the business is supported by a goal of obtaining 30% shares of the fine wholesale and bulk distribution markets.

STRATEGIC OBJECTIVES

CLICKS feel good pay less

Vision: The customer's first choice health and beauty retailer

Strategic objectives:

- Deliver a competitive and differentiated product offer
- Create a great customer experience in store
- Drive customer loyalty through ClubCard
- Grow the retail footprint
- Ensure supply chain excellence
- Motivated and effectively skilled staff

UPD WE DELIVER HEALTHCARE

Vision: The leading healthcare supply chain partner in South Africa

Strategic objectives:

- Grow market share
- Protect income
- Optimise efficiency
- Build capacity

MEDIUM-TERM FINANCIAL TARGETS	Current targets	Performance in 2017	Revised targets
Return on equity (%)	50 – 60	44.1	50 – 60
Return on assets (%)	14 – 18	14.0	14 – 18
Inventory days	60 – 65	65	60 – 65
Operating margin (%)			
• Group	6.0 – 7.0	6.8	6.5 – 7.5*
• Retail	7.5 – 8.5	7.9	7.5 – 8.5
• Distribution	2.0 – 2.5	2.7	2.2 – 2.7*
Dividend payout ratio (%)	n/a	60	60 – 65

* Targets increased

LONG-TERM GOALS FOR CLICKS AND UPD

CLICKS	
Number of stores in South Africa	900
Retail pharmacy market share	30%
Private label and exclusive brands as a % of sales	25%

UPD	
Fine wholesale market share	30%
Bulk distribution market share	30%

CLICKS' VALUE-CREATING BUSINESS MODEL

CLICKS
feel good pay less

CLICKS' strategy is to be the customer's first choice health and beauty retailer

OUR CUSTOMERS

Clicks targets middle to upper income customers

Customers in LSM groups 6 –10

Clicks ClubCard has 7.0 million active members

75% of ClubCard holders are female

62% of ClubCard holders are aged 25 – 49

PRODUCT SOURCING (VALUE)

Consistently good value-for-money products delivered through competitive prices and effective promotions

PRODUCT DEVELOPMENT (DIFFERENTIATION)

Differentiated offering through wide ranges of private label and exclusive brands, including franchise brands

SERVICE (CUSTOMER CARE)

Great customer experience in easy to navigate, modern and appealing stores

Service from friendly and knowledgeable staff

RETAIL FOOTPRINT (CONVENIENCE)

Extensive store and pharmacy network in South Africa allowing for easy access to customers

Presence in neighbouring countries of Botswana, Lesotho, Namibia and Swaziland

CUSTOMER ENGAGEMENT (REWARDS)

Loyalty rewarded through ClubCard programme

Customer engagement through online and digital channels

View video at **www.clicksgroup.co.za**

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 96.7% centralised supply in 2017)

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 R126 million in 2017)

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

CREATING VALUE IN 2017

In applying its business model the group uses various capital resources to optimise value creation for stakeholders. These stakeholders also contribute to value creation by providing resources: **customers** (provide revenue by buying products), **shareholders** (provide capital), **employees** (provide talents and skills) and **suppliers** (provide products and services).

CAPITALS OF VALUE CREATION

The Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) recommends reporting to shareholders on the six main capital resources that are applied in the creation of value. The group's performance and activities relative to these six capitals are covered throughout the report. Management has chosen to adapt the IIRC capitals and apply terminology which is more commonly used in managing the business.

IIRC capitals	Financial	Manufactured	Intellectual	Human	Social and relationship	Natural
Clicks Group capitals	**Financial**	**Infrastructure**	**Intellectual**	**People**	**Stakeholders**	**Environment**

	Capital resources used in creating value	Value created in 2017
1	**The financial resources raised and deployed by the company.** FINANCIAL	Profit after tax **R1.3 billion** Total shareholder return **25.2%** **R2.0 billion** cash generated by operations Return on equity **44.1%**
2	**The infrastructure network used in selling merchandise, including the retail store network, distribution facilities, online store and information technology systems.** INFRASTRUCTURE	Opened **111 Clicks stores**; total retail stores 795 **73 new Clicks pharmacies**; total now 473 **9 distribution centres** across Clicks and UPD **R518 million** capital investment

Capital resources used in creating value	Value created in 2017
3 **The collective knowledge and expertise across the business as well as the intellectual property of the group, including trademarks, the development and design of private label brands, customer segmentation and loyalty management.** INTELLECTUAL	Clicks **gained market share** in all product categories Private label and exclusive brands **22%** of health and beauty sales Clicks independently rated as **leading health and beauty retailer in SA** ClubCard loyalty membership increased to **7 million** and accounts for 77.4% of Clicks sales Clicks is price competitive with national retailers
4 **The competency, capability and experience of the board, management and employees.** PEOPLE	Directors and executive management develop and execute the strategy to create value for shareholders **14 673** permanent employees who provide customers with medicines, products and services **R126 million** invested in employee skills development
5 **Relationships with stakeholders influencing the business, primarily customers, suppliers, employees and shareholders.** STAKEHOLDERS	Customers: Turnover **R26.8 billion** **R13.8 billion** turnover from ClubCard members **R322 million** cashback paid to ClubCard members Employees: **R2.8 billion** paid to employees Suppliers: **R23.4 billion** to suppliers of goods and services Shareholders: **R677 million** returned to shareholders in dividends
6 **The group's operations have a low environmental impact.** ENVIRONMENT	Commitment to **reduce carbon footprint** and generate savings through energy and water efficiency **2 448 tons of recycling** in supply chain Refer to the **creating value through good citizenship** report on page 52

STAKEHOLDER ENGAGEMENT

Clicks Group's stakeholder engagement process focuses mainly on the five primary stakeholders that management believes are the most likely to influence the ability to create sustainable shareholder value. Proactive and transparent relationships with these stakeholders enable the group to identify and address issues, opportunities and risks. Performance indicators have been developed for each primary stakeholder group to determine the quality of the engagement and relationship.

Rationale for engaging	Engagement issues	Outcome of engagement
Customers		
• Meet customer needs by providing products and services • Create trust in products and pharmacy practices • Customer loyalty and retention • Grow market share	• Product range in store and online • Service levels • Price competitiveness • Pharmacy and clinic services • ClubCard benefits	Clicks: • 622 stores • 473 pharmacies • 45% of households live within 5 km of a Clicks store • ClubCard active membership increased to 7.0 million (2016: 6.2 million) and accounts for over 77% of sales (2016: 77%) • Clicks app launched in 2017 • Online shopping available in South Africa • Market share gains in all categories • Clicks independently rated by customers as first for price and value in health and beauty retailing UPD: • Five distribution centres in South Africa and one in Botswana • Servicing over 2 000 corporate and independent pharmacies • 96.1% order fulfilment to customers (2016: 96.0%)
Shareholders and lending institutions		
• Facilitate access to capital by attracting investors • Facilitate attractive debt funding facilities from financial institutions • Better informed investor community • Balanced analysis of company • Fair market rating relative to peers	• Group strategy • Current trading environment • Trading and financial performance • Store and pharmacy expansion plans • Regulatory environment • Capital management • Prospects	• Return on equity 44.1% • Total shareholder return 25.2% • Engagement issues addressed in annual and interim results presentations and webcasts, local and international investor roadshows, Integrated Report and annual financial statements. • Met with 222 local and international funds and brokerages (2016: 219) • Research coverage by 12 brokerages (2016: 11) • 82.9% of shares traded (2016: 90.3%) • International share ownership 66.1% (2016: 68.6%) • Access to adequate group funding and trade finance facilities

Rationale for engaging	Engagement issues	Outcome of engagement
Employees		
• Attract, motivate and retain talent • Increase productivity • Engender loyalty • Accelerate transformation	• Remuneration and benefits • Performance management • Personal development • Career path planning • Training and skills development • Employee share ownership plan (ESOP)	• Full-time staff turnover 15.9% (2016: 17.0%) • Employment equity – Black staff 91% of total staff (2016: 91%) – Female staff 63% of total staff (2016: 62%) • Training and skills development spend R125.8 million (2016: R95.7 million) • 539 learners through Pharmacy Healthcare Academy (2016: 423) • 64 pharmacy interns engaged (2016: 83) • Fair and responsible remuneration for role performed based on external benchmarks • 5 882 employees are shareholders through the broad-based ESOP
Government and industry regulators		
• Legislative and regulatory compliance • Lobby for regulatory reform and fair legislation which will improve access to affordable medicines • Best-practice governance standards	• Pharmacy licences • Registration of medicines • Complementary and alternative medicines	• Ongoing engagement with regulators • Insight into regulatory framework • Formal submissions made in response to draft regulations
Suppliers		
• Ensure stable supply of merchandise • Quality standards maintained • Understand market movement and new product launches that may change buying patterns • Brand exclusivity	• Quality and safety standards • Product availability and exclusivity • Product innovation, strength of brands • Private label products • Transformation and BBBEE scorecards • Legislative compliance	• Supplier infill levels – Clicks 85.2% (2016: 83.8%) – UPD 96.1% (2016: 96.0%) • 72.8% (2016: 75.8%) spend on BBBEE empowered suppliers • Consistent supply and maintenance of franchise agreements with The Body Shop International, GNC and Claire's


beauty
NYX
ZADIG&VOLTAIRE
THIS IS HER!
MICHAEL KORS
WONDERLUST

MANAGING MATERIAL ISSUES

MATERIAL ISSUES have been identified which could significantly 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 customers, suppliers, regulators, staff, shareholders and providers of financial capital, are central to determining the material issues.

Following the review for the 2018 financial year, the directors have included information technology as a material issue owing to the increasing relevance of data security, and the need for our IT systems and architecture to remain relevant in a world with an ever-increasing demand for real-time IT systems.

1 TRADING ENVIRONMENT

2 COMPETITION

3 REGULATION

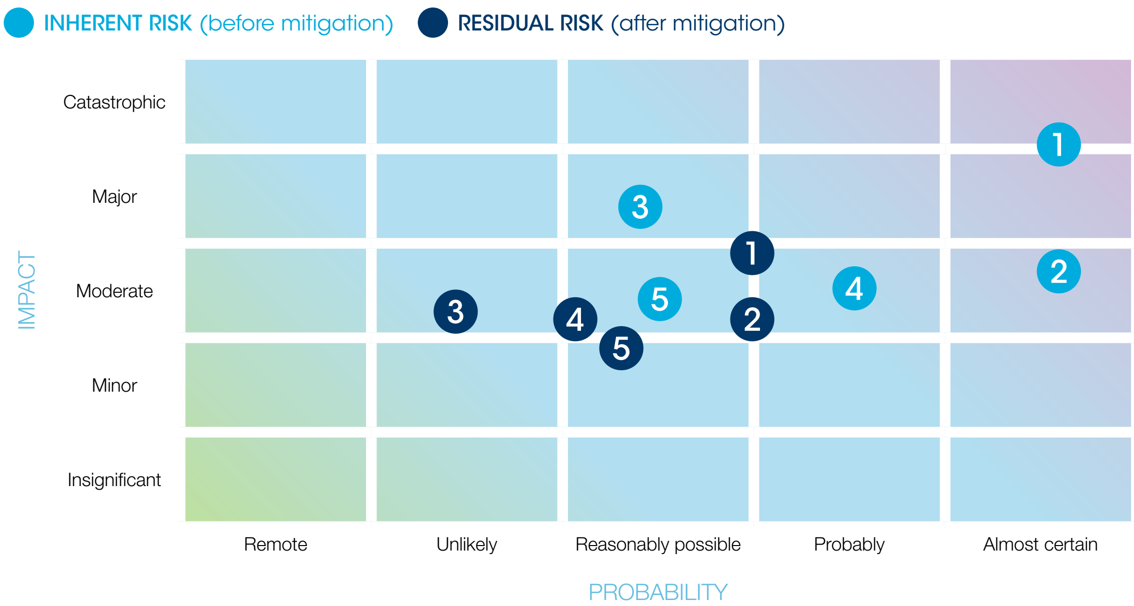
4 INFORMATION TECHNOLOGY

5 PEOPLE

RISKS relating to each material issue are based on the major risks on the group's register. The accompanying risk heat map 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.

MATERIAL RISKS



"The needs, expectations and concerns of stakeholders that influence our ability to create sustainable value are central to identifying the material issues."

1 TRADING ENVIRONMENT

WHY MATERIAL?

Economic conditions, political uncertainty, sovereign credit rating downgrades and the resultant negative consumer sentiment are impacting South Africa's already constrained retail trading environment. Consumer disposable income is being further eroded by higher health insurance costs, increased tax rates, rising energy and general living costs.

RISKS

- Further deterioration in the economic environment will depress consumer spending which is already under severe pressure.
- Criminal activity, including syndicated crime, escalates during times of economic hardship.

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 network; private label and exclusive ranges; Clicks ClubCard loyalty and consistently high levels of customer care.

2 COMPETITION

WHY MATERIAL?

Clicks faces competition on several fronts, including national food retailers and general merchandise chains, and other pharmacy businesses.

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 to 30 new stores each year, expanding to 900 stores in the long 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

WHY MATERIAL?

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 but opposes regulation which inhibits access to affordable healthcare and limits customer choice.

RISKS

- Legislative and regulatory changes introduced by the Department of Health (DoH), SA Pharmacy Council (SAPC) and SA Health Products Regulatory Agency (SAHPRA, formerly the Medicines Control Council) could impact on Clicks' and UPD's 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 SAHPRA on legislation and regulation.
- Formal written and oral submissions to DoH, SAPC and SAHPRA 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 INFORMATION TECHNOLOGY

WHY MATERIAL?

Real-time, uninterrupted IT systems are essential in today's technology-driven business environment while robust IT security and governance processes are required to limit breaches of customer privacy and loss of data to avoid legal liability and reputational damage.

RISKS

- Confidential customer or sensitive internal data could be compromised as a result of an undetected data security breach or cyberattack.
- IT systems and architecture no longer appropriate in an environment of ever-increasing scale and requirement for real-time IT systems.
- Inability to restore business operations and IT systems in the event of a disaster.

OPPORTUNITIES

- Improved information security practices and compliance as a result of increased online presence.
- Planned implementation of a new IT platform roadmap with improved system efficiencies and cost savings that supports the organic growth strategy.

5 PEOPLE

WHY MATERIAL?

Retail and healthcare skills are scarce and in high demand locally and internationally. Attracting and retaining talent is therefore critical to the group's continued success. 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.
- Group resourcing function established, including specialist pharmacy team.
- Bursary and internship programmes to attract pharmacy graduates.
- Retail graduate programme offered.
- Accredited training programmes for store management, key store roles, and merchandise and planning being developed.
- Senior leadership development programme strengthens pool of management talent and provides succession plan.

INVESTMENT CASE

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

28.9%
total shareholder return
10-year CAGR

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 VALUE-ADDING 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

GLOBALLY COMPETITIVE OPERATING MARGINS

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

- Retail: 7.9% (medium-term target 7.5% – 8.5%)
- UPD: 2.7% (medium-term target 2.2% – 2.7%)

4

EXPANDING RETAIL FOOTPRINT

Goal to expand Clicks store base in South Africa to 900 in the long term

- Over 620 conveniently located Clicks stores
- Targeting to open 25 – 30 stores each year

5

EXPANDING PHARMACY BASE

Objective to operate a pharmacy in every Clicks store in South Africa

- Only 57 South African stores still to get a pharmacy
- Targeting to open 30 – 35 pharmacies each year
- Retail pharmacy market share goal of 30% in the long term (2017: 22.2%)
- 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 health and beauty sales; currently 22%
- Exclusive health and beauty brands such as The Body Shop, Sorbet, GNC and Claire's differentiate Clicks offer

7

GROWING CUSTOMER LOYALTY

ClubCard is one of the largest retail loyalty programmes in South Africa

- 7.0 million active ClubCard members generate 77.4% of sales
- Online store offers Clicks product range for in-store or home delivery, as well as online only offers

8

CENTRALISED SUPPLY CHAIN

Centralised supply from company-owned distribution centres to all retail stores (96.7% of product through centralised distribution)

- UPD provides an efficient healthcare supply chain channel for Clicks
- UPD also offers wholesale and distribution services to pharmaceutical manufacturers

9

EFFECTIVE CASH AND CAPITAL MANAGEMENT

- Highly cash-generative business
  – R5.5 billion cash generated by operations over past three years
- Returns enhanced through active capital management
  – R2.2 billion returned to shareholders in dividends and share buy-backs in past three years
- Well-invested store base and supply chain
  – R1.3 billion capital expenditure in past three years

10

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

CHAIRMAN'S REPORT

STRONG PERFORMANCE IN WEAK ECONOMY

In a year marked by significant political instability and uncertainty, deteriorating economic conditions and consequent credit ratings downgrades, financial pressure on South African consumers has continued to intensify.

Factors in the macroeconomic environment, together with the muted outlook for domestic growth, have weighed heavily on consumer confidence while rising living costs have eroded disposable income.

Against the background of a weak consumer economy the group produced another outstanding performance. This not only highlights the resilient nature of health and beauty markets but also the quality of the leadership and staff across the group.

Group turnover rose by 10.9% to R26.8 billion and diluted headline earnings per share increased by 14.5% to 502.1 cents. Shareholders will receive a total dividend of 322.0 cents per share, 18.4% higher than last year, based on an increased dividend payout ratio of 60%.

The group generated cash of over R2 billion for the first time and created shareholder value of R7.5 billion through share price appreciation and dividend payments. In the 21 years since listing on the JSE the group has created over R40 billion in shareholder wealth.

ATTRACTIVE INVESTMENT CASE

The listing of the group's major competitor on the JSE during the past year has increased investor interest in the retail pharmacy sector in South Africa.

We believe the Clicks Group offers a compelling case for investors seeking exposure to the country's retail and healthcare markets, underpinned by our long-term track record in the listed environment and the strong organic growth prospects in Clicks.

The group has delivered a 28.9% total shareholder return on a 10-year compound annual growth rate basis. Diluted HEPS has grown by 17.2% and dividends by 20.9% on the same basis over the past 10 years.

The core Clicks chain operates in resilient and growing markets, with over 80% of revenue in defensive merchandise categories.

Clicks has a long-term path to growth. The store footprint in South Africa is expected to expand to 900 stores and management remains committed to incorporating a pharmacy into every Clicks store. This will be supported by growing higher margin private label and exclusive brand sales, expanding the ClubCard loyalty base which accounts for 77% of the chain's sales, increasing its digital and online presence, and maintaining an efficient supply chain through UPD.

Clicks and UPD are both market leaders with globally competitive operating margins which rank in the upper quartile of international drugstores and pharmaceutical wholesalers.

The group has a proven capital management strategy which enhances returns to shareholders and ensures strong free cash flows. Over the past three years R5.5 billion has been generated in cash by operations.

Our investment case continues to appeal to foreign investors. At year-end the group's international shareholding was 66%, having increased from less than 8% in 2008. Currently nine of the top 10 shareholders are based offshore.

BOARD OF DIRECTORS

Clicks Group has a strong, stable and independent board. Based on the outcome of the annual self-evaluation the directors believe the board contributes to value creation in the company, is well balanced and has the collective knowledge and expertise to make a meaningful contribution to the group's affairs.

The diversity of our directors in terms of gender, race and their professional backgrounds encourages constructive debate and ensures that the board considers the needs of all our stakeholders and interest groups. In line with the race and gender diversity policy adopted by the board, 44% of our nine directors are female and 44% are black.

Dr Nkaki Matlala, who served as an independent non-executive director since 2010, retired from the board in January 2017. We thank Nkaki for his contribution over the past six years and wish him well.

We were pleased to welcome Nonkululeko (Nonku) Gobodo as an independent non-executive director to our board in March 2017. Nonku is a highly respected accounting and auditing professional with extensive business and leadership experience. She was a founder and former executive chairman of SizweNtsalubaGobodo, the country's largest black-owned accounting firm, and we look forward to her contribution to the board and the audit and risk committee.

TRANSITION TO KING IV CODE

The group applied King III during the reporting period and has already adopted certain elements of the new King IV code which became effective from October 2017. These are detailed in the corporate governance report on the website.

King III was based on the "apply or explain" principle whereas King IV requires companies to "apply and explain" how the code has been implemented.

While our remuneration and reward principles remain consistent with last year, the remuneration policy has been aligned to King IV to outline the group's approach to fair, responsible and transparent remuneration practices across the business.

The King III requirement to propose a company's remuneration policy for a non-binding advisory vote at the annual general meeting (AGM) has been extended under King IV. Companies are now required to separately table an implementation report at the AGM dealing with the company's application of its remuneration policy. We will be presenting both of these proposals at our forthcoming AGM. Refer to rewarding value creation on pages 58 to 67.

RESPONSIBLE CORPORATE CITIZENSHIP

The group is committed to sustainable and responsible environmental, social and governance (ESG) practices. The main areas of focus are transformation and empowerment; broadening access to healthcare in support of the national agenda to make medicine more affordable and accessible; investing in our people to ensure the success and sustainability of the business; and investing in our communities through socio-economic and enterprise development.

Progress in transformation and empowerment is evidenced by the group achieving a level 5 (2016: level 6) rating on the new BBBEE codes of good practice.

Our commitment to ESG practices has been recognised by the group's inclusion in the FTSE/JSE Responsible Investment Top 30 Index which acknowledges South African companies with leading ESG practices. In addition, the group qualified for the first time for the FTSE4Good Index which recognises strong ESG practices against global standards. Refer to creating value through good citizenship on pages 52 to 57.

ACKNOWLEDGEMENTS

David Kneale and his executive team continue to lead the group with great focus, energy and distinction, and I thank them for their commitment to ensuring the business maintains its market-leading position. I also extend my appreciation to the management and staff across the country for their contribution to another highly successful year for the group.

Thank you to my fellow non-executive directors for their active participation in board and committee meetings, and for providing valuable insight and oversight.

The relationships with our external stakeholders, including our customers, shareholders and funders, suppliers and industry regulators, are critical to the sustainability of the business and I thank them for their continued support and engagement.

David Nurek
Independent non-executive chairman

CHIEF EXECUTIVE'S REPORT

R7.5bn

shareholder wealth created

7m

Clicks ClubCard active members

STRONG AND RESILIENT TRADING PERFORMANCE

Clicks delivered another strong trading performance in tough retail conditions, reporting good volume growth and increased market shares in all product categories. The brand continues to demonstrate its resilience in the current constrained spending environment, with healthcare being a necessity and beauty an affordable luxury.

Customers continue to make Clicks their first choice health and beauty retailer, responding positively to the brand's value promotions and differentiated product ranges. Retail health and beauty sales, including Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 14.7%, led by pharmacy and front shop health.

In pharmacy Clicks is actively switching customers to lower-priced generic medicines to enable medical aid benefits to last longer. Generic medicine sales have grown by 30.4% and now make up almost 50% of pharmacy sales in Clicks.

Front shop sales are being driven by promotional sales which now account for 34.7% of turnover and this is supporting Clicks' value positioning where the brand is price competitive with all other national retailers.

Strong sales growth and the expansion of the pharmacy footprint has seen Clicks increase its share of the retail pharmacy market to 22.2%.

Front shop health market share increased to 29.7%, with the baby category growing to 13.9%. In the beauty category, skincare market share grew to 28.3% and haircare to 27.2%.

900

Clicks stores in the long term

Clicks has again been voted as the country's leading health and beauty retailer and leading pharmacy chain, in the authoritative The Times/Sowetan annual shopper survey for 2017.

The structural changes in the music market with the move to streaming and downloading, together with a weak release schedule, contributed to Musica's sales declining by 7% on last year. Musica continues to gain market share and now has over 77% of the country's music market and close to 60% of the movie market. Shareholders should note that all Musica's 113 stores are profitable and the business continues to generate cash. Management aims to further derisk Musica by moving to consignment stock with suppliers, a business model successfully employed by leading music retailers in the UK and Europe.

UPD, the group's pharmaceutical distributor, increased wholesale turnover by 12.1%, with market share increasing to 25.6%. UPD benefited from the growth from Clicks and the private hospital groups, and the higher increase in the single exit price (SEP) of medicines in the past year.

The performances outlined above contributed to group turnover growing by 10.9% to R26.8 billion. The financial performance is outlined in the chief financial officer's report on pages 30 to 35, and the trading performance of Clicks and UPD is covered on pages 36 to 45.

DELIVERING ON OUR STRATEGY

The group is committed to its strategy of creating sustainable long-term shareholder value through a retail-led health, beauty and wellness offering (refer to group strategy on pages 8 and 9). The strategic objectives for Clicks and UPD to deliver the group's strategy are reviewed annually to ensure they remain appropriate for the prevailing economic and trading environment, and to continue meeting the ever-changing needs of customers.

We believe excellent progress has been made over the past year in delivering on these strategic objectives.

Clicks opened a record 111 new stores to expand the footprint to 622. A long-term outsourcing agreement concluded with the Netcare Group during the year accounted for 80 of the new stores, with Clicks taking over the management of the pharmacies in 37 Medicross medical and dental centres and opening stores in 43 Netcare hospitals.

The chain has 28 stores in neighbouring Botswana, Lesotho, Namibia and Swaziland.

Clicks remains the largest retail pharmacy chain in the country and expanded the network to 473 as a net 73 pharmacies were opened. While the difference between the number of pharmacies and the total number of stores still appears to be large, there are currently only 57 Clicks stores in South Africa that are missing a pharmacy, excluding the stores where we do not plan to open a pharmacy. This includes non-South African stores, the Netcare hospitals and stores which have been identified to be closed.

Private label and exclusive brands ensure Clicks provides a differentiated product offer to customers. Sales of private label products accounted for 21.8% of total sales in Clicks, with front shop sales at 28.5% and pharmacy 6.1%. Based on volume sales, one in three of every front shop product sold is only available in Clicks.

ClubCard reached the milestone of 7 million active members and has been independently rated as South Africa's most popular and easiest to use retail loyalty programme. Customers received over R320 million in cashback this year, with over R1.4 billion being paid out in cashback over the past five years.

ClubCard is integral to our digital strategy which aims to complement the store experience and enables us to better understand and engage with customers.

The online shopping platform has been well received, supported by "click and collect" in stores and home delivery, and in the new financial year we plan to extend the product offer with online only ranges.

UPD provides an efficient healthcare supply chain for Clicks. Total managed turnover has grown to R16.5 billion, highlighting the success of the strategy of developing the bulk distribution business alongside UPD's traditional fine wholesaling business. UPD manages a portfolio of 20 distribution clients which accounts for almost half of total managed turnover.

RECORD INVESTMENT FOR GROWTH

Over the past year record levels of capital expenditure of R518 million have been invested to support the group's long-term growth aspirations. This included over R340 million for new retail stores and refurbishments to maintain the quality of the store portfolio, R146 million for IT and retail infrastructure, and R30 million for UPD warehousing and infrastructure.

Another year of record investment of R680 million is planned for 2018, including R300 million on new stores, pharmacies and refurbishments. The refurbishment programme ensures that stores remain modern and appealing to customers, and that trading densities are maximised.

The Clicks distribution centre in Centurion, Gauteng, is being expanded at a cost of R230 million over the next two financial years. The investment in warehousing, IT and infrastructure in UPD has been increased to over R70 million, which includes the expansion of bulk distribution capacity at UPD's Cape Town warehouse.

Our extensive store network and highly integrated supply chain provide competitive advantages which we aim to maintain by investing close to R2 billion over the next three years.

INVESTING IN OUR PEOPLE

Attracting and retaining scarce retail and healthcare skills is critical to the group's sustainability. In the past year R126 million was invested in training over 5 600 employees while more than 600 new jobs were created in the retail business.

The broad-based employee share ownership plan introduced in 2011 is a mechanism to retain talent as well as accelerate transformation. Through the scheme 5 882 employees are now shareholders in the Clicks Group and are sharing in the long-term growth and success of the business. Black staff account for 88% of the employee shareholders and female employees 66%. Dividends of R28.2 million have to date been paid to participants in the scheme.

Clicks continues to build capacity to assist in addressing the severe shortage of pharmacists in the country. In the past year Clicks invested R4.4 million in bursaries for 100 pharmacy students, provided 64 pharmacy internships and trained over 300 learners through the in-house Pharmacy Healthcare Academy for pharmacy assistants.

Further detail is contained in the creating value through good citizenship report on pages 52 to 57.

REGULATORY ENGAGEMENT

Pharmacy agenda

Clicks Group supports regulation which advances government's healthcare policy of increasing access to affordable medicine. We continue to engage constructively with the Department of Health (DoH) and believe our pharmacy agenda will further government's aims as the country moves towards implementing National Health Insurance.

Our position is as follows:

- Promote pharmacy as the primary source for basic healthcare needs.

  This will require the broadening of the scope of practice to empower pharmacists to prescribe medicines above schedule 2 for common conditions.
- Increase access to affordable medicines.

  This could be achieved by schedule 1 and 2 medicines being exempted from the SEP regulations to allow for more competitive pricing and discounting; adopting a more liberal scheduling regime in South Africa in line with international norms; and removing the restrictions on the marketing of schedule 1 and 2 medicines.

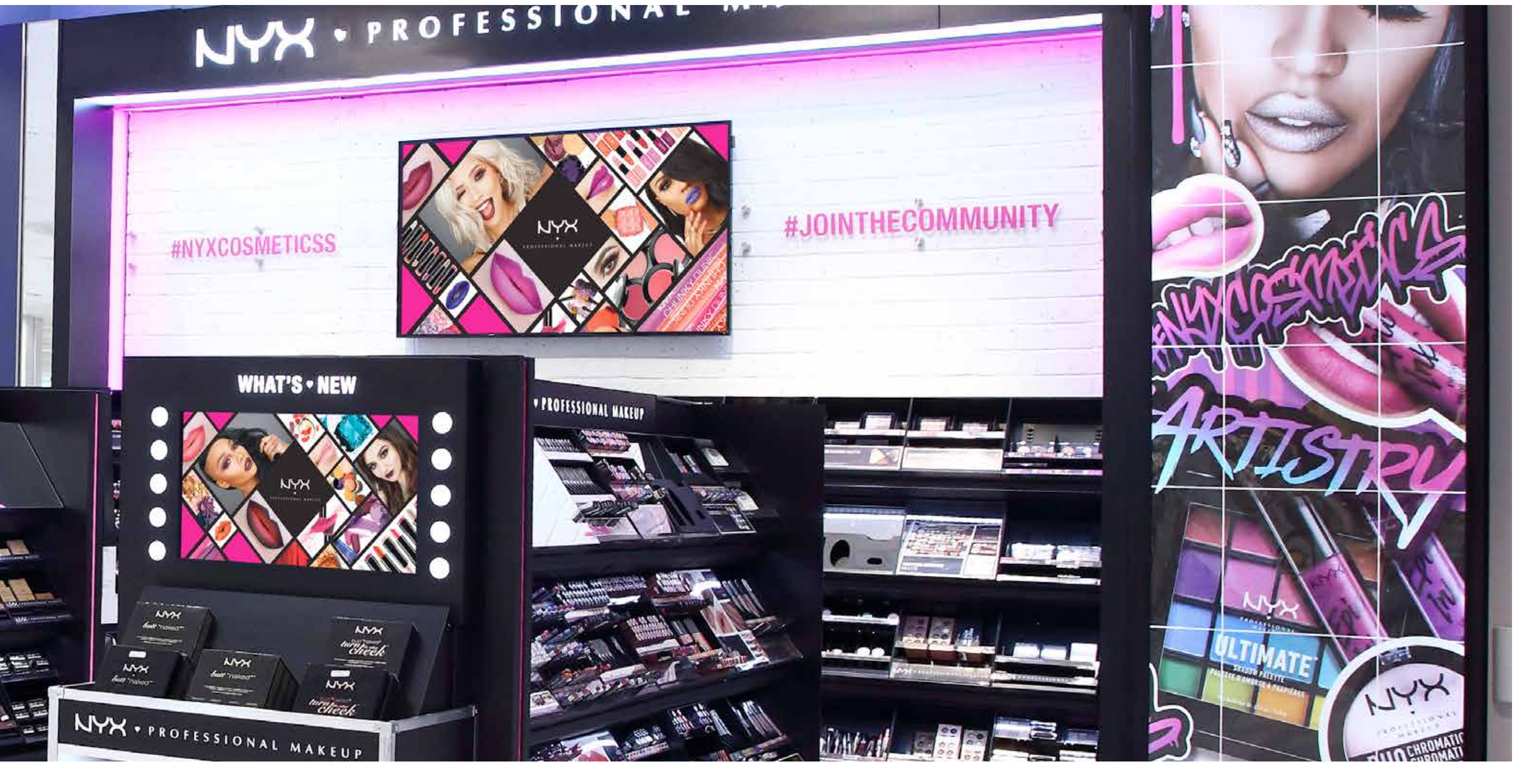
Regulation of health supplements

The most restrictive regulatory issue facing the group currently is the regulation of health supplements as a subset of complementary medicines under the Medicines Act. This requires all health supplements to be registered through the SA Health Products Regulatory Agency (SAHPRA) (formerly the Medicines Control Council (MCC)).

We strongly believe that health supplements should be regulated under food law as they are not medicines as defined by the Medicines Act.

This regulation is stifling innovation and limiting customer choice, and is directly impacting on GNC's ability to broaden its product offer with new lines.

We continue to work in conjunction with the Health Products Association to lobby for change in the regulations and are hopeful that the transition from the MCC to SAHPRA will bring about this change. However, should our engagement not yield the desired results we are prepared to challenge the regulations in court.



GROWTH OPPORTUNITIES AND OUTLOOK

The directors and management are optimistic about the prospects for the medium to long term, supported by the strong organic growth opportunity in Clicks which underpins the group's investment case.

In the external environment, the market dynamics are favourable for the retail sector and, more specifically, for the health and beauty markets in which we operate. Increasing urbanisation, improving living standards and longer life expectancy will create a growing market for our health and beauty products. At the same time South Africa's middle income market, which is our core customer base, is showing steady growth.

Clicks can grow its store and pharmacy footprint to make the chain even more convenient. Our research indicates that only about 50% of South African households live within five kilometres of a Clicks store and our long-term goal is to expand the chain to 900 stores in South Africa, with a pharmacy operating in every store.

Clicks has a differentiated product offer with a strong and trusted private label brand complemented by exclusive local and international brands.

Customer loyalty can be leveraged through our extensive ClubCard membership base and increasingly through digital engagement with our customers, from the online transaction website to the Clicks mobile app, virtual ClubCard and interactive communication across a range of social media and other digital channels.

A further driver of long-term growth is the opportunity to add scale to UPD's business, particularly in bulk distribution.

However, in the year ahead the retail sector will face headwinds from low economic growth and political uncertainty which are expected to continue to dampen consumer confidence and constrain spending.

Internal selling price inflation is likely to decline to low single-digit levels, with the annual SEP increase likely to be much lower than it was in 2017.

The core health and beauty markets in which we trade are defensive and have proven to be relatively resilient in challenging trading conditions. We have shown our ability to trade our way through these tough conditions and believe our market-leading brands are well positioned in this environment.

We are therefore continuing to invest for growth in new stores, pharmacies and refurbishments, as well as significant investment in the retail and pharmaceutical supply chain to support the increased scale of the group. We are also committed to investing in our people to ensure that growth is sustainable.

The directors believe that the group's strategy remains appropriate to provide continued competitive advantage in the current trading environment, and are confident in the group's ability to sustain performance and deliver on our targets.

APPRECIATION

Thank you to our chairman, David Nurek, for his decisive leadership of the board and to our non-executive directors for their ongoing support and guidance.

The success of the past year can be ascribed to a true team effort by over 14 600 people and I extend my gratitude to my group executive colleagues Michael Fleming, Bertina Engelbrecht and Vikesh Ramsunder, management and our people at head office, stores and distribution centres across the country.

Thank you to our customers who continue to make us their first choice health and beauty retailer, and we look forward to their continued support over the next year as Clicks celebrates the 50th anniversary of its founding.

David Kneale
Chief executive officer


CLICKS
CLICKS
MARWAH

CHIEF FINANCIAL OFFICER'S REPORT

INTRODUCTION

Clicks Group delivered another resilient performance in tough retail trading conditions, highlighted by robust health and beauty sales, increased margins, strong cash flows and enhanced returns to shareholders.

Diluted headline earnings per share (HEPS) grew by 14.5% to 502.1 cents and the total dividend was increased by 18.4% to 322.0 cents per share. The group delivered a total shareholder return of 25.2%, based on dividends paid and the growth in the share price over the year.

The group's performance is within the range of all its medium-term financial targets, apart from the return on equity (ROE) which at 44.1% remains among the highest in the retail sector. In the short term the group's ROE is being impacted by the broad-based employee share ownership programme.

The group's medium-term financial targets rank in the upper quartile relative to comparable global health and beauty retailers such as Walgreens Boots Alliance (USA), CVS (USA), Raia Drogasil (Brazil), Rite Aid (USA) and Celesio (Germany).

FINANCIAL PERFORMANCE

The following review of the group's financial performance for the year ended 31 August 2017 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 as well as the summary statements of comprehensive income and financial position, and the five-year analysis of financial performance on pages 32 and 35 respectively.

18.4%

increase in total dividend

14.5%

growth in diluted HEPS

Statement of comprehensive income

Turnover

Group turnover increased by 10.9% to R26.8 billion (2016: R24.2 billion) with selling price inflation averaging 5.3% for the year.

Turnover was again 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 health and wellness business.

Retail turnover, including Clicks, The Body Shop, GNC, Claire's and Musica, increased by 13.5%. Retail selling price inflation averaged 4.9% for the year. Comparable stores sales grew by 8.0%, with strong promotional activity driving real volume growth of 3.1%.

Within the retail division, health and beauty sales increased by 14.7%, while Musica, sales were 7.0% lower owing to the pressure on discretionary consumer spending and a weak schedule of new music and movie releases.

Retail trading space growth accounted for 5.5% of the turnover growth with the net opening of 106 stores which includes the 37 Medicross pharmacies and 43 Netcare front shops.

Distribution turnover grew by 11.4%, benefiting from the single exit price (SEP) increases granted in November 2016 and March 2017, as well as the good growth in the wholesale business.

The trading performance of Clicks and UPD is covered in the operational review on pages 36 to 45.

Total income

Total income grew by 12.2% to R7.1 billion.

The retail total income margin was 20 basis points lower at 33.5% owing mainly to the investment in everyday competitive pricing, supported by effective promotional activity and the faster growth in pharmacy following the integration of the Medicross pharmacies.

UPD's total income margin was also 20 basis points lower at 7.6%, reflecting the slower year in UPD's distribution agency business.

Owing to the favourable mix impact from the faster growth in retail, the group's total income margin strengthened by 40 basis points to 26.7%.

Operating expenditure

Retail expense growth of 12.8% was contained below sales growth despite the investment in new stores and pharmacies. Total leased space increased by 8.2% and over 600 new retail jobs were created. Comparable retail costs increased by 6.3%.

Retail operating expenditure as a percentage of turnover improved to 25.7% from 25.8% in the prior year.

UPD again demonstrated excellent cost control with expenses up only 2.7%, with further improvements in employee productivity and utilisation of the transport fleet.

The group's operating expenses increased by 11.2%.

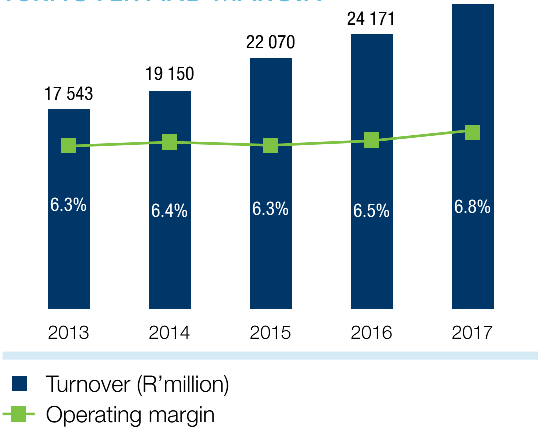
Operating profit

Operating profit increased by 15.4% to R1.8 billion (2016: R1.6 billion) as the retail and distribution businesses achieved operating leverage and both expanded margins.

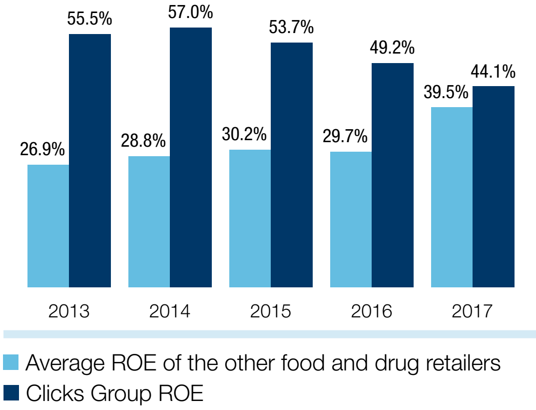
In the retail division, where margin grew by 10 basis points, Clicks and The Body Shop showed strong growth in operating profit which was partially off-set by a reduction of R28 million in Musica's profit. UPD's operating margin increased by 20 basis points because of good sales growth, the benefit of two SEP increases and excellent cost control.

The group margin strengthened by 30 basis points to 6.8%.

TURNOVER AND MARGIN



RETURN ON EQUITY (ROE)



SUMMARY STATEMENT OF COMPREHENSIVE INCOME

R'million	2017	% of turnover	2016	% of turnover	% change
Turnover	26 809		24 171		10.9
Retail	18 893	70.5	16 640	68.8	13.5
Distribution	12 321	29.5	11 055	31.2	11.4
Intragroup	(4 405)		(3 524)		25.0
Total income	7 147	26.7	6 368	26.3	12.2
Operating expenses	(5 333)	19.9	(4 796)	19.8	11.2
Retail	(4 850)		(4 298)		12.8
Distribution	(607)		(591)		2.7
Intragroup	124		93		33.3
Operating profit	1 814	6.8	1 572	6.5	15.4
Retail	1 485	7.9	1 306	7.8	13.7
Distribution	330	2.7	276	2.5	19.6
Intragroup	(1)		(10)		
Loss on disposal of property, plant and equipment	(5)		(6)		
Net financing costs	(37)		(53)		(29.4)
Share of profit of an associate	3		2		
Income tax	(497)		(421)		18.0
Profit for the year	1 278		1 094		16.8

SUMMARY STATEMENT OF FINANCIAL POSITION

R'million	2017	2016	% change
Non-current assets	2 854	2 507	13.8
Property, plant and equipment	1 534	1 345	14.0
Other non-current assets	1 320	1 162	13.6
Current assets	6 867	5 870	17.0
Inventories	3 754	3 479	7.9
Trade and other receivables	2 213	2 013	9.9
Other current assets	900	378	138.0
Total assets	9 721	8 377	16.0
Equity	3 300	2 452	34.6
Non-current liabilities	402	406	(0.8)
Current liabilities	6 019	5 519	9.0
Trade and other payables	5 475	5 148	6.3
Other current liabilities	544	371	46.6
Total equity and liabilities	9 721	8 377	16.0

Statement of financial position

The ratio of shareholders' interest to total assets increased to 34.0% (2016: 29.3%) and the average gearing level during the year was 14.8% (2016: 23.9%).

The ratio of current assets to current liabilities at year-end was consistent at 1.1 times (2016: 1.1 times), indicating that working capital remains adequately funded.

The group continues to hedge direct exposures to foreign exchange rate fluctuations which impact approximately between 7% and 8% of the cost of sales in the retail business. In addition, the group hedged elements of the long-term incentive scheme for the 2017 to 2019 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

Inventory was tightly managed and group inventory days improved from 66 to 65 days. Inventory levels were 7.9% higher, well below the rate of sales growth.

Trade and other receivables

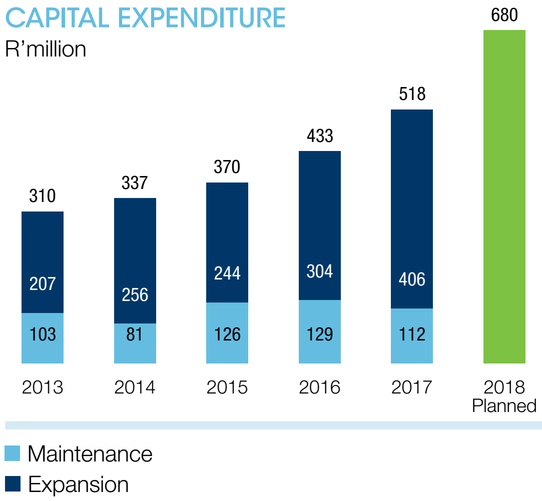
Trade receivables at 40 days (2016: 43 days) continued to be well managed and relate primarily to the UPD business.

Cash and capital management

Cash generated by operations increased by R207 million to R2.0 billion.

CAPITAL EXPENDITURE

R'million

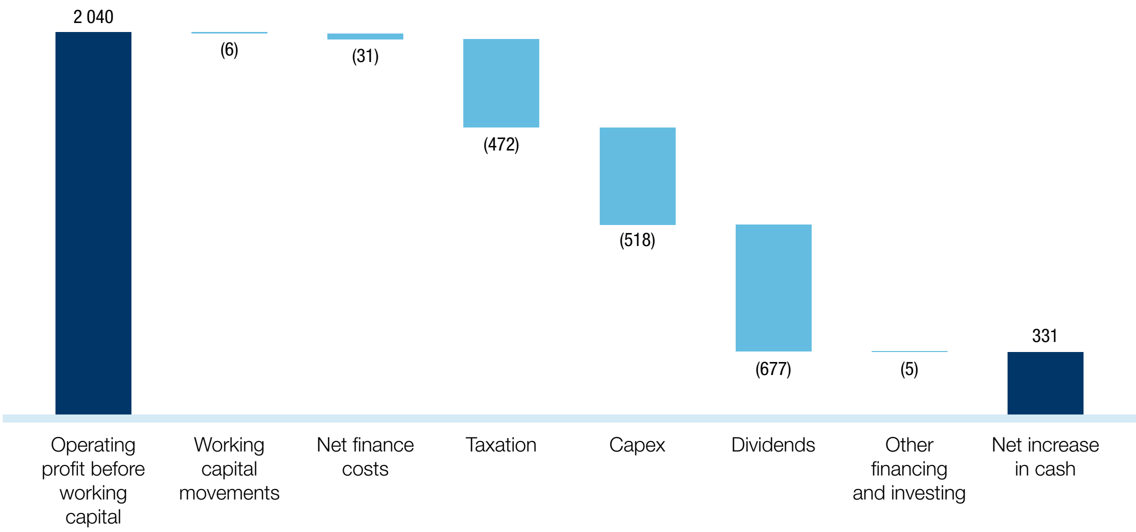


The group's capital management strategy is focused on investing in the organic growth of the business and returning surplus funds to shareholders through dividends and share buy-backs:

- Capital expenditure of R342 million was invested in opening 120 new retail stores and refurbishing 63 stores; R146 million in IT and retail infrastructure; and R30 million in UPD.
- The group returned R677 million to shareholders through dividend payments.

CASH FLOW ANALYSIS

R'million



DIVIDENDS

The total dividend for the financial year was increased by 18.4% to 322 cents per share (2016: 272 cents), based on an increased dividend payout ratio of 60% (2016: 59%) of HEPS. This comprises the interim dividend of 88 cents (2016: 76 cents) and a final dividend of 234 cents (2016: 196 cents). A dividend of 32.2 cents per "A" share (2016: 27.2 cents) was declared for participants in the employee share ownership programme.

INFORMATION TECHNOLOGY

Management aims to ensure IT systems and infrastructure are well maintained and remain relevant to future needs of the business.

Key areas of focus in the financial year included the seamless integration of the Netcare front shops and the Medicross pharmacies into the Clicks store network.

In the omni-channel space, the group enhanced the www.clicks.co.za transactional website with the development of the Clicks mobile app which offers customers the convenience of a virtual Clicks ClubCard as well as script management, pharmacy services and a store locator.

The group invested R83.6 million on computer hardware and R56.9 million in computer software which included replacing ageing IT hardware and software to improve processing capability and enhance capacity to support future business growth.

The IT governance team has remained vigilant against cybercrime and no Clicks data has been compromised, despite the increased incidence of data breaches globally. The group maintained its annual Payment Card Industry certification within the planned time frames and enhanced disaster recovery capability to limit potential disruption to the group should such an event occur.

MEDIUM-TERM FINANCIAL TARGETS

Financial targets are disclosed to provide guidance to shareholders on the group's medium-term performance expectations (refer to group strategy on page 9).

The targets have been reviewed based on current performance and the medium-term outlook for trading. The following targets have been revised while the dividend payout ratio has been included as a target for the first time:

Performance metric	Previous target	New target
Group operating margin (%)	6.0 – 7.0	6.5 – 7.5
Operating margin: Distribution (%)	2.0 – 2.5	2.2 – 2.7
Dividend payout ratio (%)	n/a	60 – 65

The increased group operating margin target reflects management's view on the growth potential for the retail health and beauty business and the impact of the faster growth in retail on the group margin. The increased operating margin target for UPD reflects the growth opportunities following the 30% expansion in distribution capacity as well as the increased scale of the business.

The targets for ROE, ROA, inventory days and retail operating margin are unchanged.

FINANCIAL PLANS FOR 2018

Capital expenditure of R680 million is planned for the 2018 financial year:

- R300 million to be invested in the store portfolio which includes 25 to 30 new Clicks stores, 30 to 35 new pharmacies and 60 store refurbishments.
- R306 million for IT systems and retail infrastructure which includes the 20 000 m^2 expansion of the Clicks distribution centre in Centurion, Gauteng. The project will be undertaken at a total cost of R230 million, with R110 million expected to be incurred in the 2018 financial year and the balance in the 2019 year.
- R74 million for warehousing, IT and infrastructure in UPD.

The group plans to spend between R650 million and R700 million per annum for the next three years to support the expansion of the Clicks store footprint, increasing capacity in the distribution centres and modernising IT systems.

Total retail trading space is expected to increase by approximately 6% in 2018.

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 and funding institutions for their support and to the investment community both locally and offshore for the ongoing interest and engagement with the group. I also extend my thanks to the finance teams across the group for their commitment to constantly delivering a high standard of financial reporting.

Michael Fleming
Chief financial officer

FIVE-YEAR PERFORMANCE REVIEW

for the year ended 31 August

		5-year compound growth (%)	2017	2016	2015	2014	2013 Restated*
Statements of comprehensive income							
Turnover	(Rm)	11.7	**26 809**	24 171	22 070	19 150	17 543
Operating expenses	(Rm)	10.3	**(5 333)**	(4 796)	(4 339)	(3 954)	(3 590)
Operating profit	(Rm)	12.4	**1 814**	1 572	1 396	1 218	1 104
Profit before tax	(Rm)	13.1	**1 774**	1 515	1 330	1 207	1 050
Headline earnings	(Rm)	12.9	**1 269**	1 099	960	838	756
Statements of financial position							
Non-current assets	(Rm)	13.7	**2 854**	2 507	2 009	1 772	1 602
Trade and other receivables	(Rm)	13.6	**2 213**	2 013	1 871	1 608	1 508
Inventories	(Rm)	12.5	**3 754**	3 479	3 250	2 614	2 225
Other current assets	(Rm)	85.9	**200**	8	25	3	18
Cash and cash equivalents	(Rm)	151.2	**700**	370	401	195	92
Total assets	(Rm)	15.3	**9 721**	8 377	7 556	6 192	5 445
Total equity	(Rm)	19.6	**3 300**	2 452	2 013	1 567	1 377
Non-current liabilities	(Rm)	7.0	**402**	406	308	286	252
Current liabilities	(Rm)	15.5	**6 019**	5 519	5 235	4 339	3 472
Call borrowings	(Rm)	(100.0)	**–**	–	–	–	344
Total equity and liabilities	(Rm)	15.3	**9 721**	8 377	7 556	6 192	5 445
Statements of cash flows							
Cash inflow from operating activities before dividends paid	(Rm)	15.1	**1 531**	1 345	1 290	1 464	1 008
Dividends paid	(Rm)	15.0	**677**	586	491	429	394
Capital expenditure	(Rm)	15.1	**518**	433	370	337	310
Returns and margin performance		5-year average					
Total income margin	(%)	26.6	**26.7**	26.3	26.0	27.0	26.8
Operating margin	(%)	6.5	**6.8**	6.5	6.3	6.4	6.3
Return on assets	(%)	14.2	**14.0**	13.8	14.0	14.4	14.8
Return on shareholders’ interest	(%)	51.9	**44.1**	49.2	53.7	57.0	55.5
Inventory days		64.4	**65**	66	68	64	59
Asset turnover	(times)	3.0	**2.8**	2.9	2.9	3.1	3.2
Return on net assets	(%)	88.9	**98.6**	93.5	96.7	85.2	69.7
Shareholders’ interest to total assets	(%)	28.1	**34.0**	29.3	26.6	25.3	25.3
Net debt to equity	(%)	(10.1)	**(21.2)**	(15.1)	(19.9)	(12.5)	18.3
Share performance		5-year compound growth (%)					
Headline earnings per share – basic	(cents per share)	14.4	**536.3**	462.4	399.2	341.7	302.0
Headline earnings per share – diluted	(cents per share)	12.9	**502.1**	438.5	383.9	336.8	298.3
Cash equivalent earnings	(cents per share)	11.7	**630.0**	576.5	527.2	433.7	386.2
Net asset value	(cents per share)	21.2	**1 395**	1 037	839	647	558
Dividends declared	(cents per share)	16.2	**322.0**	272.0	235.0	190.0	168.0
Weighted average number of shares in issue (net of treasury shares)	(’000)		**236 526**	237 565	240 603	245 364	250 297
Weighted average diluted number of shares in issue (net of treasury shares)	(’000)		**252 641**	250 501	250 204	248 892	253 434
Shares repurchased	(Rm)		**–**	290	176	285	354
Shares repurchased	(’000)		**–**	3 360	2 376	4 620	6 187

* 2013 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 at www.clicksgroup.co.za.

OPERATIONAL REVIEW

111

Clicks stores opened

22.2%

retail pharmacy market share

Clicks produced another strong trading performance, led by pharmacy and front shop health sales. Customers continued to respond positively to the Clicks value promotions and differentiated product ranges as the chain reported strong volume growth while gaining market share in all product categories.

Health and beauty sales*	% increase	% contribution to sales
Pharmacy	25.7	29.9
Front shop health	13.7	22.9
Beauty and personal care	9.5	31.6
General merchandise	8.4	15.6
Total turnover	14.7	100.0

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

SALES PERFORMANCE

Pharmacy sales grew by 25.7% and contributed to Clicks increasing its retail pharmacy market share from 19.7% to 22.2%. The pharmacy category benefited from the opening of 73 pharmacies, including 37 as part of the outsourcing agreement with the Netcare Group.

Generic medicines continued to grow faster as more patients are being switched to these lower-priced alternatives, with sales increasing by 30.4% and accounting for 49.8% (2016: 47.7%) of pharmacy sales in Clicks.

Over-the-counter medicines, which do not require a prescription, continued to grow stongly, confirming the trend to self-medication where customers take responsibility for their own health and wellness.

Front shop sales continue to be driven by promotional sales which increased by 24.1% and accounted for 34.7% of sales in Clicks.

Front shop health grew sales by 13.7%, with GNC lifting sales by 21.9% and baby 19.2%. Baby merchandise is strategically important in attracting new customers and continues to be the fastest-growing front shop category in Clicks. Market share in the baby category increased from 12.2% to 13.9%.

View Clicks video at
www.clicksgroup.co.za

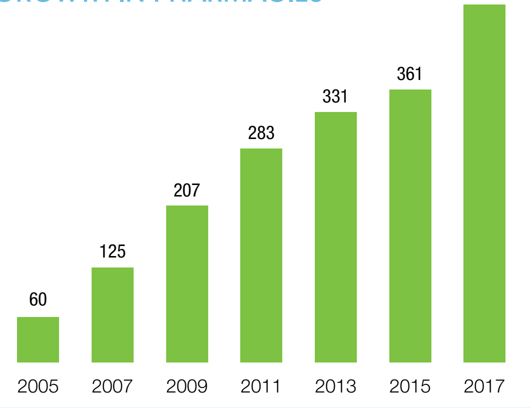
Beauty and personal care sales grew by 9.5% with good performances from the Claire's brand, fragrances and toiletries. Growth in haircare was slower owing to a lack of product innovation although Clicks continued to grow its share of the market from 25.7% to 27.2%.

General merchandise, which has the most discretionary product offering, grew sales by 8.4%, led by the convenience categories which grew by over 20%. Clicks maintained its leading position in small electrical appliances with a market share of 20.0%.

Market share (%)	**2017**	2016
Health		
Retail pharmacy*	**22.2**	19.7
Front shop health**	**29.7**	29.0
Baby**	**13.9**	12.2
Beauty and personal care		
Skincare**	**28.3**	27.3
Haircare**	**27.2**	25.7
General merchandise		
Small household appliances***	**20.0**	19.2

* Quintiles IMS (Private retail pharmacy S1- 6)
** AC Nielsen (comparative restated)
*** GfK (comparative restated)

GROWTH IN PHARMACIES



EXPANDING STORE FOOTPRINT

Clicks passed the 600-store mark as 111 net new stores were opened, increasing the brand's footprint to 622 stores at year-end. The growth in the store footprint was accelerated through the implementation of a long-term outsourcing arrangement with the Netcare Group whereby Clicks has opened stores in 43 Netcare hospitals and taken over the management of the pharmacies in 37 Medicross medical and dental centres.

The Clicks footprint includes 28 stores in neighbouring Namibia (19 stores), Swaziland (four stores), Botswana (four stores) and Lesotho (one store).

During the year 55 stores across the chain were extended or refurbished to ensure the stores remain modern and appealing to customers.

Clicks is the largest retail pharmacy chain in the country and extended its network to 473 with the opening of 73 in-store pharmacies. Clicks was ranked first in the pharmacy category in the annual Ask Afrika Orange Index service excellence survey.

Customers have responded positively to the Clicks online offer which was launched late in the last financial year, offering the product range available in large Clicks stores. The online platform complements the store experience and increases customer convenience, with a "click and collect" delivery facility in most Clicks stores in South Africa. The online store has shown good growth and in the short term is expected to generate sales equivalent to a small Clicks store.

CUSTOMER LOYALTY AND ENGAGEMENT

ClubCard is a strategic growth driver which builds loyalty to the brand, increases the frequency of shopping and enables Clicks to engage digitally with its customers.

Active membership reached the 7 million mark during the year. ClubCard members accounted for 77.4% of sales in Clicks and R322 million was returned to customers in cashback vouchers.

Clicks extended its digital offering with the launch of the Clicks mobile app which includes a virtual ClubCard, eliminating the need for customers to use the traditional plastic card. The app also allows customers to submit scripts and order repeat medication.

ClubCard benefits were further extended through an affinity partnership with Shell South Africa which allows members to earn ClubCard points when filling up at Shell fuel stations nationwide.

DIFFERENTIATED PRODUCT 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 accounted for 21.8% of total sales in Clicks, with front shop sales at 28.5% and pharmacy at 6.1%.

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 122 Clicks stores, GNC in 375 stores and Claire's in 142 Clicks stores. Clicks is also the exclusive retail stockist of the Sorbet product range.

MOTIVATED AND SKILLED PEOPLE

A key element of improving the in-store experience for customers is the service levels from knowledgeable and friendly staff. The group is committed to investing in its people, evidenced by the R106 million investment in training and development in the past year.

As the largest employer of pharmacy staff in the private sector with over 2 700 pharmacy and clinic professionals, Clicks is actively building capacity through the Pharmacy Healthcare Academy and providing financial support to address the critical shortage of pharmacists.

Clicks awarded 100 bursaries to pharmacy students in 2017 and has invested over R22 million in bursaries in the past five years. During the year 339 pharmacy assistants were enrolled and 64 pharmacy internships awarded.

The store operations learnership programme attracted 100 trainee managers in 2017 while 20 graduates were enrolled on the retail graduate development programme.

OUTLOOK FOR 2018

Clicks has a long-term goal to expand its store footprint to 900 in South Africa. In the year ahead Clicks plans to open 25 to 30 new stores and 30 to 35 new pharmacies. A further 55 stores will be refurbished.

The Clicks distribution centre in Centurion, Gauteng, is being expanded by 20 000 m² to support the increasing scale of the Clicks chain. The project will be undertaken at a cost of R230 million and is expected to be completed during the first quarter of financial year 2019.

Private label, together with exclusive and franchise brands, is planned to contribute 29% of front shop sales in the new year. The presence of The Body Shop, GNC and Claire's will be expanded to additional Clicks stores in the year ahead.

ClubCard membership is targeted to grow to 7.5 million while we plan to enrol at least 100 000 customers to the new virtual ClubCard.

Vikesh Ramsunder
Chief operating officer

PERFORMANCE AGAINST OBJECTIVES IN 2017 AND PLANS FOR 2018

Plans and targets for 2017	Achieved in 2017	Plans and targets for 2018
Deliver a competitive and differentiated product offer		
Increase front shop private label and exclusive brand sales to 28.0%	Front shop private label and exclusive sales 28.5% (2016: 28.2%) of total sales	Increase front shop private label and exclusive brand sales to 29%
Expand presence of franchise brands in Clicks	Franchise brands in Clicks stores	Expand presence of franchise brands in Clicks
• The Body Shop: 103 stores	• The Body Shop: 122 stores (2016: 88)	• The Body Shop: 150 stores
• GNC: 300 stores	• GNC: 375 stores (2016: 261)	• GNC: 390 stores
• Claire's: 150 stores	• Claire's: 142 stores (2016: 123)	• Claire's: 150 stores
Create a great customer experience in-store		
Expand private label scheduled generic medicines range by 32 products	100 private label medicines (2016: 100)	Expand private label scheduled generic medicines range
Grow repeat prescription service to 50% of repeat scripts	43% of scripts now on repeat prescription service	Increase repeat prescription service to 50% of repeat scripts
Expand clinic services and open 10 new clinics	195 clinics at year-end	200 clinics
Grow the retail footprint		
Open 20 to 25 new Clicks stores	Net 111 stores opened (2016: 25)	Open 25 to 30 new Clicks stores
	622 stores at year-end (2016: 511)	
60 stores to be expanded/refurbished	55 stores expanded/refurbished (2016: 45)	55 stores to be expanded/refurbished
Open 30 to 35 new pharmacies	Net 73 pharmacies opened (2016: 39)	Open 30 to 35 new pharmacies
	473 pharmacies at year-end (2016: 400)	
	Launched in-store collection service	
Drive customer loyalty through ClubCard		
Increase membership to 6.5 million	7.0 million members (2016: 6.2 million)	Increase membership to 7.5 million
Grow Baby Club to 400 000 members	417 000 Baby Club members	Grow Baby Club to 520 000
Grow Seniors Club to 800 000 members	839 000 Seniors Club members	Grow Seniors Club to 900 000
	Launched Clicks mobile app	Enhance digital engagement
	Launched virtual ClubCard	Enrol 100 000 customers to virtual ClubCard
	Launched affinity partnership with Shell	
Ensure supply chain excellence		
A new strategic objective not included in 2016	n/a	Complete Centurion distribution centre expansion
Motivated and effectively skilled staff		
300 pharmacy assistants to be enrolled	339 pharmacy assistants enrolled	300 pharmacy assistants to be enrolled
100 pharmacy bursary students	100 pharmacy bursary students	100 pharmacy bursary students
90 internships	64 pharmacy internships	70 internships
	20 graduates enrolled on graduate development programme	20 graduates to be enrolled on graduate development programme

CLICKS EXECUTIVE MANAGEMENT

Vikesh Ramsunder (46)

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 (47)

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 Traill (46)

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 Wrigglesworth (52)

Head of healthcare

Joined the group in 2011

Previously commercial head at UPD

Pharmaceutical manufacturing, hospitals, pharmacy and commercial healthcare experience

Sedick Arendse (47)

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 (42)

Human resources executive

Joined the group in 2015

Previously HR director at Chevron SA

Experience in human resources management, employee relations, organisation development, transformation and talent management

Jamie Lane (36)

Head of merchandise and marketing

Joined the group in 2012

Previously commercial executive for Clicks Front Shop (excluding health)

Prior to joining the group he was commercial director of L'Oréal Paris for the UK and Ireland

Chris Tugman (49)

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


save
save
save
great value
every day
great value
great value
every day

OPERATIONAL REVIEW

UPD

WE DELIVER HEALTHCARE

25.6%

market share

R16.5bn

total managed turnover

UPD delivered double-digit sales and profit growth for the year, driven by good growth in the wholesale business. Reported turnover increased by 11.4% and UPD maintained its market-leading positions in both the pharmaceutical wholesale and bulk distribution markets.

The business benefited from the two increases granted in the regulated single exit price (SEP) of medicines in November 2016 (2.9%) and March 2017 (7.5%). The SEP increase in the previous year was 4.8%.

UPD's total managed turnover, combining fine wholesaling turnover with the turnover managed on behalf of bulk distribution agency clients, increased by 8.8% to R16.5 billion.

Wholesale turnover increased by 12.1% with strong growth of 23.4% in sales to Clicks pharmacies. Clicks remains UPD's largest single customer and accounts for 52.2% of wholesale turnover.

Growth in sales to the private hospital groups, including Life Healthcare, Mediclinic and Netcare, was slower at 4.7%. This was partly due to sales to Medicross pharmacies moving from the hospital channel to the Clicks channel following the outsourcing agreement with the Netcare Group when Clicks took over the management of 37 Medicross pharmacies.

UPD services approximately 1 200 independent pharmacies and sales to this channel contracted by 2.6% and account for 14.3% of turnover.

UPD's strong growth resulted in wholesale market share increasing from 24.1% to 25.6%.

The business continues to face ongoing margin pressure from the faster growth in lower-priced generics, which have increased from 47.2% to 49.1% of wholesale turnover.

View centralised distribution video at
www.clicksgroup.co.za

WHOLESALE TURNOVER BY CHANNEL

As UPD has a high fixed cost base management is constantly seeking ways to off-set the margin pressure by increasing efficiency and scale of the business.

UPD owns its five distribution centres located in Gauteng (Lea Glen), Cape Town, Durban, Bloemfontein and Port Elizabeth. The new distribution centre in Port Elizabeth was completed early in the financial year at a cost of R27 million. The expansion of the Cape Town distribution centre commenced during the year and is scheduled for completion in December 2017.

Product availability, which is core to offering superior range and service to customers, was 95.2% and UPD increased on-time deliveries to 98.8% (2016: 98.5%).

Through its distribution business UPD offers local and international generic and originator pharma manufacturers an efficient and cost-effective supply chain solution. The business managed a portfolio of 20 distribution clients at year-end.

OUTLOOK FOR 2018

UPD aims to increase wholesale market share to 26% through the growth of the Clicks pharmacy channel, benefiting from the planned opening of 30 to 35 new pharmacies in Clicks, and maintain volumes from the private hospital groups.

Management plans to increase Clicks' buying levels from UPD to 98.8% from the current 98.7%.

The annual SEP increase for 2018 is expected to be much lower than the increase granted in 2017.

Capital expenditure of R74 million has been committed for warehousing, IT and infrastructure, including the completion of the expansion of the Cape Town distribution facility.

Following the building of the new facility in Port Elizabeth, the expansion of the Cape Town warehouse and the planned reorganisation of the Johannesburg facility, bulk distribution warehouse capacity will be increased by approximately 30%. This will enable UPD to attract new distribution clients and grow business from existing clients.

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

Vikash Singh
Managing director

PERFORMANCE AGAINST OBJECTIVES IN 2017 AND PLANS FOR 2018

Plans and targets for 2017	Achieved in 2017	Plans and targets for 2018
Grow market share		
Increase market share to 24.5%	Market share increased to 25.6%	Increase market share to 26%
Maintain volume of business with private hospital groups	Sales to hospital groups increased 4.7% with volumes maintained	Maintain volume of business with private hospital groups
Increase Clicks' buying levels from UPD to 98.5%	Clicks' buying levels from UPD at 98.7%	Increase Clicks' buying levels from UPD to 98.8%
Tender for new agency distribution contracts	One new agency distribution contract secured; 20 contracts managed at year-end	Tender for new agency distribution contracts
Protect income		
Maintain licences	Licences maintained	Maintain licences
Optimise efficiency		
Target 98.5% on-time deliveries	98.8% on-time deliveries	Target 98.9% on-time deliveries
Reduce labour and transport costs	Labour and transport costs as a percentage of turnover improved	Drive further productivity initiatives across the business
	96.1% order fulfilment	Improve order fulfilment to 96.2%
Build capacity		
Target employee turnover of 14%	Employee turnover 12%	Maintain employee turnover at 12% or below
Extend cold chain capabilities	Planning for implementation of temperature-controlled fleet	Temperature-controlled fleet to be rolled out
		Establish UPD learning academy

UPD OPERATING MANAGEMENT

Vikash Singh (44)

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

Julie Hulme (46)

Business process executive

Joined the group in 2015

Formerly quality assurance director (EMEA region) for Kimberly Clark Corporation

Experience in FMCG, engineering and manufacturing

Sanjeeth Baliraj (45)

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

Palesa Seakamela (38)

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

Robert Magnus (48)

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

Leon Steyn (45)

General manager – Coastal

Joined the group in 2008

Previously branch manager at UPD Cape Town

Warehouse and distribution experience

JC Preller (42)

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 operational background

Selven Naicker (43)

General manager – Inland

Joined the group in 2016

Previously distribution centre manager for UTI Pharma

Inventory and logistics experience

Chris Nursey (53)

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

Kelly Manzini (42)

National human resources manager

Joined the group in 2016

Previously chief executive officer for Careways and Life Occupational Health

Board member and director of the Employee Assistance Professionals Association SA since 2007

BOARD OF DIRECTORS

David Nurek

Prof. Fatima Abrahams

John Bester

Bertina Engelbrecht

Michael Fleming

Nonkululeko Gobodo

Fatima Jakoet

David Kneale

Martin Rosen

David Nurek (67)

Independent non-executive chairman

Dip Law, Grad Dip Company Law

Appointed 1997

Member of the remuneration and nominations committee

Chairman of the social and ethics committee

Directorships: Non-executive chairman of Lewis Group and Trencor.

Expertise and experience: Legal, commercial and governance

Prof. Fatima Abrahams (55)

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: Lewis Group and The Foschini Group. Chairperson of TSiBA Education.

Expertise and experience: Human resources and remuneration

John Bester (71)

Independent non-executive director

B Com (Hons), CA (SA), CMS (Oxon)

Appointed 2008

Chairman 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 and Tower Property Fund. Trustee of the Children's Hospital Trust and the Children's Hospital Foundation Trust.

Expertise and experience: Accounting and finance

Bertina Engelbrecht (54)

Group human resources director

B Proc, LL M, admitted attorney

Appointed as a director in 2008

Expertise and experience: Human resources. Formerly general manager of Shell SA Energy.

Michael Fleming (50)

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.

Nonkululeko Gobodo (57)

Independent non-executive director

B Compt (Hons), CA (SA)

Appointed March 2017

Member of the audit and risk committee

Directorships: Chairman of Mpumelelo Ventures and non-executive director of PPC

Expertise and experience: Accounting, auditing and finance. Founder and former executive chairman of SizweNtsalubaGobodo, the country's largest black-owned accounting firm.

Fatima Jakoet (57)

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 (63)

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.

Martin Rosen (67)

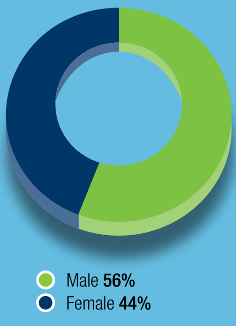
Independent non-executive director

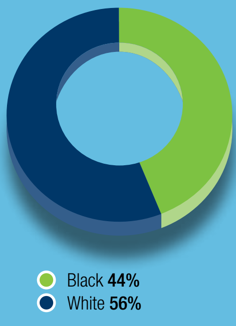
Appointed 2006

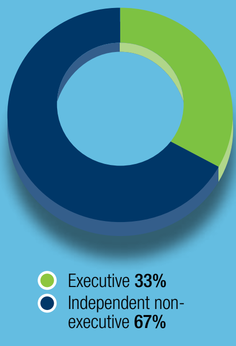
Member of the remuneration and nominations committee

Expertise and experience: Retail and marketing

BOARD COMPOSITION AND DIVERSITY







CREATING VALUE THROUGH GOOD GOVERNANCE

Clicks Group recognises the value of corporate governance in ensuring the sustainability of the business and in enhancing long-term equity performance. While compliance with applicable regulation and voluntary codes is a good baseline from which to measure governance, and a non-negotiable demand by the board, the group's commitment to good governance goes beyond compliance.

The group's governance and compliance framework is founded on the principles of accountability, transparency, ethical management and fairness. Sound governance is entrenched across the entire business. Governance processes are regularly reviewed to align with regulatory changes and to reflect best practice.

The board believes that effective governance is also contributing to value creation in at least the following respects:

- providing a clearer view of the business through a greater degree of integration between financial and non-financial reporting;
- improving the quality of reporting by management to the board;
- promoting greater transparency and disclosure to stakeholders, including shareholders;
- building consumer confidence in the brands;
- enhancing accountability to shareholders;
- providing equitable performance management and reward structures for employees;
- providing effective leadership and decision-making throughout the business; and
- managing and mitigating risk more effectively.

Strong compliance structures and processes to support the effective functioning of these structures are essential to help avoid sanctions for non-compliance with regulation and to contribute to the sustainability of the business. The board accordingly maintains a focus on supporting and, where necessary, enhancing these structures and processes.

The group's corporate governance report is published on the website.

ROLE OF THE BOARD

Elected by the shareholders, the directors are responsible for the sustainability of the business within the triple context of the economy, society and the environment. The board's composition, authority, responsibilities and functioning are detailed in the board charter.

GOVERNANCE STRUCTURE

Its role includes fulfilling a range of legal duties, while being the primary source of effective, ethical leadership for the group. The board, in executing its mandate, is required to approve strategic plans; monitor operational performance; ensure effective risk management and internal controls; monitor regulatory compliance; and promote good governance. It must also approve significant accounting policies and the annual financial statements; monitor transformation and empowerment; manage the process of selection and appointment of directors; and ensure that the group's remuneration policies and practices are effective and fair. Certain of these functions are delegated to board committees.

KEY ISSUES ADDRESSED IN 2017

The board addressed the following key issues during the year:

- monitored the successful implementation of the long-term outsourcing agreement with Netcare, including regulatory matters such as Competition Tribunal approval and securing changes of ownership of pharmacy licences;
- approved the business' three-year strategic plans and budgets, including capital investment;
- transitioned from King III to King IV;
- appointed a new director to the board and made changes to the composition of certain board committees;
- reviewed talent and succession plans for the business, including for the role of CEO;
- monitored preparation for the first vesting of shares to beneficiaries in terms of the employee share ownership programme;
- approved the investment in IT for operating divisions in the group; and
- supported management's expansion of the group's retailing activities in digital channels.

BOARD COMPOSITION

The board consists of nine directors, with three salaried executive directors and six independent non-executive directors. The age, tenure, experience and expertise of each director is briefly set out in the board of directors report on page 47. Dr Nkaki Matlala retired as a non-executive director on 26 January 2017 and Nonkululeko Gobodo was appointed as a non-executive director on 1 March 2017.

INDEPENDENCE OF DIRECTORS

While the tenure of non-executive directors is not a determinant of independence for both King III and King IV, David Nurek has served as a non-executive director for 21 years, Martin Rosen for 11 years and Fatima Abrahams, John Bester and Fatima Jakoet have each served for nine years. The company derives extensive benefit from the depth of knowledge of the business and the consistent approach to the strategy that long-serving directors bring, and will appoint strong, suitably qualified new independent non-executive directors from time to time to ensure that independent, fresh and critical thinking is maintained at board level.

The remuneration and nominations committee conducted an evaluation of the independence of the chairman and non-executive directors during the year. Factors which could impact on their independence and performance were considered, in particular the factors contained in King III and the JSE Listings Requirements. In the opinion of the remuneration and nominations committee there are no factors which prevent the directors from exercising independent judgement or acting in an independent manner. All of the non-executive directors, including the chairman, are therefore appropriately classified as being independent.

The company has no controlling shareholder or group of shareholders and there is no direct shareholder representation on the board.

BOARD DIVERSITY

The directors are diverse in terms of gender, race and professional backgrounds, contributing to strong decision-making and ensuring that a range of perspectives are brought to bear on matters under consideration by the board. The directors have extensive experience and specialist skills across a range of sectors, including retail, commercial, governance, human resources, remuneration, accounting and finance, legal, healthcare and marketing. A board race and gender diversity policy was adopted during the year. Currently 44% of the directors are female and 44% are black, which exceeds the voluntary targets of 25%.

DIRECTOR ELECTION

A third of non-executive directors are required to resign at each AGM, and executive directors are required to resign on the third anniversary of their appointment or most recent re-election to the board. This provides shareholders with the ability to hold directors to account and to appoint directors to the board whom shareholders believe will add value to the business.

ANNUAL PERFORMANCE EVALUATION

Directors are required to annually assess the performance of the board, its committees, the chairman and the chief executive officer. This year's assessment indicated that in the opinion of the directors the board, its committees and the company's most senior executives have discharged their responsibilities effectively. The directors believe that the board is well balanced in terms of skills, qualifications and experience and makes a meaningful contribution to the group.

BOARD AND EXECUTIVE RELATIONSHIP

The roles of the chairman and the chief executive officer are formalised, separate and clearly defined. This division of responsibilities at the helm of the company ensures a balance of authority and power, with no individual having unrestricted decision-making powers. The chairman, David Nurek, leads the board and the chief executive officer, David Kneale, is responsible for the executive management of the group.

While the board and executive management collectively determine the strategic objectives of the group, the board is responsible for approving the group's strategy and the executive is responsible for executing this strategy and for the ongoing management of the business. Regular reporting by the executive on progress made in executing its mandate allows the board to monitor implementation of strategy and to assess the effectiveness thereof. Non-executive directors have direct access to management and may meet with management independently of the executive directors.

BOARD AND COMMITTEE MEETING ATTENDANCE

	Board	Audit and risk	Remuneration and nominations	Social and ethics
Number of meetings	4	4	3	2
David Nurek	4+	1 (1)#	3^	2+
Fatima Abrahams	3		3^^+	2
John Bester	4	4+	3	
Bertina Engelbrecht	4	(4)	(3)	2++
Michael Fleming	4	(4)		
Nonkululeko Gobodo*	2/2	2/2		
Fatima Jakoet	4	4		
David Kneale	4	(4)	(3)	2
Nkaki Matlala**	1/1	1/1		
Martin Rosen	4		3	
Meeting attendance 2017 (%)	97	100	100	100
Meeting attendance 2016 (%)	97	100	92	100

+ Chair
# Served on the committee in an interim capacity until a replacement was appointed, and is now an invitee to the committee
^ Chairs nominations agenda items
^^ Chairs remuneration agenda items
* Appointed 1 March 2017
** Retired 26 January 2017
++ No longer a member of the social and ethics committee
(•) Indicates number of meetings attended as an invitee

BOARD OVERSIGHT

The board discharges its oversight function both directly and through its three committees. The board and the three committees are each chaired by independent non-executive directors. The composition of the committees conformed to regulatory requirements and King III for the reporting period. With the introduction of King IV the composition of the social and ethics committee has been amended to meet the requirements of the code. Detailed disclosure on the roles, functions and composition of the committee is contained in the corporate governance report available on the website.

KING III AND KING IV APPLICATION

The group has applied King III during 2017. King IV is effective for the 2018 financial year. Certain elements of King IV have already been adopted by the group and reporting for the 2017 financial year is in accordance with King IV.

ETHICS AND VALUES

The group subscribes to high ethical standards of business practice. A set of values and a behavioural code of conduct require staff to display integrity, mutual respect and openness. Members of staff have an obligation to challenge others who are not adhering to these values. The social and ethics committee is responsible for monitoring ethical practices. The group has various documented policies which require all employees to adhere to ethical business practices in their relationships with one another, 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. A fraud prevention policy ensures that a firm stance is taken against fraud and the prosecution of offenders.

ANTI-COMPETITIVE CONDUCT

Oversight, governance and risk management processes are in place to promote compliance with statutory prescripts relating to competition and the effectiveness of these processes is borne out by the fact that the group has not been sanctioned for anti-competitive conduct. The group has market-leading positions in healthcare retailing and supply. This emphasises the need for the group to remain vigilant in guarding against engaging in anti-competitive practices.

GOVERNANCE FOCUS AREAS IN 2018

In the year ahead the group will be engaged with the transition from King III to King IV, as well as ensuring that incremental changes to the JSE Listings Requirements and changes required by any new regulation are incorporated into the governance system. The group will remain abreast of regulatory changes that impact on governance in the organisation and will strive to adopt relevant best practices.

CREATING VALUE THROUGH GOOD CITIZENSHIP

Level 5 BBBEE rating in 2017
under new codes of good practice

First-time inclusion in
FTSE4Good Index
recognising strong environmental, social and governance practices measured against global standards

Qualified for inclusion in
FTSE/JSE Responsible Investment Top 30 Index
which acknowledges South African companies with leading environmental, social and governance practices

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.

473
Clicks pharmacies across South Africa to broaden access to healthcare

54 million
units of medicine sold in 2017

Largest employer of pharmacy staff in private sector

195 clinics in Clicks pharmacies provide primary care health services

PARTNERSHIPS

309 Clicks stores serve as pickup points for **National Health Insurance** medicine collection

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

R4.5 million donated to **Public Health Enhancement Fund** over the past five years to improve public healthcare, address skills shortages and advance research

BUILDING CAPACITY

R22.6 million invested in bursaries for pharmacy students since 2012

100 bursaries awarded to **pharmacy students** in 2017

64 pharmacy internships provided in 2017

339 pharmacy assistants enrolled in 2017

2 722 pharmacy and clinic professionals across Clicks

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.

1 780 jobs created over the past two years

14 673 employees across retail stores, distribution centres and head office

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

348 employees with disabilities

63% of permanent employees are female

50% black members of the group executive committee

Board diversity policy adopted

44% black directors

44% female directors

EMPLOYEE SHARE OWNERSHIP PLAN

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

5 882 employees now shareholders

88% black employee shareholders

66% female employee shareholders

R28.2 million paid in dividends to participants in the scheme since 2012

5 679
employees trained in 2017

SKILLS DEVELOPMENT

20 **graduates** enrolled on the **retail graduate development programme**

100 **trainee managers** registered in **store operations** learnership programme in 2017

R126 million
invested in training and development in 2017

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.

R17.8 million invested in **socio-economic development** projects aligned to the group's focus on health and well-being

CLICKS HELPING HAND TRUST

The trust, which was established in 2011, aims to benefit the lives of ordinary South Africans by offering free preventative testing and wellness services through the footprint of over 190 Clicks clinics countrywide.

Clicks Helping Hand Trust
Touching lives

125 000 lives positively impacted over past five years

HIV testing provided to over 36 000 South Africans through a campaign to encourage individuals to know their HIV status

Diabetes testing and education for over 36 000 people on the prevention and early detection of the disease

Mom and baby wellness and family services have reached over 73 000 families

Heart disease testing for more than 50 000 people to encourage healthier lifestyle choices

Girls on the Go campaign has provided reusable and washable sanitary pads to over 16 000 schoolgirls

View Clicks Helping Hand Trust video at **www.clicksgroup.co.za**

UPD OWNER-DRIVER SCHEME

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

71 owner-drivers contracted to deliver products for UPD

R36 million paid to the driver scheme in 2017

Over R450 million paid since start of the scheme in 2003

R27.3 million invested in **enterprise and supplier development** programmes

THE APPLIANCE BANK

The Appliance Bank forms part of the highly successful social entrepreneurship programme, The Clothing Bank. The programme 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.

Clicks donates all returned domestic electrical appliances to the project

Over **22 000 appliances** sold by business owners, generating profits of R1.8 million

THE APPLIANCE BANK

34 active business owners

MENTORSHIP PROGRAMME

Clicks Group executives committed **112 hours mentoring microenterprises**

62% of the microenterprises have been incorporated into the group's **supply chain**

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 2018. The application of the remuneration policy in 2017, which details how the group has rewarded value creation, is covered in part 2 of this report. In accordance with the recently introduced King IV governance code, this implementation report will be tabled separately to shareholders for a non-binding vote at the AGM.

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.

In addition to this commitment, and in accordance with King IV, in the event that either the remuneration policy or the implementation report receives 25% or more dissenting votes, management will seek to engage directly with these shareholders to:

- ascertain the reasons for the dissenting votes; and
- address legitimate and reasonable objections or concerns by clarifying or amending the remuneration policy, its implementation or processes, or reviewing the remuneration governance, or taking other steps to resolve the concerns.

The steps taken to address legitimate and reasonable concerns will be disclosed in the following years' rewarding value creation report.

The remuneration philosophy and reward principles remain consistent with last year while the remuneration policy has been aligned to King IV to outline the group's approach to fair, responsible and transparent remuneration practices across the business. At the 2017 AGM, 98.3% of shareholders who voted supported the group's remuneration policy.

This report provides an overview of the remuneration of all group employees as well as disclosing executive director remuneration and the alignment with shareholder value creation. The remuneration paid to executive and non-executive directors for the 2017 financial year is detailed on pages 65 and 66.

PART 1: REMUNERATION POLICY

Introduction

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

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

The reward principles of fair and responsible remuneration, market competitiveness, and pay for performance are entrenched in the policy. The policy is transparent with a pay framework that clearly differentiates between occupational levels 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 for 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 based on national and retail market benchmark data and are reviewed annually to ensure the group remains competitive in the employment market. Premiums are paid for scarce and critical skills such as pharmacy, buying and planning, finance and IT skills based on the relevant market data.

Annual salary increases are merit based, with increases being directly related to each 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 remuneration of management and staff on page 61).

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 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. These benchmarking exercises recognise the complexity in the group's business model and the regulatory environment within which the group operates.

The group also participates in a biannual benchmarking exercise to maintain a competitive remuneration position in respect of pharmacists and pharmacy managers.

The biannual 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

Executives are also measured against the objectives set by the social and ethics committee in relation to all the elements of the BBBEE scorecard.

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

EXECUTIVE DIRECTORS' REMUNERATION

The group's remuneration policy has been reviewed by the committee to ensure that executive directors' remuneration is fair and responsible in the context of overall employee remuneration, particularly given the nature of the retail industry and considering South Africa's socio-economic landscape.

The policy prescribes that the levels of pay and incentives awarded to executive directors are set rationally and impartially, and are free from discrimination, self-interest, prejudice or favouritism. Executive pay is linked to value creation and positive outcomes, is subject to independent oversight and approval by the committee, and is considered by the directors to be sustainable and responsible.

To align with shareholder interests, executive remuneration is linked to the group's performance, with clearly defined and measurable one-year and three-year deliverables.

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
Performance measurement		
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

The performance of the chief executive officer is assessed by the committee, 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.

Incentive schemes

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

Should executive directors not meet the targets set by the committee for the short-term and long-term incentive schemes, then no amounts will be payable under the schemes and executive directors will only receive their guaranteed remuneration. Performance hurdles and caps for both the short-term and long-term incentive schemes apply to the participants, including the executive directors, which are set out below and on pages 61 to 63 respectively.

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 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 scheme

Executive directors participate in the cash-settled long-term incentive scheme which is detailed on pages 62 to 64.

REMUNERATION OF 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 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 (2016: 18%). 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.

Entry to this scheme closed in 2015 and the scheme matures in 2018 and 2019.

The executive directors and senior employees who participate in the group's long-term incentive scheme did not participate in the ESOP.

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 5 882 employees, with black staff receiving 88% and women 66% 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 scheme

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

The scheme targets high-potential employees, black staff and employees with scarce and critical skills. There are currently 46 employees participating in the scheme, of whom 35% are black and 33% are women.

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 incentive, provided this is funded by an increase in the operating profit. Incentives 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 scheme

Long-term incentive (LTI) schemes are aimed at aligning executive remuneration with shareholder interests by rewarding executives for the creation of shareholder value. The LTI schemes have a three-year term with performance hurdles attached and successive annual allocations ensure that the executives and senior managers who participate in the scheme are incentivised based on the sustained performance of the group measured by the increase in diluted headline earnings per share (HEPS) and the increase in total shareholder return (TSR).

The LTI schemes are regularly reviewed and enhanced to align with evolving best practice locally and internationally, and 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.
- The remuneration multiple used to determine the number of appreciation units granted is unchanged.
- A cap limits 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.

Currently 15 (2016: 14) executives participate in the schemes. The relevant amounts are expensed through the statement of comprehensive income.

- ***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 are apportioned equally between two performance components:

  (1) diluted HEPS; and

  (2) total shareholder return (TSR).

  (1) HEPS appreciation units

  The base value for the HEPS appreciation units 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 same factor of 12.

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

  In order to enhance the alignment between executive and shareholder interests, the HEPS appreciation units are subject to performance hurdles 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%

(2) TSR appreciation units

The base value for the TSR appreciation units is the 20-day volume weighted average price (VWAP) of the Clicks Group shares, measured over the 20 business days at the end of the previous financial year.

The exercise value is the corresponding 20-day VWAP at the end of the three-year period. The financial incentive received by the participants is the appreciation in the Clicks Group share price over the three-year period.

The TSR units are 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%

For the purposes of calculating the TSR growth in relation to the performance hurdles, TSR is defined as the overall return to shareholders, being the appreciation in the 20-day VWAP of the Clicks Group share, plus dividend payments reinvested over the three-year performance period, divided by the VWAP of the Clicks Group share at the commencement of the period, expressed as a percentage.

- ***2017 to 2020 LTI scheme***

The design of the 2017 scheme is unchanged from previous schemes, with the value of appreciation units being apportioned equally between diluted HEPS and TSR units, which are subject to performance hurdles.

The performance hurdles for the diluted HEPS appreciation units have remained unchanged, 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%

However, based on current market conditions, in particular the lower inflation rate and South African economic growth forecasts compared to expectations at the commencement of the previous schemes, the TSR hurdles have been revised as follows:

Total shareholder return

Performance hurdle (based on three-year CAGR in TSR)	Percentage of LTI payout
Below 9%	Unit allocation forfeited
Above 12%	Unit allocation increased by 50%
Above 15%	Unit allocation increased by 100%

Directors' participation in the LTI

Executive directors have been awarded the following appreciation units:

	2015 – 2018 scheme		2016 – 2019 scheme		2017 – 2020 scheme	
	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	HEPS units allocated at R60.25 per unit	TSR units allocated at R146.10 per unit
Bertina Engelbrecht	143 484	70 454	136 830	57 129	129 461	53 388
Michael Fleming	207 736	102 004	198 404	82 837	189 212	78 029
David Kneale	571 438	280 590	547 320	228 517	525 809	216 838

In line with best governance practice, non-executive directors do not participate in incentive schemes.

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' FEES

The fee structure for non-executive directors is based on a review of a number of internal, economic and market factors, and is benchmarked annually by an independent party. 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 JSE-listed retail companies. The median is based on the number of board and committee meetings held per annum. 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 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.

REMUNERATION GOVERNANCE

The committee, operating under the authority delegated by the board, is responsible for overseeing the establishment and maintenance of the group's remuneration policy, policy outcomes and pay practices. The committee assists the board in ensuring the group has a competitive remuneration policy and governance framework which is aligned with the group's strategic and organisational performance objectives.

In line with the recommendations of King IV the committee comprises only independent non-executive directors, namely Professor Fatima Abrahams (chair), John Bester, David Nurek and Martin Rosen. The chief executive officer and the group human resources director attend committee meetings by invitation but are recused from discussions that relate to their own performance appraisal and remuneration. Detail on the committee meeting attendance is included on page 50.

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 the critical elements of the remuneration policy, including 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: REMUNERATION IMPLEMENTATION REPORT 2017

Annual salary increase

The average performance-linked increase effective from 1 September 2017 is 5.8% (2016: 6.6%). An annual salary increase of 7.8% (2016: 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 targeted average monthly RONA was 82.9% and the group achieved 93.6%. The group exceeded the targeted operating profit by 4.7%. The Clicks, UPD, The Body Shop and group services business units exceeded the short-term targets and R97.5 million will be paid in accordance with the scheme rules (2016: R94.3 million). This includes incentives paid in terms of the retail store incentive scheme where R20.3 million (2016: R25.5 million) was paid to retail store staff for the 2017 year.

Employee share ownership scheme

A dividend of R6.8 million (2016: R6.3 million) was paid to scheme participants in 2017.

Group retention scheme

During the financial year R50.4 million (2016: R10.9 million) was paid out to participants in the scheme.

Long-term incentive scheme

For the three-year performance period ended 31 August 2017 the group achieved the following compound annual growth rates (CAGR):

- Diluted HEPS: 14.2% CAGR: This is within the “on target” performance hurdle range.
- TSR: 33.2% CAGR: This exceeds the “above 20%” performance hurdle and the TSR share allocations to participants were increased by 100% in accordance with the rules of the scheme.

The payout of the TSR portion has been fully hedged to limit the cost to the group.

The committee approved the long-term incentive payment of R153.5 million (2016: R64.7 million) to the scheme participants.

DIRECTORS’ REMUNERATION

Executive directors’ remuneration

Director (R’000)	Salary	Pension fund	Other benefits	Total annual guaranteed pay	RONA short-term incentive	Perfomance-based long-term incentive*	Total variable pay	Total
2017								
Bertina Engelbrecht	**3 220**	**380**	**–**	**3 600**	**1 508**	**17 081**	**18 589**	**22 189**
Michael Fleming	**4 879**	**284**	**57**	**5 220**	**2 186**	**25 883**	**28 069**	**33 289**
David Kneale**	**9 083**	**515**	**2**	**9 600**	**6 031**	**48 000**	**54 031**	**63 631**
Total	**17 182**	**1 179**	**59**	**18 420**	**9 725**	**90 964**	**100 689**	**119 109**
2016								
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
Total	14 780	2 025	59	16 864	8 798	33 857	42 655	59 519

* 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

** The LTI payment to Mr Kneale has been capped at five times annual guaranteed pay in accordance with the rules of the scheme

Non-executive directors' remuneration

Director (R'000)	2017 Directors' fees	2016 Directors' fees
David Nurek	**1 059**	950
Fatima Abrahams[1]	**459**	409
John Bester	**581**	521
Nonkululeko Gobodo[2]	**213**	–
Fatima Jakoet	**408**	359
Nkaki Matlala[3]	**161**	417
Martin Rosen	**329**	270
Total	**3 210**	2 926

[1] Includes R24 610 (2016: R21 740) for performing the role of chairperson of the Clicks Group Employee Share Ownership Trust
[2] Appointed with effect from 1 March 2017
[3] Retired with effect from 26 January 2017

None of the non-executive directors have service contracts with the group and no consultancy fees were paid to directors during the year.

Total directors' remuneration

R'000	2017	2016
Executive directors (including the long-term incentive scheme)	**119 109**	59 519
Non-executive directors	**3 210**	2 926
Total directors' remuneration	**122 319**	62 445

Directors' shareholdings at 31 August

	2017 beneficial shares			2016 beneficial shares		
Director	Direct	Indirect	Total	Direct	Indirect	Total
David Nurek	**–**	**100 000**	**100 000**	–	100 000	100 000
John Bester	**12 000**	**10 000**	**22 000**	12 000	10 000	22 000
Bertina Engelbrecht	**105 068**	**–**	**105 068**	98 755	–	98 755
Michael Fleming	**30 421**	**–**	**30 421**	20 837	–	20 837
David Kneale	**285 370**	**–**	**285 370**	259 802	–	259 802
Martin Rosen	**–**	**2 000**	**2 000**	–	2 000	2 000
Total	**432 859**	**112 000**	**544 859**	391 394	112 000	503 394

The total number of ordinary shares in issue is 245 969 and the percentage of issued share capital held by directors is 0.22% (2016: 0.20%). 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 was benchmarked by PwC 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, Woolworths Holdings and Dis-Chem Pharmacies Limited.

The proposed increases to the fee structure for 2018 take into account these benchmarking results. Higher increases are proposed for the board and audit and risk chairs, and members of the audit and risk committee, which were below the group's policy range of 80%. The benchmarking of the remuneration committee indicated that these fees were above the median, which has resulted in lower proposed increases. In 2018 the chairman of the board will stand down as chair of the social and ethics committee.

The total fees proposed for non-executive directors for the 2018 calendar year represent an increase of 9.3% over the previous year.

The fees for the 2018 calendar year are subject to approval by shareholders at the AGM in January 2018.

	2018*			2017*		
Board position	Proposed base fee R	Proposed meeting fee R	Proposed total fee R	Base fee R	Meeting fee R	Total fee R
Board chairman**	**900 000**	**300 000**	**1 200 000**	825 000	275 000	1 100 000
Board member	**226 500**	**75 500**	**302 000**	210 000	70 000	280 000
Chair: Audit and risk committee	**225 000**	**75 000**	**300 000**	195 000	65 000	260 000
Member: Audit and risk committee	**120 000**	**40 000**	**160 000**	108 750	36 250	145 000
Chair: Remuneration and nominations committee	**86 625**	**28 875**	**115 500**	82 500	27 500	110 000
Member: Remuneration and nominations committee	**48 825**	**16 275**	**65 100**	46 500	15 500	62 000
Chair: Social and ethics committee	**60 000**	**20 000**	**80 000**	n/a	n/a	n/a
Member: Social and ethics committee	**n/a**	**n/a**	**n/a**	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 2017

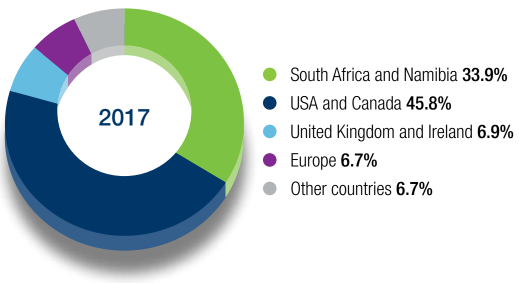
Public and non-public shareholders	Number of shares	Percentage of shares
Public shareholders	**235 980 664**	**96.0**
Non-public shareholders		
Shares held by directors	**544 859**	**0.2**
Treasury stock held by New Clicks South Africa Proprietary Limited	**9 443 445**	**3.8**
Total non-public shareholders	**9 988 304**	**4.0**
Total shareholders	**245 968 968**	**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 2017:

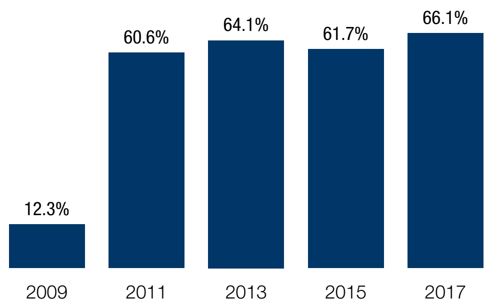
Major beneficial shareholders holding 3% or more	2017 Percentage of shares	2016 Percentage of shares
Government Employees Pension Fund	**15.5**	15.6
GIC Private Limited	**4.3**	4.4
Fidelity International Growth Fund	**3.4**	3.2
Beneficial shareholder no longer holding 3%:		
Mawer International Equity Pooled Fund	**2.4**	3.0

Major fund managers managing 3% or more	2017 Percentage of shares	2016 Percentage of shares
Public Investment Corporation (SA)	**14.2**	14.5
Baillie Gifford & Co (UK)	**5.5**	5.3
Fidelity Management & Research (US)	**5.2**	5.0
GIC (Singapore)	**4.3**	4.3
JPMorgan Asset Management (UK and US)	**4.1**	2.9
Mawer Investment Management (CA)	**3.8**	4.7
The Vanguard Group (US)	**3.4**	2.9
MFS Investment Management (US)	**3.3**	2.4
Fund managers no longer managing over 3%:		
Wasatch Advisors (US)	**2.5**	3.7
Aberdeen Asset Management (UK)	**1.7**	3.6

GEOGRAPHIC DISTRIBUTION OF SHAREHOLDERS



OFFSHORE SHAREHOLDING



SHAREHOLDERS' DIARY

Annual general meeting	31 January 2018
Preliminary results announcements	
Interim results to February 2018	on or about 19 April 2018
Final results to August 2018	on or about 25 October 2018
Publication of 2018 Integrated Annual Report	November 2018
Ordinary share dividend	
2017 final dividend	
Last day to trade with dividend included	23 January 2018
Date of dividend payment	29 January 2018
2018 interim dividend	
Last day to trade with dividend included	July 2018
Date of dividend payment	July 2018
2018 final dividend	
Last day to trade with dividend included	January 2019
Date of dividend payment	January 2019

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: CLCGY
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
Computershare Investor Services Proprietary Limited
Business address: Rosebank Towers,
15 Biermann Avenue, Rosebank 2196
Postal address: PO Box 61051, Marshalltown 2107
Telephone: +27 (0)11 370 5000

Investor relations consultants
Tier 1 Investor Relations
Telephone: +27 (0)21 702 3102
E-mail: ir@tier1ir.co.za

For more information, please visit our website at
www.clicksgroup.co.za

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