



INTEGRATED
ANNUAL
REPORT
2018

CLICKS GROUP
LIMITED

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 Page reference

 Website reference

 Video available on the website

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 2018
- Five-year financial review
- Annual results 2018
- Annual results 2018 presentation

Governance

- Corporate governance report 2018 (incorporating King IV)

Annual general meeting

- Notice to shareholders
- Form of proxy

Sustainability

- Social and ethics committee report 2018
- Sustainability report 2018

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.

A young woman with long dark hair, wearing a light blue patterned shirt, is smiling and looking at her smartphone. The phone screen shows the Clicks mobile app interface. At the top, it says 'CLICKS' with a green plus sign. Below that, it displays '# Zinlei' and a gold 'ClubCard' with a barcode and the number '02 00 0001 093 00'. The app menu includes: 'My ClubCard rewards', 'Earn ClubCard points', 'Submit a new script', 'Order a repeat script', and 'Shop online'. At the bottom of the screen is a navigation bar with icons for 'Home', 'ClubCard', 'Pharmacy', and 'Shop'.

“Creating sustainable long-term shareholder value through a retail-led health, beauty and wellness offering.”

CREATING VALUE IN 2018

The Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) recommends reporting to stakeholders on the six main capital resources that are applied in the creation of value. 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

FINANCIAL

First-time inclusion in
**FTSE/JSE Top 40
Index**

Operating profit exceeds **R2 billion** for the first time

R2.5 billion cash generated by operations

Diluted HEPS up **15.1%** to 578 cents

Dividend up **18%** to 380 cents per share

Return on equity of **38.2%**

Total shareholder return **32.5%** (10-year CAGR)

INFRASTRUCTURE

Opened
41 Clicks stores
and expanded footprint to 663 stores

R671 million capital investment in stores,
supply chain and IT



Online store offering in-store or home delivery nationally

37 new Clicks pharmacies; total now 510

9 distribution centres across Clicks and UPD

INTELLECTUAL



7.8 million

active Clicks ClubCard loyalty members

Clicks increased market share in all key product categories

Private label and exclusive brands **22%** of health and beauty sales

Over 700 new private label products launched, reflecting investment in innovation

Clicks remains price competitive with national retailers

Clicks independently rated as leading health and beauty retailer in SA

UPD gained share of the wholesale and distribution markets

PEOPLE

R1.3 billion

paid to beneficiaries of employee share ownership programme

15 067 permanent employees; **394** new jobs created

Recognised as Top Employer in retail sector in South Africa

R125 million invested in employee training and development

Pharmacy staff turnover reduced to **15%**

STAKEHOLDERS

R812 million

paid to shareholders in dividends

Turnover of **R29.2 billion** generated from customers

R442 million cashback paid to ClubCard members

R3.2 billion paid to employees

R25.2 billion paid to suppliers of goods and services

ENVIRONMENT

Included in

FTSE4Good Index



FTSE4Good

64% reduction in municipal water usage at head office

37% of waste recycled

1 980 tons of recycling in the supply chain

Energy and water reduction targets set to reduce carbon footprint

pharmacy



COMMITMENT TO GOOD GOVERNANCE

Good corporate governance is the foundation for sustainable value creation and has been proven to contribute to long-term equity outperformance.

Effective governance leads 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.

We note the heightened focus on governance among local and international investors in the wake of high-profile corporate failures and welcome the opportunity to engage with shareholders on the group's governance philosophy, processes and practices. We believe the group's governance practices are robust and this is confirmed in leading independent assessments of governance standards.

“The group's approach to governance extends beyond regulatory compliance, with open, frank and balanced disclosure being at the foundation of our governance framework”

Throughout this report we aim to demonstrate in a balanced manner 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 also recognise the role of other key stakeholders in creating value, namely our customers, staff, suppliers, industry regulators and funding institutions.

The King IV Report on Corporate Governance (King IV) has been applied throughout the 2018 financial year and the directors confirm that the group has in all material respects voluntarily applied the principles of the new code. The application of King IV is covered in the corporate governance report 2018 which is available on our website.

REPORTING SCOPE AND BOUNDARY

The report covers material information relating to the business model, strategy, material issues and related risks and opportunities, governance, financial and business performance, and directors' remuneration for the period 1 September 2017 to 31 August 2018. In addition the report outlines the strategic objectives, operating plans and prospects for the 2019 financial year as well as the group's medium-term financial targets. The integrated report is supplemented

by the annual financial statements which are also available on the website.

Reporting covers the group's main operating businesses, 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.

The report includes information which we believe is material to investors' understanding of the group's ability to create value. 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 which could have a material impact of 5% or more on the group's profit before taxation.

INDEPENDENT ASSURANCE

The integrated report has been reviewed by the board 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.

BOARD APPROVAL

The board is responsible for ensuring 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 long-term prospects.

The audit and risk committee has oversight responsibility for integrated reporting and recommended the report for approval by the directors. The 2018 integrated report was unanimously approved by the board on 7 November 2018.



David Nurek
Independent
non-executive chairman



David Kneale
Chief executive officer

ABOUT CLICKS GROUP

Founded in 1968, the group is a leader in the healthcare market in South Africa, where Clicks is the leading health and beauty retailer and UPD is the country's largest full-range national pharmaceutical wholesaler.





GROUP PROFILE

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

Founded 50 years ago 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. Today the group is a leader in the healthcare market, in both retail pharmacy and pharmaceutical wholesaling.



An overview of the group's history is available at www.clicksgroup.co.za.

Our values

We are truly **passionate** about our customers

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

We cultivate understanding through **respect and dialogue**

We **deliver** on our goals



The anchor brand, Clicks, is South Africa's leading health and beauty retailer, offering value for money in convenient and appealing locations.

- 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 7.8 million active members
- 76% of ClubCard customers are women and 68% are in the 25 to 49 age group
- 50% of households live within five kilometres of a Clicks store

The franchise brands were introduced through exclusive franchise agreements to provide additional differentiation to the Clicks offering:

- 2001 – The Body Shop, which sells natural, ethically-produced beauty products
- 2014 – GNC, the largest global specialty health and wellness retailer
- 2015 – Claire's, one of the world's leading specialty retailers of fashionable jewellery and accessories for young women and girls

The heritage business, 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.

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.

GROUP PROFILE (CONTINUED)

STORE FOOTPRINT	Standalone stores			Pharmacies	Presence in Clicks stores
	South Africa	Rest of Africa	Total		
Clicks	630	33	663	510	
The Body Shop	55	4	59		170
Claire's	6	–	6		168
GNC	–	–	–		454
Musica	100	9	109		
Total	791	46	837		

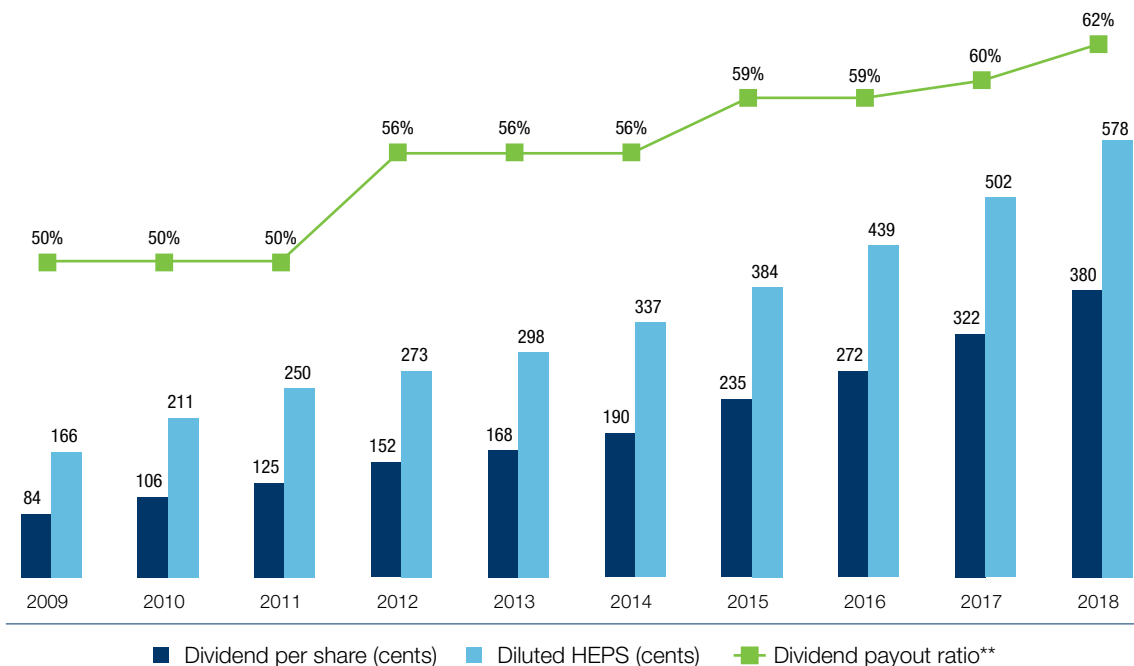
Stores outside South Africa are in the neighbouring countries of Namibia, Botswana, Swaziland and Lesotho.

SUSTAINED FINANCIAL PERFORMANCE

16.0%
diluted HEPS
10-year CAGR

32.5%
total shareholder
return 10-year
CAGR*

20.1%
dividend
per share
10-year CAGR



* Based on reinvestment of dividends paid and the closing share price

** Based on HEPS

beauty

 **CLICKS**
feel good pay less

FOREVER
AGAINST
ANIMAL
TESTING

REVLON

THE BODY SHOP®



663
stores

510
pharmacies

Market share

23.3%
of retail pharmacy

30.8%
of front shop health



View Clicks video at
www.clicksgroup.co.za





5
distribution centres

230 million
units of medicine
delivered

Market share

26.0%
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



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.

More information on ...  page 18



Capacity to expand convenient 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.
- Primary care clinics in Clicks stores support the health service offering.
- The retail footprint is complemented by an online store and a national pharmacy delivery service model to increase customer convenience.

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Differentiated product offer

- Private label and exclusive brands offer differentiated ranges at higher margins.
- Clicks is a brand that consumers trust and the brand has demonstrated it can transcend product categories and markets.
- Exclusive franchise brands, The Body Shop, Claire's, GNC and Sorbet, augment Clicks' private label brands in the health and beauty categories.

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Leveraging customer engagement

- Clicks ClubCard is one of the largest retail loyalty programmes in South Africa with 7.8 million active members.
- ClubCard offers customers attractive and convenient cashback rewards and a range of affinity partner benefits.
- Clicks has extensive opportunities to use digital engagement through the Clicks ClubCard, website, online store and the Clicks app to personalise communication to increase the customer basket size and value, and frequency of shopping.

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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 pharmacies, including Link pharmacies.
- The business offers 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 evident in the goal of obtaining a 30% share of the fine wholesale and bulk distribution markets.

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VALUE-CREATING BUSINESS MODEL

Clicks Group's strategy is realised through a value-creating, retail-led business model which appeals to the group's predominantly female, middle to upper-income customer base.



The business model is delivered by three strategic enablers:



CREATING VALUE IN 2018

Through the successful execution of this business model the group aims to create sustainable value for shareholders and other key stakeholders.

The value created in the past financial year is outlined in creating value in 2018 on pages 2 and 3.

INVESTMENT CASE

Clicks Group offers sustainable growth opportunities for equity investors seeking non-cyclical exposure to the retail and healthcare sectors in South Africa.

The strategic drivers of longer-term growth outlined in the group strategy on pages 14 and 15 provide further context for the investment case.



Well positioned in growing markets

Healthcare markets are defensive and growing in South Africa

- An increasing proportion of the population is 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



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

Globally competitive operating margins

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

- Retail: 8.1% (medium-term target 7.5% – 8.5%)
- UPD: 2.7% (medium-term target 2.5% – 3.0%)

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

Expanding retail footprint

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

- Over 660 conveniently located Clicks stores
- Targeting to open 25 – 30 stores each year

Expanding pharmacy base

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

- 510 pharmacies in Clicks stores
- Targeting to open 30 – 35 pharmacies each year
- Retail pharmacy market share goal of 30% in the long term (2018: 23.3%)
- Primary care clinics in 203 Clicks stores

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



Growing customer loyalty and engagement

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

- 7.8 million active ClubCard members generate 77.2% of sales
- Online store offers full Clicks product range for in-store or home delivery as well as online only offers
- Digital channels support store offering



Efficient group supply chain

Centralised supply from company-owned distribution centres to all retail stores (96.9% 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

Effective cash and capital management

- Highly cash-generative business
 - R6.3 billion cash generated by operations over past three years
- Returns enhanced through active capital management
 - Return on equity averaging 43.8% over past three years
 - R2.4 billion returned to shareholders in dividends and share buy-backs in past three years
- Well-invested store base and supply chain
 - R1.6 billion capital expenditure in past three years



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.

- 1 TRADING ENVIRONMENT
- 2 COMPETITION
- 3 REGULATION
- 4 PEOPLE
- 5 INFORMATION TECHNOLOGY

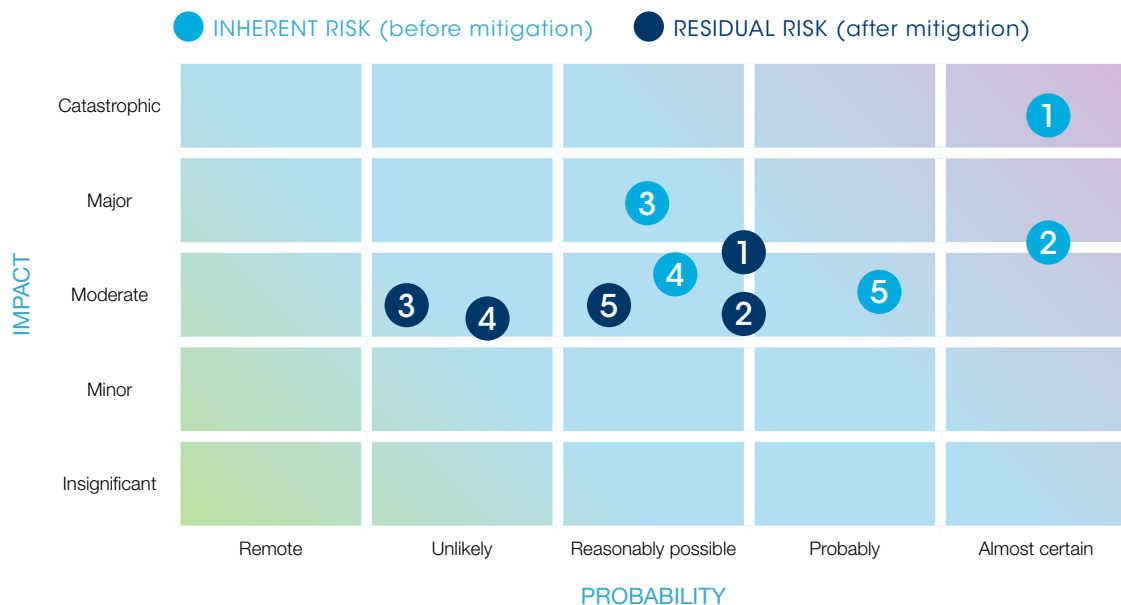
The material issues are reviewed annually by the board and management where all relevant internal, industry and macroeconomic factors are evaluated. The needs, expectations and concerns of the stakeholder groups that are most likely to influence the group's ability to create sustainable value, notably customers, suppliers, regulators, staff, shareholders and providers of financial capital are central to determining the material issues.

Following the review for the 2019 financial year, the directors confirm that the current material issues remain relevant and are unchanged from the previous year.

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





TRADING ENVIRONMENT

Low economic growth, deteriorating economic conditions and the resultant poor consumer sentiment are impacting South Africa's already constrained retail trading environment. Consumer disposable income has been further eroded by the increase in VAT, rising fuel and utility prices, higher health insurance costs and increasing 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 the perception of 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.

COMPETITION

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.

REGULATION

Healthcare markets are highly regulated across the world and approximately 50% of the group's turnover is in regulated pharmaceutical products. The group supports regulation that advances the government's healthcare agenda of making medicines more affordable and more accessible 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 Authority (SAHPRA) 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.
- Introduction of National Health Insurance (NHI) could impact on the private and public healthcare markets.

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.
- 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.
- Partner with government to be a preferred service provider to the NHI scheme.

PEOPLE

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.

RISK

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

OPPORTUNITIES

- Salaries and incentives are 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 rolled out.
- Senior leadership development programme strengthens pool of management talent and provides succession plan.

INFORMATION TECHNOLOGY


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 compromised as a result of 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 roadmap for new IT systems with improved system efficiencies and cost savings that support the organic growth strategy.



LEADERSHIP AND PERFORMANCE

Clicks Group continues to drive organic growth to deliver sustained financial performance which generates competitive returns and creates long-term value for shareholders.

fragrance



dunhill
LONDON

the classic collection - from drinks

welcome to **CLICKS**

pharmacy
clinic
health
home
beauty
baby

CHAIRMAN'S REPORT

In an environment of low growth, deteriorating economic conditions and constrained consumer spending, the group produced another excellent performance and entrenched its position as the country's foremost health and beauty retailer.

CREATING VALUE IN A WEAK ECONOMY

Group turnover grew by 9.1% to R29.2 billion off a high base created by several years of outstanding performance. Cash generated from operations increased by 20.7% to R2.5 billion and diluted headline earnings per share (HEPS) rose by 15.1% to 578 cents. Shareholders will receive a total dividend of 380 cents per share, 18.0% higher than last year.

The performance of the past year again highlights the group's resilient business model, with over 80% of turnover in defensive health and beauty merchandise categories. This is core to the group's investment case of offering investors non-cyclical equity exposure to the retail and healthcare markets in South Africa.

Over the past 10 years the group has generated a compound annual total shareholder return of 32.5% and returned more than R6.7 billion to shareholders. Diluted HEPS has grown by a compound rate of 16.0% and the dividend per share by 20.1% per annum. The dividend payout ratio has been increased progressively from 46% in 2008 to 62% in 2018.



This sustained performance has contributed to strong share price appreciation and consequent growth in market capitalisation, resulting in the group being elevated to the FTSE/JSE Top 40 Index for the first time in June this year. Clicks Group also qualified for inclusion in the MSCI Emerging Markets Index, further acknowledgement of the growing stature of the group.

“Clicks Group was elevated to the FTSE/JSE Top 40 Index in June this year”

Clicks Group remains attractive to international investors, evidenced by the group's offshore shareholding increasing to 69.9% at year-end and nine of the top 10 shareholders being based offshore.

In the Sunday Times Top 100 Companies survey for 2018 Clicks Group was ranked in the top three best-performing companies on the JSE, based on a five-year compound growth in shareholder value.

CHANGE IN LEADERSHIP

After 13 years at the helm, David Kneale will be retiring as chief executive officer (CEO) and as an executive director with effect from 1 January 2019.

David is an exceptional leader who has made a significant contribution to the growth, development and value creation in the business. Under David's leadership since 2006 the store base has more than doubled, revenue has trebled, operating profit has increased six-fold and the market capitalisation on the JSE has grown from R3.2 billion to close to R50 billion. Clicks and UPD are now established market leaders with significant organic growth prospects. Significantly, in these times, more than 6 000 jobs have been created across the group over this period.

On behalf of the board and our employees, we thank David for his immense contribution and wish him well as he embarks on the next chapter of his life.

David will assume the role of group strategic adviser while he serves his contractual notice period until 31 August 2019. This will enable the business to leverage David's vast experience and ensure a seamless transition to the new CEO, Vikesh Ramsunder.

Vikesh is the natural successor to David and has held numerous roles across multiple disciplines and business units in his 25 years with the group. Prior to assuming his current role as chief operating officer of Clicks, Vikesh served as the managing director of UPD where he was responsible for the implementation of UPD's successful distribution strategy. He has been an integral member of the group executive team for several years and has been instrumental in driving the strong growth in Clicks over the past three years.

"Under David Kneale's leadership, more than 6 000 jobs have been created across the group"

Vikesh inherits an experienced leadership team which we are confident will continue to deliver. The board joins me in wishing him every success in his new role. He will be appointed to the board as an executive director on 1 January 2019.

BOARD TENURE

Clicks Group has a diverse, stable and independent board comprising three executive directors and six non-executive directors. Five of the non-executive directors, including myself as chairman, have served on the board for 10 years or longer. We believe that the extensive collective knowledge of these long-serving directors adds significant value to boardroom debate and ensures a consistent approach to the group's strategy.

While the tenure of non-executive directors is not a determinant of independence in terms of King IV, the board nevertheless conducts a stringent annual evaluation of the independence of the chairman and the other non-executive directors. The evaluation involves both an analysis of compliance with governance and regulatory regimes and an evaluation of each director's behavioural approach.

"Currently 44% of our directors are female and 44% are black, exceeding the voluntary targets of 25% in our board diversity policy"

Following this year's evaluation the remuneration and nominations committee again concluded that there are no factors limiting the directors from exercising independent judgement or acting in an independent manner, and all the non-executive directors are appropriately classified as independent.

New non-executive directors will be appointed from time to time to maintain fresh and critical thinking and to ensure the board has the necessary expertise to meet its oversight responsibilities.

BOARD DIVERSITY

Diversity at board level encourages constructive debate and ensures that the needs and concerns of all our stakeholder groups are addressed. Currently 44% of our directors are female and 44% are black, exceeding the voluntary targets of 25% contained in our board race and gender diversity policy. After the leadership changes planned for January 2019 black directors will constitute 55% of the board, while black executives will comprise 66% of the executive directors.

ACKNOWLEDGEMENTS

The performance of the past year was truly a team effort. Thank you to David Kneale for his astute and decisive leadership, so ably supported by his highly competent executive team, as well as all our employees across the country for their commitment to meeting the needs of our customers and for ensuring we remain the market leader.

My fellow non-executive directors provide valuable insight and guidance and I thank them for their ongoing support.

Thank you to our external stakeholders, including our customers, shareholders, suppliers and industry regulators, for your ongoing support and contribution to our success.



David Nurek
Independent non-executive chairman

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS



David Nurek (68)

Independent non-executive chairman

Dip Law, Grad Dip Company Law

Appointed 1997

Member of the remuneration and nominations committee

Member of the social and ethics committee

Directorships: Non-executive chairman of Trenchor

Expertise and experience: Legal, commercial and governance. David practised as an attorney with Sonnenberg Hoffman Galombik for 32 years, including 23 years as a partner and director. He joined Investec Group in 2000 and is regional chairman of the group's Western Cape businesses and global head of legal risk for the Investec Group.



Prof. Fatima Abrahams (56)

Independent non-executive director

B Econ (Hons) (cum laude), M Com, D Com

Appointed 2008

Chairperson of the remuneration and nominations committee

Chairperson of the social and ethics committee

Directorships: Lewis Group and The Foschini Group. Chairperson of TSIBA Education.

Expertise and experience: Human resources and remuneration. Prof. Abrahams is an academic, experienced company director and a registered industrial psychologist. She is currently a senior professor (part time) at the University of the Western Cape, having also served as dean of the Faculty of Economic and Management Sciences.



John Bester (72)

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, Personal Trust International and Tower Property Fund. Trustee of the Children's Hospital Trust and the Children's Hospital Foundation Trust.

Expertise and experience: Accounting and finance. John spent 16 years in the accounting profession, including serving as a partner of Ernst & Young for 10 years. He has been involved in commerce and industry for a further 37 years, holding a number of financial directorships during this time.



Fatima Daniels (58)

Independent non-executive director

B Sc, CA (SA)

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. After spending six years in the auditing profession Fatima went on to lecture in financial accounting and then spent over a decade in various positions in corporate South Africa.



Nonkululeko Gobodo (58)

Independent non-executive director

B Compt (Hons), CA (SA)

Appointed 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. Nonkululeko was a founder and former executive chairman of SizweNtsalubaGobodo, the country's largest black-owned accounting firm. She is currently the chief executive officer of Nkululeko Leadership Consulting.

BOARD OF DIRECTORS (CONTINUED)



Martin Rosen (68)

Independent non-executive director
Appointed 2006

Member of the remuneration and nominations committee
Expertise and experience: Retail and marketing. Martin is an accomplished retailer and marketer, having spent 33 years with Pick n Pay before starting his own marketing consultancy in 2004.

EXECUTIVE DIRECTORS



Bertina Engelbrecht (55)

Group human resources director
B Proc, LL M, admitted attorney
Appointed as a director in 2008

Expertise and experience: Human resources. She was previously general manager for Shell SA Energy and regional human resources manager for Shell Oil Products Africa. Prior to this she was director of organisational effectiveness at Sea Harvest, managed her own consultancy practice and spent eight years with Transnet.



Michael Fleming (51)

Chief financial officer
B Com, CTA, CA (SA)
Appointed as a director in 2011

Expertise and experience: Accounting, finance and investor relations management. He was previously at the Tiger Brands group where he was appointed as financial executive of the Tiger Brands consumer brands division in 2005 and promoted to chief financial officer in June 2008. While CFO of Tiger Brands, he also served as a non-executive director of Oceana Group Limited.

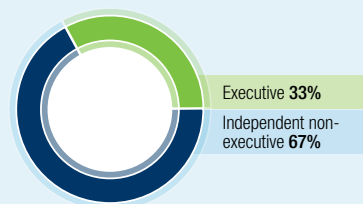
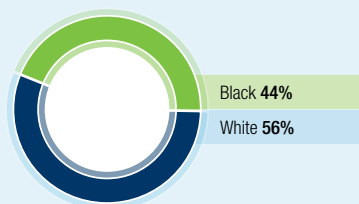
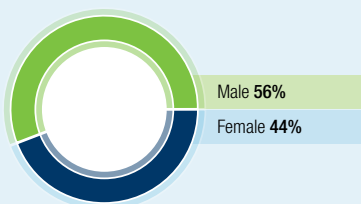


David Kneale (64)

Chief executive officer
BA
Appointed as a director in 2006

Member of the social and ethics committee
Expertise and experience: Retail and commercial. He was previously chief commercial officer of health and beauty retailer, Boots Group plc, in the United Kingdom, where he held positions in finance, buying and marketing before being appointed director of merchandise and marketing in 1995, and managing director of international retail development in 1997. After three years as managing director of Waterstone's Booksellers and a director of HMV Group, he returned to Boots in 2002 as director of trading, and was appointed chief commercial officer in January 2003.

BOARD COMPOSITION AND DIVERSITY



CHIEF EXECUTIVE'S REPORT

50 YEARS OF VALUE

2018 marked the 50th birthday of the founding of Clicks by visionary retailer, Jack Goldin, who opened the first store in August 1968 in the Cape Town city centre.

Clicks' unwavering commitment to offering consumers affordable, everyday value over the past five decades has seen Clicks becoming increasingly relevant in South Africa's retail landscape. Today Clicks is the country's leading health and beauty retailer and leading pharmacy chain, as voted by shoppers in the annual Sunday Times/The Sowetan survey for the past 10 years.

Clicks was conceived as a drugstore but owing to restrictive legislation preventing corporate ownership of pharmacies, it took 36 years before Jack Goldin's founding vision was realised. After opening the country's first-ever corporate retail pharmacy in 2004, Clicks opened its 500th pharmacy in April this year.

We celebrated our anniversary by supporting 50 charitable causes in local communities across the country. During our birthday month 16 schools received reusable sanitary pads to the value of R1 million as part of the group's Girls on the Go programme to reduce absenteeism among schoolgirls. We also supported 34 charitable projects with toiletries and basic essentials, and upgraded facilities at a community primary school which adjoins our head office in Woodstock, Cape Town.

“Over 5 800 employees shared in a payout of R1.3 billion from our broad-based share ownership plan”

Our birthday year coincided with the vesting of the first 50% of the group's broad-based employee share ownership plan (ESOP) when over 5 800 employees shared in a payout of R1.3 billion. 86% of the beneficiaries of the scheme are black employees and 65% female. The second and final payout under this scheme will be made in 2019.

In our 50th year the group's operating profit exceeded R2 billion for the first time. It has also been a record year for cash generation and capital investment. Consistent financial performance and growth in shareholder value over several years culminated in Clicks Group being elevated to the FTSE/JSE Top 40 Index in June this year.

STRONG AND RESILIENT PERFORMANCE

The group continued its strong growth momentum and delivered another resilient financial and operational performance for the year, despite facing increasing headwinds across multiple fronts in the second half of the year.

Consumer spending came under further pressure as the increase in the value-added tax rate from 14% to 15% and significant increases in fuel costs reduced disposable income and negatively impacted consumer sentiment. In addition, selling price inflation declined to almost zero in the second half which meant that turnover growth was dependent on achieving volume growth. Finally, the lower incidence of colds and flu compared to the winter of 2017 depressed medicine sales.



Retail health and beauty sales, including Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 11.7%. Sales in comparable stores grew by 6.2%, with selling price inflation of only 1.1%, as volume growth accelerated to 5.1%.

Our founding customer promise of value continues to underpin the Clicks performance through competitive pricing and value promotions. Front shop sales growth was driven by promotions in the current constrained consumer economy, with promotional sales in Clicks increasing by 14.7% and accounting for 35% of the turnover in Clicks.

Strong sales growth, together with the expansion of the store and pharmacy network, contributed to Clicks gaining market share in all merchandise categories. Front shop health market share increased to 30.8% and retail pharmacy market share to 23.3%. In the beauty category, skincare market share grew to 36.1% and haircare to 28.2%.

"Value continues to underpin the Clicks performance through competitive pricing and value promotions"

Our pharmaceutical distributor UPD also performed well. Turnover increased by 8.4%, market share grew from 25.6% to 26.0% and the business gained three new distribution contracts. UPD maintained its operating margin at 2.7% despite the low increase of 1.26% granted in the single exit price (SEP) of medicine in 2018 compared to 7.5% in the previous year.

Overall group turnover for the year increased by 9.1% to R29.2 billion. The financial performance is outlined in the chief financial officer's report on pages 36 to 41, and the trading performance of Clicks and UPD is covered on pages 42 to 53.

50th BIRTHDAY CELEBRATIONS 



DELIVERING ON OUR STRATEGY

The group has made pleasing progress over the past year in delivering on its strategy of creating sustainable long-term shareholder value through a retail-led health, beauty and wellness offering. The strategy is underpinned by the strategic objectives and targets of Clicks and UPD which are reviewed annually by the board and management.

Clicks opened a record 41 new stores and expanded the chain to 663 stores, with 33 stores outside of South Africa. The store opening programme was accelerated beyond the targeted 25 to 30 stores owing to opportunities arising for new space in existing shopping centres.

“Digital technology provides new ways to engage with ClubCard customers, including the Clicks mobile app”

The Clicks online store further enhances the convenience of the brand and in its second year of operation generated sales equivalent to a medium-sized store. Our data analytics indicate that the online spend from our ClubCard customers is incremental to their in-store spend, while the popularity of the “click and collect” service is driving additional spend in stores.

Clicks is the country's largest retail pharmacy chain and expanded the network to 510 as a net 37 pharmacies were opened. While the goal remains to operate a pharmacy in every Clicks store, there are currently 71 Clicks stores still to get a pharmacy. This excludes stores where we do not plan to open a pharmacy, being the non-South African stores, the Netcare hospitals and stores identified to be closed.

Private label, exclusive and international franchise brands ensure Clicks provides a differentiated product offer to customers and reinforce our value proposition. Sales of private label products accounted for 22% of total sales in Clicks, with front shop sales at 28.2% and pharmacy at 5.6%.

ClubCard increased active membership by over 800 000 to 7.8 million, with the loyalty programme comprising 77.2% of Clicks' sales. The basket spend continues to be twice that of a non-ClubCard shopper and over R440 million was paid to customers in cashback this year. Importantly, digital technology provides new ways to engage with ClubCard customers, including the Clicks mobile app which is a virtual ClubCard.

Clicks has continued to invest in improving the quality of customer care to ensure shoppers are served by friendly and knowledgeable staff. This includes our dedicated pharmacy teams, our 1 400 beauty advisers and we plan to appoint 700 wellness assistants in our stores in the new year. Evidence of our investment in customer care is the reduction in the pharmacy staff turnover to 15%, which provides greater stability and continuity in our pharmacies.

UPD provides an efficient healthcare supply chain for Clicks which accounts for 54.5% of UPD's wholesale turnover. The continued success of the strategy of developing the bulk distribution business in tandem with the fine wholesaling business has seen UPD's total managed turnover increase by 8.9% to R17.9 billion. The business increased its bulk distribution portfolio to 23 clients by gaining three new contracts during the year while a further contract was secured early in the new financial year.

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



INVESTING IN OUR PEOPLE

In South Africa the war for talent is ongoing and the group invests in attracting and retaining scarce retail and healthcare skills which are in high demand locally and internationally. In the past year R125 million was invested in the training and development of over 6 000 of our people.

This investment, together with other initiatives to motivate, reward and retain staff, contributed to the group being recognised as the Top Employer in the retail sector by the Top Employers Institute.

The ESOP was introduced to allow employees to share in the long-term growth of the Clicks Group. In addition to the R1.3 billion paid to beneficiaries earlier this year, participants in the scheme have received dividends totalling R35.4 million since the inception of the scheme. Extending equity ownership to employees has also enabled the group to accelerate transformation and build on the progress that has been made across all the other pillars of BBBEE. Clicks has been consistently rated as a top empowered retailer and a top gender-empowered company.

“Extending equity ownership through the employee share scheme has also enabled the group to accelerate transformation”

The ESOP has been complemented by learnerships and graduate development programmes across several retail disciplines, as well as our in-house Pharmacy Healthcare Academy which trains pharmacy assistants.

The New Clicks Foundation will receive R100 million from the Employee Share Ownership Trust over a two-year period which will enable Clicks to grant 100 bursaries each year to ensure a sustainable pipeline of pharmacists entering the profession.

Refer to the creating value through good citizenship report on pages 60 to 65 for further detail on our investment in our people.

ROLE OF PHARMACY IN PRIMARY HEALTHCARE

Pharmacy can play a leading role in delivering government's healthcare agenda of increasing access to affordable medicine as the country prepares for the implementation of the National Health Insurance (NHI).

Private sector pharmacy offers a low-cost way of delivering improved access to quality primary care through a network of over 2 500 community pharmacies across the country. Unfortunately current regulation is impeding progress and several regulatory hurdles need to be removed.

Our public health agenda is as follows:

Access to primary health insurance

An estimated 5 million people in formal employment cannot afford medical cover and need access to funded primary healthcare to reduce pressure on state facilities. The Council of Medical Schemes has been appallingly slow in developing a standardised, low-cost medical scheme option focused on primary healthcare.

Clicks Group has taken the lead on this front and will be offering low-cost primary health insurance to over 9 200 lower-income earning employees who are not currently covered by a medical aid, from January 2019. The scheme will be 100% company-funded at an annual cost of approximately R31 million.

We encourage other companies to fund healthcare benefits for employees. Collectively, corporate South Africa can play a meaningful role in reducing the pressure on the overburdened state healthcare system.

Increase number of prescribing pharmacists

Pharmacists are required to undergo a two-year part-time training course in primary care drug therapy to prescribe essential medicines without a doctor's prescription. Currently only one tertiary institution is accredited to offer this training. To increase the number of prescribing pharmacists in the short term it is imperative that the SA Pharmacy Council provide accreditation to additional institutions as a matter of urgency and that the Department of Health expands the number of facilities available for the practical component of this course. In the medium term, this training course should be incorporated into the pharmacy degree curriculum.

Increase access to affordable medicine

We believe access can be increased in several ways:

- the exemption of schedule 1 and 2 medicines from the SEP regulations will allow for more competitive pricing and discounting;
- the down-scheduling of certain allopathic medicines to international standards will increase access to self-medication; and
- the removal of the restrictions on the marketing of schedule 1 and 2 medicines will increase patient awareness of self-medication options.

Collection points for state patients

Retail pharmacy provides a convenient network for state patients to collect chronic medicines, which would relieve the pressure on overburdened state facilities. Clicks has partnered with the Department of Health and over 400 pharmacies are registered as collection points for state chronic medicine parcels.

REGULATION OF MEDICINES AND HEALTH SUPPLEMENTS

The SA Health Products Regulatory Authority (SAHPRA), formerly the Medicines Control Council, remains ineffective and their inability to register generic medicines and reduce the current backlog in applications continues to inhibit access to affordable medicines.

In last year's integrated report we outlined the challenges facing the group in relation to the regulation of health supplements under the Medicines Act, which requires all supplements to be registered through SAHPRA.

We remain firm in our belief that health supplements should be regulated under food law as they are not medicines as defined by the Medicines Act. It is interesting that the SA Revenue Service classifies health supplements as foodstuffs, which highlights the conflicted views within these state agencies.

"Over 400 Clicks pharmacies are registered as collection points for state chronic medicine parcels"

The current regulatory regime is stifling innovation and limiting customer choice. Regrettably, our engagement together with the Association of Natural Health Products (ANHP) has not had the desired outcome.

The ANHP launched proceedings in the High Court earlier this year to challenge the inclusion of health supplements in the regulatory regime of the Medicines Act. The basis of the litigation is that the definition of medicines should refer to substances with actual or claimed therapeutic effect. If this contention is accepted by the court, the regulation of nutritional supplements would be outside the power of the Minister of Health and the regulations should then be set aside. Judgment in the case is not expected before mid-2019.

OUTLOOK FOR 2019

The current pressures on consumer spending are unlikely to abate in the months ahead and the retail trading environment will therefore remain challenging.

Selling price inflation is expected to remain low in the first half of the new financial year and the SEP increase for 2019 is likely to be only marginally higher than 2018. The group will therefore continue to operate in a constrained environment.

The group's health and beauty markets and business model are resilient. The business continues to trade well in these challenging economic conditions and management is confident of maintaining sales momentum and sustaining volume growth in the year ahead.

APPRECIATION

Over the past 13 years I have been privileged to lead a great company and a great team of highly motivated, energetic and talented people.

Thank you to our chairman, David Nurek, for his unwavering support and counsel during my tenure as CEO, and to my fellow directors for sharing their wealth of knowledge and experience.

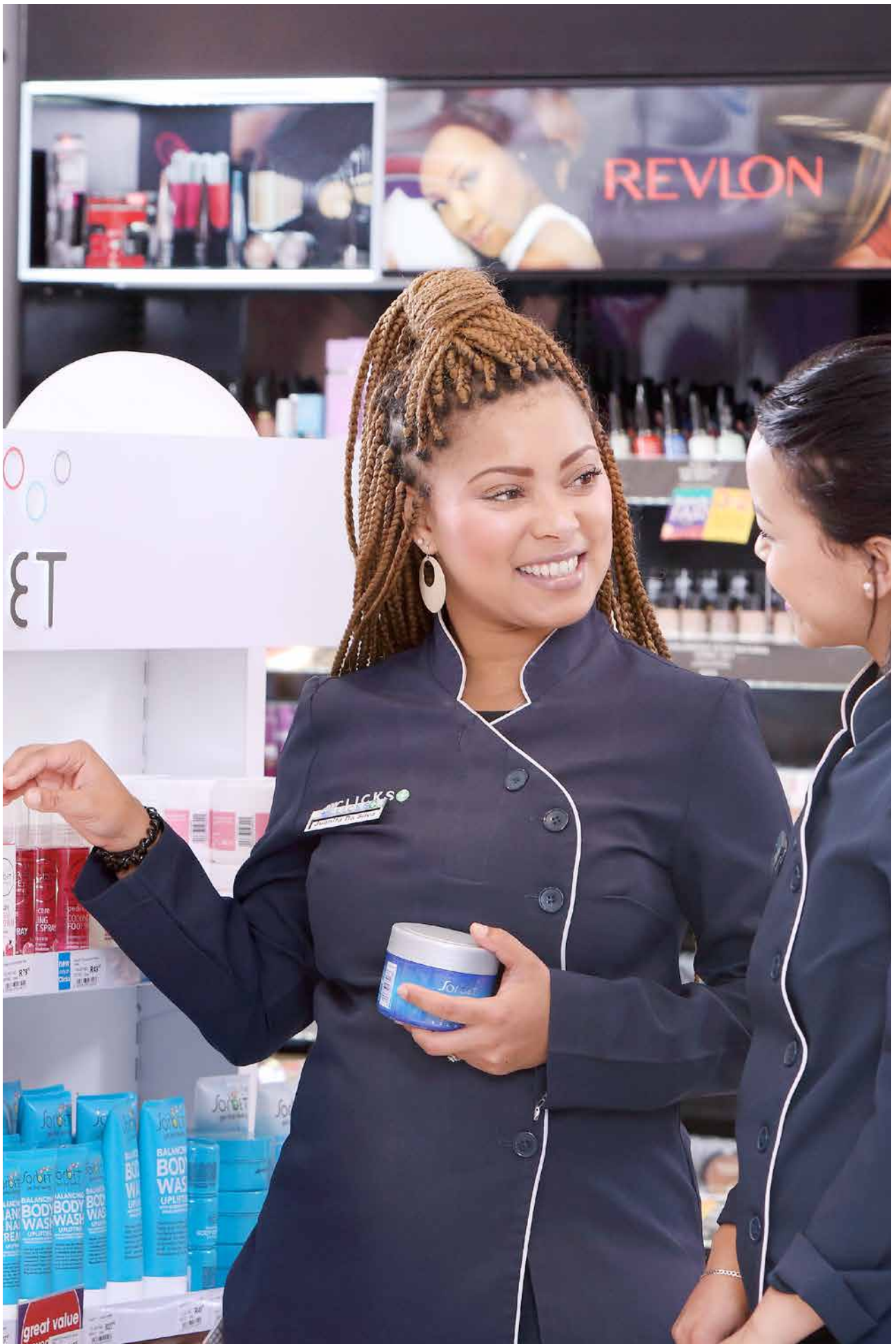
My group executive colleagues, Michael Fleming, Bertina Engelbrecht and Vikesh Ramsunder, lead by example and I thank them for the role that they have played in ensuring the success and sustainability of the group.

To our 15 000 people at head office, stores and distribution centres across the country, thank you for making us the country's first-choice health and beauty retailer.

My successor, Vikesh Ramsunder, has a proven leadership track record and depth of experience. His appointment confirms the strength and quality of our internal talent. He has been developed as my successor over several years and is highly respected both by employees and external stakeholders of the group. I wish Vikesh every success as he assumes the leadership of the group and know the company is in great hands.



David Kneale
Chief executive officer



CHIEF FINANCIAL OFFICER'S REPORT

INTRODUCTION

Clicks Group continued its strong growth momentum with robust turnover growth supported by good management of margins, expenses and working capital, and continued strong cash generation.

The performance for the year translated into growth of 15.1% in diluted headline earnings per share (HEPS) to 578 cents. Shareholders will receive a total dividend of 380 cents per share, an increase of 18% on last year, with the dividend payout ratio being raised from 60% to 62%. The group generated a total shareholder return of 39.0%, based on dividends paid and the growth in the share price over the year.

The group continues to deliver a high return on equity which has averaged 43.8% over the past three years.

MEDIUM-TERM FINANCIAL TARGETS

Financial targets are disclosed to provide guidance to shareholders on the group's medium-term performance expectations. The targets are reviewed annually to take account of the group's current performance and the medium-term outlook for trading.

		Achieved in FY2018	Medium- term target
Return on equity	(%)	38.2	50 – 60
Return on assets	(%)	13.9	14 – 18
Net working capital days		36	33 – 38
Group operating margin	(%)	7.0	6.5 – 7.5
Retail		8.1	7.5 – 8.5
Distribution		2.7	2.5 – 3.0
Dividend payout ratio	(%)	62	60 – 65

The performance for the 2018 financial year is within the target ranges for most metrics, excluding the return on equity and the return on assets which have been impacted in the short term by the group's broad-based employee share ownership scheme. These ratios are expected to trend upwards after the scheme matures in the 2019 financial year.

Management has introduced a net working capital target to replace the inventory target in order to provide guidance on broader working capital efficiency across the group. The operating margin target range for the distribution segment has been increased from 2.2% – 2.7% to 2.5% – 3.0% to reflect the expected margin benefit from UPD securing additional bulk distribution contracts.

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) and Celesio (Germany).

FINANCIAL PERFORMANCE

The following review of the group's financial performance for the year ended 31 August 2018 focuses on the key line items of the statements of comprehensive income and financial position which management consider 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 page 38 and 41 respectively.



STATEMENT OF COMPREHENSIVE INCOME

Turnover

Group turnover increased by 9.1% to R29.2 billion (2017: R26.8 billion). Selling price inflation for the group averaged only 1.9% for the year compared to 5.3% in the previous year.

Turnover was again relatively consistent across the first and second halves of the year. 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. However, the incidence of colds and flu in 2018 was lower than last winter which depressed medicine sales.

Retail turnover, including Clicks, The Body Shop, GNC, Claire's and Musica, increased by 10.8%. Retail selling price inflation was low at only 1.4%. Comparable stores sales grew by 5.5%.

Within the retail division, health and beauty sales increased by 11.7%, reflecting the resilient nature of the core Clicks business. Musica's sales were 8.4% lower owing to the pressure on discretionary consumer spending and the increase in digital consumption of music and movies.

Growth in retail trading space accounted for 5.3% of the turnover growth with the net opening of 42 retail stores and 37 pharmacies.

Distribution turnover grew by 8.4% as UPD experienced a moderately stronger second half performance.

The trading performances of Clicks and UPD are covered in the business review on pages 42 to 53.

Total income

Total income grew by 10.5% to R7.9 billion (2017: R7.1 billion).

The retail total income margin expanded by 20 basis points to 33.6% by optimising the promotional product mix and effectively managing promotional campaigns.

UPD's total income margin was impacted by the low increase in the single exit price (SEP) of medicine of only 1.26% in March 2018 compared to 7.5% in March 2017. However, the impact was partially off-set by UPD onboarding three new distribution clients in the second half of the year and the margin declined by 10 basis points to 7.3%.

Owing to the favourable mix impact from the faster growth in retail, the group's total income margin strengthened by 30 basis points to 27.0%.

Operating expenditure

Retail operating expenditure as a percentage of turnover improved to 25.5% from 25.6% in the prior year.

Retail expense growth of 10.3% was contained below sales growth despite the extensive investment in new stores and pharmacies. Comparable retail costs increased by 5.1%, reflecting the tight management of costs.

UPD continued to demonstrate excellent cost control with expenses up 6.5% on last year notwithstanding the increased labour and transport costs relating to the onboarding of the three new distribution contracts.

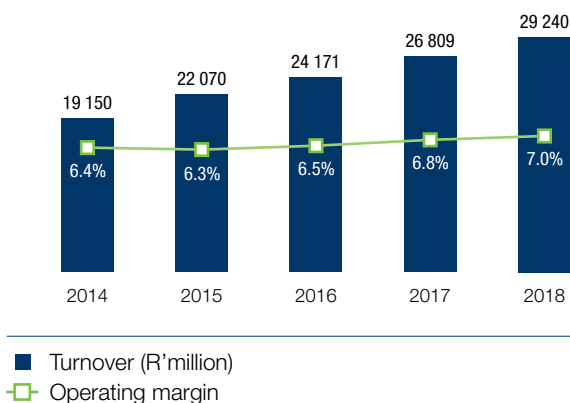
The group's operating expenses increased by 9.7%.

Operating profit

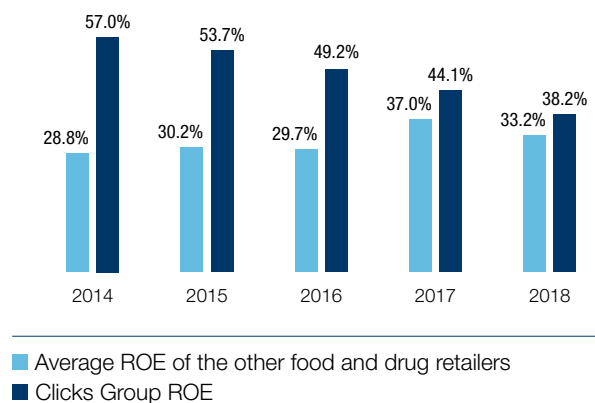
Operating profit increased by 12.6% to R2.0 billion (2017: R1.8 billion) as both the retail and distribution businesses achieved operating leverage and benefited from increased scale. The group margin strengthened by 20 basis points to 7.0%.

Retail increased its operating profit margin by 30 basis points to 8.1% and grew operating profit by 14.7% despite a reduction of R19 million in Musica's profit. UPD maintained its operating margin at 2.7% despite the low SEP increase.

Turnover and margin



Return on equity (ROE)



CHIEF FINANCIAL OFFICER'S REPORT (CONTINUED)

SUMMARY STATEMENT OF COMPREHENSIVE INCOME

R'million	2018	% of turnover	2017	% of turnover	% change
Turnover	29 240		26 809		9.1
Retail	21 063	72.0	19 015	70.9	10.8
Distribution	13 376	28.0	12 334	29.1	8.4
Intragroup	(5 199)		(4 540)		
Total income	7 894	27.0	7 147	26.7	10.5
Operating expenses	(5 852)	20.0	(5 333)	19.9	9.7
Retail	(5 375)		(4 871)		10.3
Distribution	(619)		(581)		6.5
Intragroup	142		119		
Operating profit	2 042	7.0	1 814	6.8	12.6
Retail	1 705	8.1	1 486	7.8	14.7
Distribution	362	2.7	329	2.7	10.2
Intragroup	(25)		(1)		
Loss on disposal of property, plant and equipment	(1)		(5)		
Net financing income/(costs)	2		(37)		(105.5)
Share of profit of an associate	2		3		
Income tax	(570)		(497)		14.7
Profit for the year	1 475		1 278		15.5

SUMMARY STATEMENT OF FINANCIAL POSITION

R'million	2018	2017	% change
Non-current assets	3 233	2 854	13.3
Property, plant and equipment	1 844	1 534	20.2
Other non-current assets	1 389	1 320	5.2
Current assets	8 331	6 867	21.3
Inventories	4 227	3 754	12.6
Trade and other receivables	2 331	2 213	5.4
Other current assets	1 773	900	96.9
Total assets	11 564	9 721	19.0
Equity	4 428	3 300	34.2
Non-current liabilities	447	402	11.3
Current liabilities	6 689	6 019	11.1
Trade and other payables	6 199	5 475	13.2
Other current liabilities	490	544	(9.8)
Total equity and liabilities	11 564	9 721	19.0

STATEMENT OF FINANCIAL POSITION

The ratio of shareholders' interest to total assets increased to 38.3% (2017: 34.0%) and the average gearing level declined from 14.8% in 2017 to an average ungeared position for the year.

The ratio of current assets to current liabilities at year-end was 1.2 times (2017: 1.1 times), indicating that working capital remains adequately funded. Other current assets include R1.5 billion in cash.

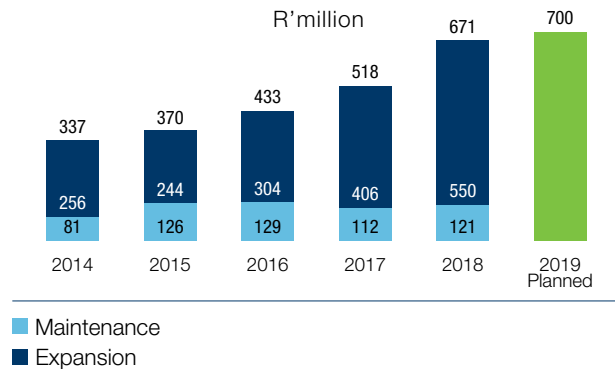
The group continues to hedge direct exposures to foreign exchange rate fluctuations which impact approximately between 6% and 7% of the cost of sales in the retail business. In addition, the group hedged elements of the long-term incentive scheme for the 2018 to 2020 period. Further detail on the respective hedges and risk management is contained in note 28 in the annual financial statements on the group's website.

"The group's medium-term financial targets rank in the upper quartile relative to comparable global health and beauty retailers"

Working capital

Working capital continues to be well managed and the group's net working capital improved from 37 to 36 days. Trade debtor days, which relate primarily to UPD, reduced from 40 to 38 days while creditor days improved from 68 to 69 days. Inventory days moved out from 65 to 67 days owing to higher retail inventory levels to ensure stock availability. Inventory levels are expected to normalise in the new financial year. Distribution's inventory days were unchanged from last year at 38 days.

Capital expenditure



Cash and capital management

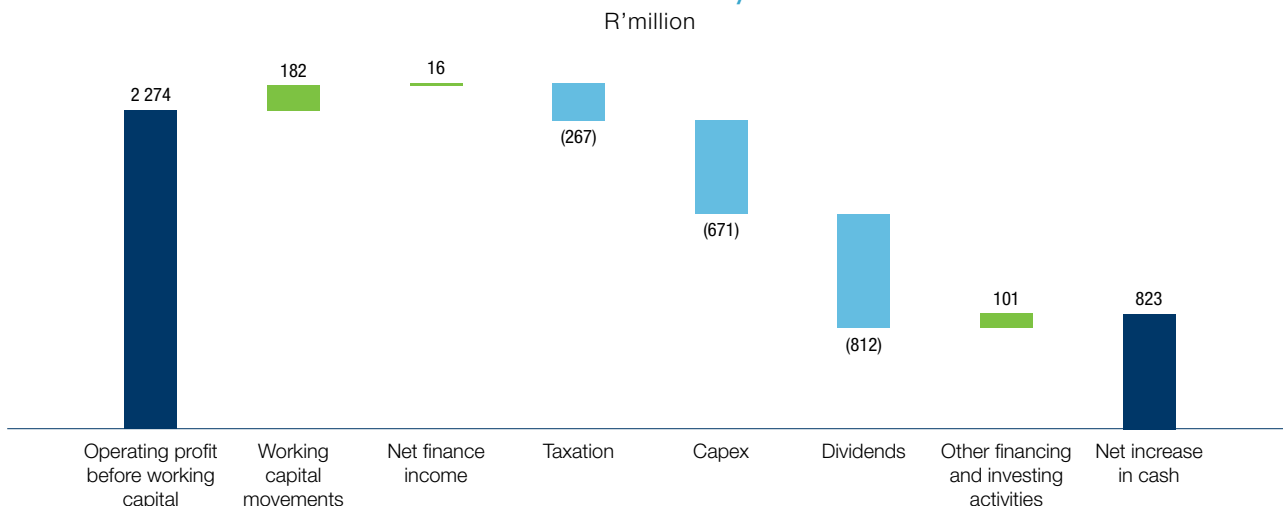
Cash generated by operations increased by 20.7% to R2.5 billion, driven by the increase in operating profit and good working capital management.

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 R350 million was invested in new stores and refurbishments; R198 million on expanding distribution centres, including the first phase of the Clicks distribution centre in Centurion, Gauteng, and UPD's Cape Town and Johannesburg warehouses; and R123 million in IT and retail infrastructure.
- The group returned R812 million to shareholders through dividend payments.

Cash resources increased by R823 million over the previous year and the group ended the year with cash of R1.5 billion.

Cash flow analysis



DIVIDENDS

The total dividend for the financial year was increased by 18.0% to 380 cents per share (2017: 322 cents), based on an increased dividend payout ratio of 62% (2017: 60%) of HEPS. This comprises the interim dividend of 102.5 cents (2017: 88 cents) and a final dividend of 277.5 cents (2017: 234 cents).

A dividend of 38.0 cents per "A" share (2017: 32.2 cents) was declared for participants in the employee share ownership programme.

"The group plans to invest between R650 million and R700 million per year for the next three years"

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 improving the customer loyalty management system, master data management projects and planning for the replacement of legacy IT systems.

In the omni-channel space, the group has continued to enhance the www.clicks.co.za transactional website and 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 R54 million on computer hardware and R65.9 million in computer software which included replacing ageing IT hardware and software to improve processing capability and enhance capacity to support business growth.

FINANCIAL PLANS FOR 2019

Capital expenditure of R700 million is planned for the 2019 financial year:

- R371 million will be invested in the store portfolio which includes 25 to 30 new Clicks stores, 30 to 35 new pharmacies and 60 store refurbishments.
- R329 million committed for IT systems and retail infrastructure which includes:
 - the 20 900 m² expansion of the Clicks distribution centre in Centurion. The project will be undertaken at a total cost of R230 million, with R123 million expected to be incurred in the 2019 financial year for the completion of the second phase of the project; and
 - R77 million for IT and warehouse equipment 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, increase efficiency in the distribution centres and invest in IT tools and systems.

Total retail trading space is expected to increase by approximately 6% in 2019.

APPRECIATION

Thank you to our local and international shareholders as well as our funding institutions for their continued support. We also thank the broader investment community for their positive engagement with management. In closing, I 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 (%)	2018	2017	2016	2015	2014
Statements of comprehensive income							
Turnover	(Rm)	10.8%	29 240	26 809	24 171	22 070	19 150
Operating expenses	(Rm)	10.3%	(5 853)	(5 333)	(4 796)	(4 339)	(3 954)
Operating profit	(Rm)	13.1%	2 042	1 814	1 572	1 396	1 218
Profit before tax	(Rm)	14.3%	2 045	1 774	1 515	1 330	1 207
Headline earnings	(Rm)	14.3%	1 476	1 269	1 099	960	838
Statements of financial position							
Non-current assets	(Rm)	15.1%	3 233	2 854	2 507	2 009	1 772
Trade and other receivables	(Rm)	9.1%	2 331	2 213	2 013	1 871	1 608
Inventories	(Rm)	13.7%	4 227	3 754	3 479	3 250	2 614
Other current assets	(Rm)	69.1%	249	200	8	25	3
Cash and cash equivalents	(Rm)	75.3%	1 524	700	370	401	195
Total assets	(Rm)	16.3%	11 564	9 721	8 377	7 556	6 192
Total equity	(Rm)	26.3%	4 428	3 300	2 452	2 013	1 567
Non-current liabilities	(Rm)	12.1%	447	402	406	308	286
Current liabilities	(Rm)	14.0%	6 689	6 019	5 519	5 235	4 339
Total equity and liabilities	(Rm)	16.3%	11 564	9 721	8 377	7 556	6 192
Statements of cash flows							
Cash inflow from operating activities before dividends paid	(Rm)	16.9%	2 205	1 531	1 345	1 290	1 464
Dividends paid	(Rm)	15.6%	812	677	586	491	429
Capital expenditure	(Rm)	16.7%	671	518	433	370	337
Returns and margin performance							
		5-year average					
Total income margin	(%)	26.6	27.0	26.7	26.3	26.0	27.0
Operating margin	(%)	6.6	7.0	6.8	6.5	6.3	6.4
Return on assets	(%)	14.0	13.9	14.0	13.8	14.0	14.4
Return on shareholders' interest	(%)	48.4	38.2	44.1	49.2	53.7	57.0
Inventory days		66.0	67	65	66	68	64
Asset turnover	(times)	2.8	2.5	2.8	2.9	2.9	3.1
Return on net assets	(%)	96.1	102.2	98.6	93.5	96.7	85.2
Shareholders' interest to total assets	(%)	30.7	38.3	34.0	29.3	26.6	25.3
Net debt to equity	(%)	(20.6)	(34.4)	(21.2)	(15.1)	(19.9)	(12.5)
Share performance							
		5-year compound growth (%)					
Headline earnings per share – basic	(cents per share)	15.2%	612.3	536.3	462.4	399.2	341.7
Headline earnings per share – diluted	(cents per share)	14.1%	578.0	502.1	438.5	383.9	336.8
Cash equivalent earnings	(cents per share)	17.3%	858.1	630.0	576.5	527.2	433.7
Net asset value	(cents per share)	26.5%	1 811	1 395	1 037	839	647
Dividends declared	(cents per share)	17.7%	380.0	322.0	272.0	235.0	190.0
Weighted average number of shares in issue (net of treasury shares)	('000)		241 073	236 526	237 565	240 603	245 364
Weighted average diluted number of shares in issue (net of treasury shares)	('000)		255 385	252 641	250 501	250 204	248 892
Shares repurchased	(Rm)		–	–	290	176	285
Shares repurchased	('000)		–	–	3 360	2 376	4 620

A comprehensive five-year review is available on the website at www.clicksgroup.co.za.

BUSINESS REVIEW

Clicks and UPD both occupy market-leading positions in South Africa and their operating margins rank in the upper quartile of global drugstores and pharmaceutical wholesalers.

please pay here

cashback
loaded on your
ClubCard



shaving
deodorants
feminine hygiene

CLICKS+

feel good pay less



 View Clicks video at www.clicksgroup.co.za

CLICKS BUSINESS REVIEW (CONTINUED)

Clicks delivered another resilient performance in the increasingly constrained consumer spending environment. The strength of the Clicks brand and its loyal customer base contributed to health and beauty sales increasing by 11.7%, with volume growth of 5.1% in same stores, as Clicks gained market share in all product categories.

Clicks was again rated as the country's leading health and beauty retailer and pharmacy chain in the Sunday Times/Sowetan Shopper Survey for 2018.

SALES PERFORMANCE

Clicks has been synonymous with value retailing since its founding 50 years ago and value is particularly relevant to cash-strapped customers in the current challenging economic climate. Clicks continues to invest to offer great everyday pricing and this is supported by an active promotions strategy, centred around the brand's well-known 3 for 2 offers. Promotional sales increased by 14.7% and accounted for 35.0% of turnover in Clicks.

Pharmacy sales grew by 13.2% and comprised 30.8% of turnover. Growth was impacted by the poor winter season for colds and flu which depressed medicine sales as well as the low SEP increase relative to the previous year. Clicks continued to grow ahead of the market and increased its share of the retail pharmacy market from 22.1% to 23.3%.

"Clicks has been synonymous with value retailing since its founding 50 years ago"

Front shop health was the fastest-growing category with sales increasing by 14.1%, supported by the robust performances of GNC (up 19.5%), first aid (up 21.5%) and baby (up 19.6%). The baby sub-category is strategically important in attracting new customers and grew market share from 13.7% to 15.1%.

Beauty and personal care sales grew by 7.6%. Owing to the limited product innovation in these categories, promotional activity was key to driving volume growth. The best-performing

Health and beauty sales*	% increase	% contribution to sales
Pharmacy	13.2	30.8
Front shop health	14.1	23.3
Beauty and personal care	7.6	30.2
General merchandise	13.1	15.7
Total turnover	11.7	100.0

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

sub-categories were ethnic haircare, gifting and The Body Shop range which has been extended into a further 48 Clicks stores.

General merchandise, which has the most discretionary product offering, grew sales by 13.1%. Growth was driven by buoyant Christmas sales, a pleasing promotional performance from convenience categories such as paperware and beverages, and good growth in the healthy snacking category. Clicks remains the leader in sales of small electrical appliances with a market share of 17.9%.

Market share (%)	2018	2017
Health		
Retail pharmacy*	23.3	22.1
Front shop health**	30.8	30.0
Baby**	15.1	13.7
Beauty and personal care		
Skincare**	36.1	36.0
Haircare**	28.2	26.7
General merchandise		
Small electrical appliances***	17.9	17.4

* IQVIA (Private retail pharmacy S1- 6)

** AC Nielsen (comparative restated)

*** GfK (comparative restated)

EXTENDING CONVENIENCE

Clicks opened a record 41 new stores and increased the brand's footprint to 663 stores at year-end. The store opening programme was accelerated beyond the targeted 25 to 30 stores owing to opportunities arising for new space in existing shopping centres.

"The Clicks online store generated sales equivalent to a medium-sized Clicks store"

The Clicks footprint includes 33 stores in neighbouring Namibia (21 stores), Swaziland (four stores), Botswana (seven 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 South Africa's largest retail pharmacy chain and extended its network to 510 with the opening of 37 in-store pharmacies. The number of clinics was increased from 195 to 203.

Clicks was once again ranked first in the pharmacy category in the annual Ask Afrika Orange Index service excellence survey.

The Clicks online store further enhances customer convenience, offering the full product range available in large Clicks stores. The offer is being extended to include online only ranges, with prestige beauty being the first of these ranges. Customers can select home delivery or the “click and collect” in store service, which is also driving incremental spending in stores. The online store has performed well in the past year and generated sales equivalent to a medium-sized Clicks store.

“ClubCard attracted over 800 000 new members, bringing total active membership to 7.8 million”

ENGAGING CUSTOMERS

ClubCard is integral to the Clicks digital customer engagement strategy which aims to complement the store experience and enables Clicks to better understand and engage with customers, and influence the behaviour of shoppers.

ClubCard is South Africa’s most popular loyalty programme and attracted over 800 000 new members in the past year, bringing total active membership to 7.8 million. ClubCard members accounted for 77.2% of sales in Clicks and R442 million was returned to customers in cashback.

Digital technology provides new ways to engage with customers, including the Clicks mobile app which incorporates 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. Customer response has been most encouraging and the mobile app has been downloaded by over 250 000 customers.



DIFFERENTIATED PRODUCT OFFER

Private label and exclusive brands offer differentiated ranges at competitive prices while increasing the appeal of the Clicks brand and enhancing margin.

International franchise brands, The Body Shop, GNC and Claire's, further differentiate the Clicks offer. The Body Shop has a presence in 170 Clicks stores, GNC in 454 stores and Claire's in 168 Clicks stores. Clicks is also the exclusive retail stockist of the Sorbet product range.

Innovation is a key driver of private label sales and over 700 new products were launched during the year. This included the successful launch of Sorbet Cosmetics, a range of over 320 products for faces, lips, eyes and nails, initially sold in 123 Clicks stores and 40 Sorbet salons.

Sales of private label products accounted for 22% of total sales in Clicks, with front shop sales at 28.2% and pharmacy 5.6%.

IMPROVING CUSTOMER CARE

Clicks continues to invest in improving customer care to enhance the in-store experience and ensure customers are served by friendly and knowledgeable staff. In the past year R102 million was invested in staff training and development across store managers, pharmacists, pharmacy assistants and front shop staff, including beauty advisers.

“Clicks has invested over R27 million in pharmacy bursaries in the past six years”

As the largest employer of pharmacy staff in the private sector with over 2 800 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 83 bursaries to pharmacy students in 2018 and has invested over R27 million in bursaries in the past six years. During the year 359 pharmacy assistants were enrolled and 70 pharmacy internships awarded.

The store operations learnership programme attracted 122 trainee managers while 20 graduates completed the retail graduate development programme.

OUTLOOK FOR 2019

Clicks plans to open 25 to 30 new stores and 30 to 35 pharmacies as the chain moves towards its long-term goal of expanding its South African store footprint to 900, with a pharmacy in each store. A further 55 stores will be refurbished.

Private label, exclusive and franchise brands are planned to contribute 29.5% 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. The distribution of the Sorbet cosmetics brand will be extended to a further 60 stores. The private label generic medicine range will be extended by 34 products.

ClubCard membership is targeted to grow to 8.0 million while technology and data analytics will be applied to personalise engagement with customers.

The Clicks distribution centre in Centurion, Gauteng, is being expanded by 20 900 m² to support the increasing scale of the Clicks chain. The project commenced in 2017 and is being undertaken at a cost of R230 million. The first phase of the construction has been completed and the second phase is scheduled to be completed by September 2019.



Vikesh Ramsunder
Chief operating officer



Vikesh Ramsunder

Chief operating officer

Vikesh (47) joined the group in 1993 and was appointed as chief operating officer of the Clicks brand in 2015. He was previously managing director of UPD, the group's pharmaceutical wholesaler, from 2010 and was instrumental in driving UPD's integrated pharmaceutical wholesale and distribution strategy. Prior to this he was head of logistics at Clicks for two years, and served in store, general management and distribution centre management positions across the group. He holds B Com and MBL degrees. Vikesh has been promoted to chief executive officer of the Clicks Group from 1 January 2019.

PERFORMANCE AGAINST OBJECTIVES IN 2018 AND PLANS FOR 2019

Deliver a competitive and differentiated front shop product offer



Plans and targets for 2018

Increase front shop private label and exclusive brand sales to 29.0%

Expand presence of franchise brands in Clicks

- The Body Shop: 150 stores
- GNC: 390 stores
- Claire's: 150 stores

Achieved in 2018

Front shop private label and exclusive sales 28.2% of total sales

Franchise brands in Clicks stores

- The Body Shop: 170 stores
- GNC: 454 stores
- Claire's: 168 stores

Plans and targets for 2019

Increase front shop private label and exclusive brand sales to 29.0%



Create a great customer experience

Plans and targets for 2018

Expand private label scheduled generic medicines range by 30 products

Increase repeat prescription service to 50% of repeat scripts

200 clinics at year-end

Achieved in 2018

120 private label medicines (2017: 100)

44% of scripts now on repeat prescription service

203 clinics at year-end

Plans and targets for 2019

Expand private label scheduled generic medicines range by 34 products

Increase repeat prescription service to 50% of repeat scripts

200 – 210 clinics at year-end

Grow the retail footprint



Plans and targets for 2018

Open 25 to 30 new Clicks stores

55 stores to be expanded/ refurbished

Open 30 to 35 new pharmacies

Insource digital capability and improve personalisation

Achieved in 2018

Net 41 stores opened
663 stores at year-end

55 stores expanded/ refurbished

Net 37 pharmacies opened
510 pharmacies at year-end

Digital marketing capability insourced

Plans and targets for 2019

Open 25 to 30 new Clicks stores

55 stores to be expanded/ refurbished

Open 30 to 35 new pharmacies

Improve personalisation capability

PERFORMANCE AGAINST OBJECTIVES IN 2018 AND PLANS FOR 2019 (CONTINUED)

Drive customer loyalty through ClubCard



Plans and targets for 2018

Increase membership to 7.5 million

Grow Baby Club to 520 000 members

Grow Seniors Club to 900 000 members

Enrol 100 000 customers to virtual ClubCard

Achieved in 2018

7.8 million members

445 000 Baby Club members

925 000 Seniors Club members

240 000 customers enrolled to virtual ClubCard

Plans and targets for 2019

Increase membership to 8.0 million

Grow Baby Club to 500 000 members

Grow Seniors Club to 1.0 million members

Enrol 500 000 customers to virtual ClubCard

Ensure supply chain excellence



Plans and targets for 2018

Complete Centurion distribution centre expansion

Achieved in 2018

Phase 1 completed, adding 14 200 m²

Plans and targets for 2019

Phase 2 to be completed September 2019, adding 6 700 m²

Maintain a motivated and skilled workforce



Plans and targets for 2018

300 pharmacy assistants to be enrolled

100 pharmacy bursary students

70 internships

20 graduates to be enrolled on graduate development programme

Achieved in 2018

359 pharmacy assistants enrolled

94 pharmacy bursary students

70 internships

20 graduates enrolled on graduate development programme

Plans and targets for 2019

300 pharmacy assistants to be enrolled

100 pharmacy bursary students

70 internships

20 graduates to be enrolled on graduate development programme



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

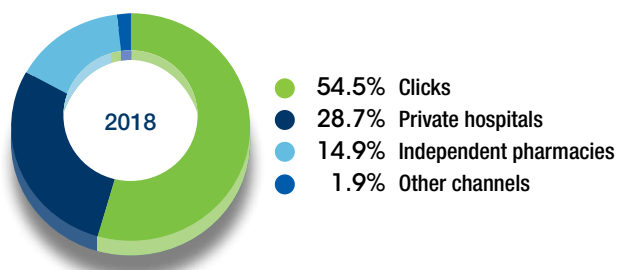
UPD maintained its market-leading positions in both the pharmaceutical wholesale and bulk distribution markets as the business gained market share, secured new distribution clients and reported ongoing excellent control of inventory and costs.

Turnover increased by 8.4% and UPD maintained its operating margin at 2.7% despite the low increase of 1.26% in the regulated single exit price (SEP) of medicines, compared to 7.5% in the previous year.

“Clicks remains UPD’s largest single customer, accounting for 54.5% of wholesale turnover”

UPD’s total managed turnover, combining fine wholesale turnover with the turnover managed on behalf of bulk distribution clients, increased by 8.9% to R17.9 billion.

Wholesale turnover by channel



Wholesale turnover increased by 8.2% with inflation slowing to 2.9% for the year compared to 5.8% in the previous year. UPD’s solid growth resulted in its wholesale market share increasing from 25.6% to 26.0%.

Sales to Clicks pharmacies increased by 13.1% and Clicks remains UPD’s largest single customer, accounting for 54.5% of wholesale turnover.

Sales to private hospital groups, including Life Healthcare, Mediclinic and Netcare, showed muted growth of 4.1%.

UPD services approximately 1 200 independent pharmacies and sales to this channel grew by 1.4% and accounted for 14.9% of turnover. This was driven by pharmacy groups, particularly Link, demonstrating the benefits of brand affiliation and economies of scale in tough market conditions.

In addition to the ongoing margin pressure from the faster growth in lower-priced generics, UPD also encountered headwinds from the lower incidence of colds and flu in the second half of the year. Sales of generic medication increased by 13.2% and now account for 69% of wholesale turnover volume.

As UPD has a high fixed cost base management continuously seeks ways to off-set margin pressure by extracting efficiencies across all aspects of the operations, including inventory management, labour productivity and transport optimisation.

UPD owns its five distribution centres located in Gauteng (Lea Glen), Cape Town, Durban, Bloemfontein and Port Elizabeth. Distribution capacity has been increased by approximately 30% following the expansion of the Cape Town distribution centre, which was completed in February 2018 at a cost of R30 million and the reorganisation of the Lea Glen facility. All the distribution centres are ISO9001:2015 certified. UPD won a gold award at the 2018 logistics achiever awards which recognises excellence in supply chain and logistics.

“UPD gained three new distribution contracts and at year-end managed a portfolio of 23 distribution clients”

Product availability, which is core to offering superior range and service to customers, averaged 95% for the year while on-time deliveries were 99%.

Through its distribution business UPD offers local and international, generic and originator pharma manufacturers an efficient and cost-effective supply chain solution. UPD gained three new distribution contracts and at year-end managed a portfolio of 23 distribution clients.



OUTLOOK FOR 2019

UPD aims to increase wholesale market share to 26.5% 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.

The business aims to pursue new distribution contracts and one new contract commenced in the first quarter of the 2019 financial year.

Capital expenditure of R77 million has been committed for warehouse equipment and information technology in the year ahead.

The medium-term target for UPD's operating margin has been increased from the current 2.2% – 2.7% to a range of 2.5% – 3.0% which management believes is a sustainable margin owing to the growth in the bulk distribution business.

UPD remains committed to its long-term strategic objective of growing market share in both wholesale and bulk distribution to 30%.

Vikash Singh
Managing director



Vikash Singh

Managing director

Vikash (45) was appointed as managing director of UPD in April 2015. He is a seasoned executive whose career has spanned financial, operational, supply chain and logistics responsibilities, with extensive experience in logistics management in both Clicks and UPD. After joining the group in 2006, he served in finance and risk management roles in distribution and logistics in the Clicks chain. Vikash moved to UPD in 2010 and was head of operations and distribution prior to his promotion to managing director. He holds B Com (Acc) and MBA (cum laude) degrees.

PERFORMANCE AGAINST OBJECTIVES IN 2018 AND PLANS FOR 2019

Growing market share

Plans and targets for 2018	Achieved in 2018	Plans and targets for 2019
Increase market share to 26.0%	Market share increased to 26.0%	Increase market share to 26.5%
Maintain volume of business with private hospital groups	Sales to hospital groups increased 4.1% with volumes maintained	Maintain volume of business with private hospital groups
Increase Clicks' buying levels from UPD to 98.8%	Clicks' buying levels from UPD at 98.8%	Clicks' buying levels from UPD at 99%
Tender for new agency distribution contracts	Three new agency distribution contracts secured; 23 contracts managed at year-end	Tender for new agency distribution contracts

Protecting income

Plans and targets for 2018	Achieved in 2018	Plans and targets for 2019
Maintain licences	Licences maintained	Maintain licences

Optimising efficiency

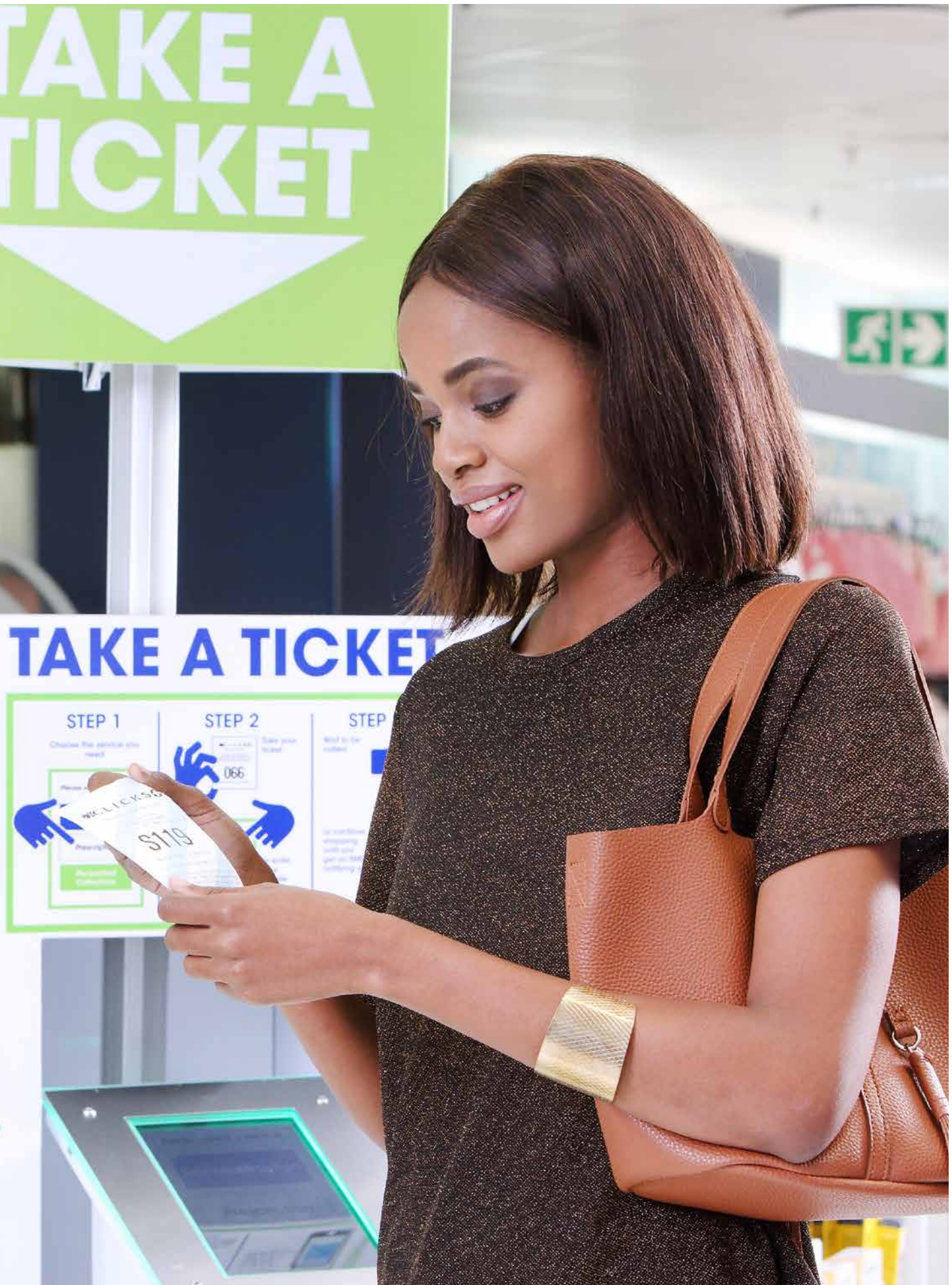
Plans and targets for 2018	Achieved in 2018	Plans and targets for 2019
Target 98.9% on-time deliveries	99% on-time deliveries	Maintain 99% on-time deliveries
Drive further productivity initiatives across the business	Efficiencies achieved in labour and transport	Drive further productivity initiatives across the business
Improve order fulfilment to 96.2%	Order fulfilment of 96.7% achieved	Improve order fulfilment to 96.8%

Building capacity

Plans and targets for 2018	Achieved in 2018	Plans and targets for 2019
Maintain employee turnover at 12% or below	Employee turnover 12%	Reduce employee turnover to 11%
Temperature-controlled fleet to be rolled out	Temperature-controlled fleet rolled out	Maintain Transported Asset Protection Association certification for transport fleet
Establish UPD learning academy	UPD training academy established	Market UPD training academy Design and build replacement IT system

GOVERNANCE

Good governance contributes to value creation and Clicks Group's governance philosophy is founded on the principles of accountability, transparency, ethical management and fairness.



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 contribution of talent management and succession planning to the sustainability of the business is embraced in the group.

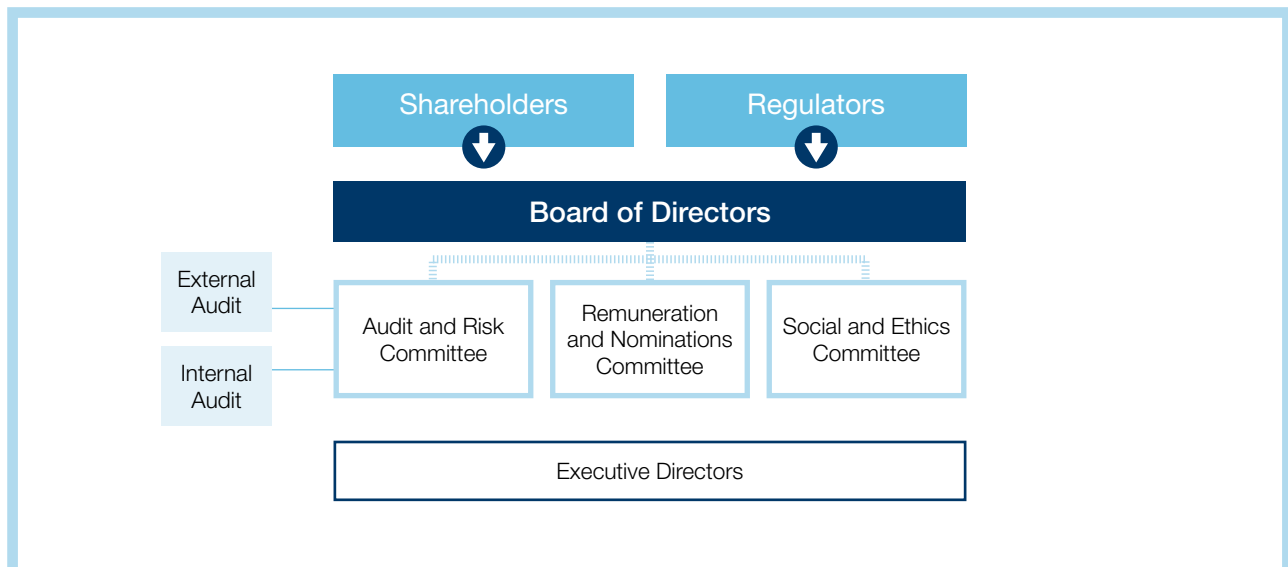
The group's corporate governance report is published on the website.

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.

The board fulfils a range of legal duties, while being the primary source of effective, ethical leadership for the group. In executing its mandate the board is required to approve strategic plans; monitor operational performance; ensure that risk management and internal controls are effective; 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.

GOVERNANCE STRUCTURE



KEY ISSUES ADDRESSED IN 2018

The board addressed the following key issues during the year:

- approval of the business's three-year strategic plans and budgets, including capital investment;
- review of talent and succession plans for the business, including for the role of CEO. Vikesh Ramsunder will succeed David Kneale as CEO from 1 January 2019. David Kneale will remain as a strategic adviser to the group until his retirement on 31 August 2019;
- monitoring of the first vesting of shares to beneficiaries in terms of the employee share ownership programme, and the preparation for the second vesting of shares in terms of this programme;
- rotation of the Ernst & Young (EY) audit partner for the group, with Anthony Cadman taking over from Malcolm Rapson as designated audit partner for the 2018 financial year audit. EY has been the group's external auditor for six years and will again be proposed for re-election at the annual general meeting in January 2019;
- approval of a plan to extend employer-funded primary care health insurance to lower-income earning employees from January 2019;
- approval of the investment in information technology for operating divisions in the group; and
- support for 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 pages 28 and 29.

INDEPENDENCE OF DIRECTORS

All the directors, both executive and non-executive, understand their legal duty to act with independence of mind in the best interests of the company.

While the tenure of non-executive directors is not a determinant of independence in terms of King IV, David Nurek has served as a non-executive director for 22 years, Martin Rosen for 12 years and Fatima Abrahams, John Bester and Fatima Daniels have each served for 10 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, particularly with the appointment of a new CEO who will be able to rely on their in-depth knowledge, experience and expertise during the transition period. Strong, suitably qualified new independent non-executive directors will be appointed from time to time to ensure that 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 IV and the JSE Listings Requirements. In the opinion of the remuneration and nominations committee there are no factors which prevent the directors from exercising objective, unfettered 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 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. The board race and gender diversity policy sets voluntary targets of 25% black and 25% female representation at board level. During the year under review 44% of the directors were female and 44% were black, which exceeds these targets.

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

Each director is required annually to 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 leads the board and the chief executive officer is responsible for the executive management of the group.

CREATING VALUE THROUGH GOOD GOVERNANCE (CONTINUED)

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 ⁺	(4)	3 [^]	2
Fatima Abrahams	4		3 ^{^^}	2 ⁺
John Bester	4	4 ⁺	3	
Fatima Daniels	4	4		
Bertina Engelbrecht	4	(4)	(3)	(2)
Michael Fleming	4	(4)		
Nonkululeko Gobodo	4	4		
David Kneale	4	(4)	(3)	2
Martin Rosen	4		2	
Meeting attendance 2018 (%)	100	100	92	100
Meeting attendance 2017 (%)	97	100	100	100

(●) Indicates number of meetings attended as an invitee

⁺ Chair

[^] Chairs nominations agenda items

^{^^} Chairs remuneration agenda items

BOARD OVERSIGHT

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

KING IV APPLICATION

The group has applied King IV for the 2018 financial year. Certain elements of King IV were already adopted by the group in the preceding year.

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

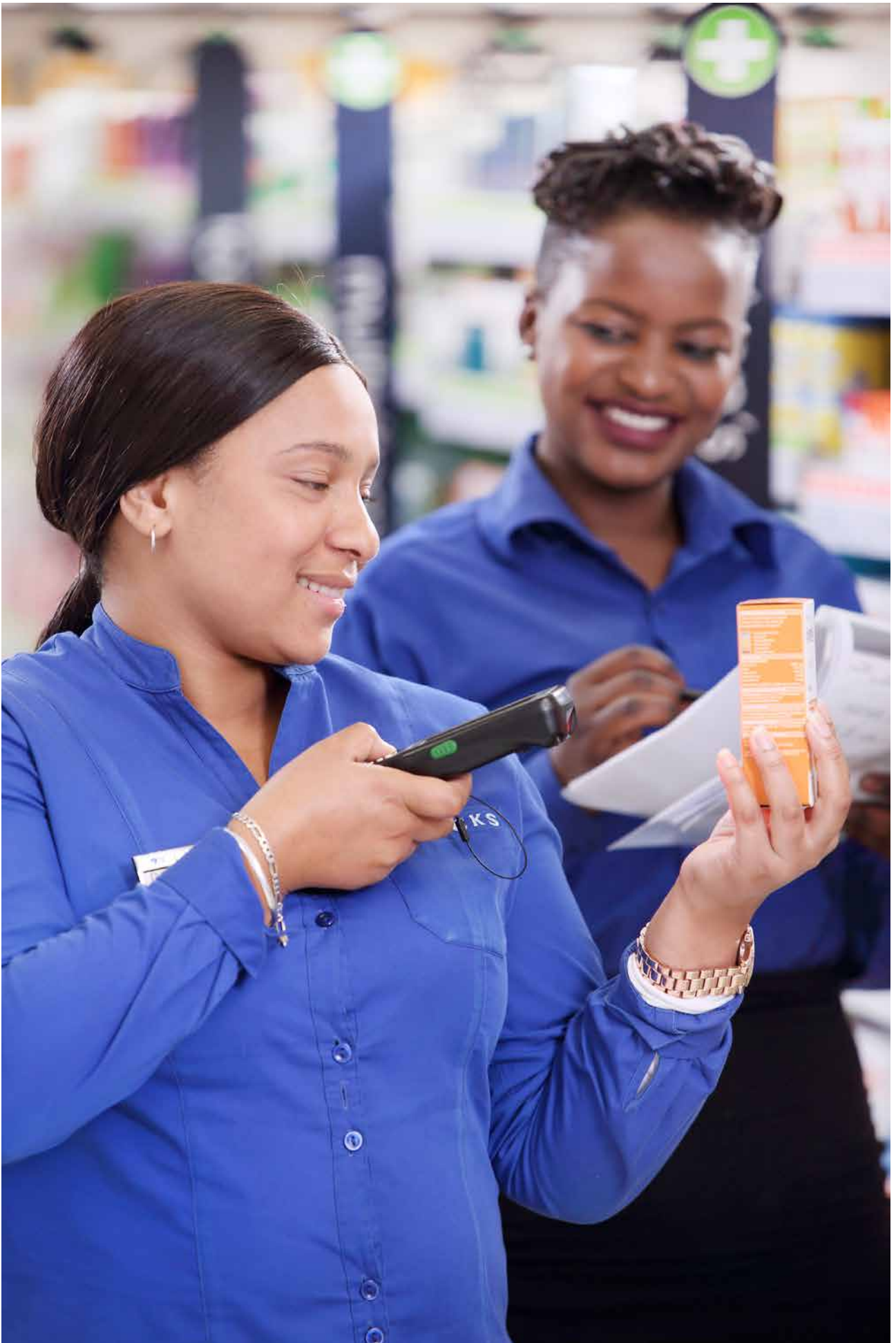
investors. These policies also set stringent standards relating to the acceptance of gifts from third parties and declarations of potential conflicts of interests. A fraud prevention policy ensures that a firm stance is taken against fraud and the prosecution of offenders.

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 2019

With the changes required by King IV now implemented, the group will continue to seek out and apply relevant best practices in governance. Initiatives to further strengthen governance that the group will consider for the ensuing year are likely to include training for directors and prescribed officers, and the refreshing and refinement of core governance policies and documents.



CREATING VALUE THROUGH GOOD CITIZENSHIP



FTSE4Good

Constituent of the
FTSE4Good Index,
recognising strong environmental, social and
governance practices measured against
global standards

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

Level 6
BBBEE rating in 2018

BROADENING ACCESS TO HEALTHCARE

Clicks Group supports the national healthcare agenda of making medicine more affordable and accessible for all South Africans. The group is actively building capacity through training and financial support to address the critical shortage of pharmacists.

65 million
units of medicine sold
in 2018

898 000
clinic services
provided in 2018

510

Clicks pharmacies
across South Africa
to broaden access to
healthcare

230 million
units of medicine delivered
by UPD

203 clinics in Clicks
pharmacies provide primary
care health services

+ 2 818 pharmacy and clinic professionals across Clicks

Largest employer of pharmacy staff in the private sector

BUILDING CAPACITY

R100 million donated over a two-year period by the Employee Share Ownership Trust to fund **100 bursaries annually**

R27.2 million invested in bursaries for pharmacy students since 2012

94 bursaries awarded to **pharmacy students** in 2018

70 pharmacy internships provided in 2018

359 pharmacy assistants enrolled in 2018

PARTNERSHIPS

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

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

R5.5 million donated to the **Public Health Enhancement Fund** over the past six years to improve public healthcare, address skills shortages and advance research

INVESTING IN OUR PEOPLE

The group is committed to the ongoing investment in its people through training and development, transformation, empowerment, competitive remuneration and incentive schemes, career path planning and by creating a stimulating working environment.

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 aims to attract and retain scarce talent while accelerating transformation.

The first 50% payout under the scheme was made in February 2018 and the final payment will be made in 2019.

R1.3 billion
paid to
participants in the
scheme in 2018

5 830
employees now
shareholders
through the ESOP

86%
black
beneficiaries of
the scheme

65%
female
beneficiaries of
the scheme

R35.4 million
paid in dividends
to participants
in the scheme
since 2012

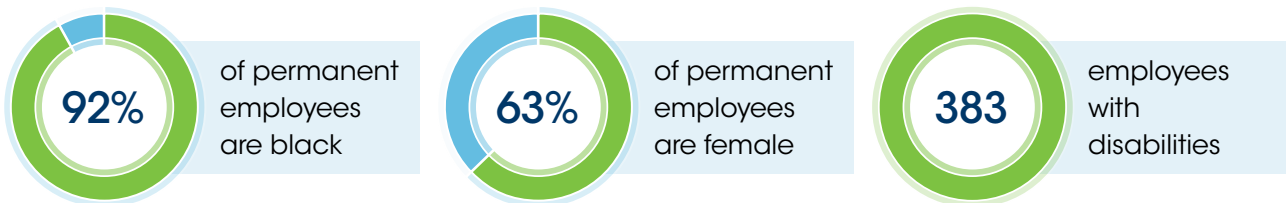
15 067
employees across retail
stores, distribution centres
and head office

**JOB
CREATION**

974
jobs created
over the past
two years

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.



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

black directors **44%** female directors

Board race and gender diversity policy targets exceeded

SKILLS DEVELOPMENT

R125 million invested in training and development in 2018



122 trainee managers registered in store operations learnership programme in 2018

20 graduates enrolled on the retail graduate development programme

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.

R18.4 million

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

CLICKS HELPING HAND TRUST

The trust aims to benefit the lives of ordinary South Africans by offering free preventative testing and wellness services through the footprint of over 200 Clicks clinics countrywide.

212 000 lives positively impacted over past six years

Mom and baby wellness and family services have reached over 92 000 families

HIV testing provided to over 58 000 South Africans through a campaign to encourage individuals to know their HIV status

Heart disease testing for more than 82 000 people to encourage healthier lifestyle choices

Diabetes testing and education for over 72 000 people on the prevention and early detection of the disease

Girls on the Go campaign has provided reusable and washable sanitary pads to over 18 000 schoolgirls



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



SUPPORTING 50 CHARITABLE CAUSES

Clicks celebrated its 50th birthday in August 2018 and to mark the occasion supported 50 local community projects.

16 schools received **reusable sanitary pads** to the value of R1 million, to reduce absenteeism among schoolgirls

34 charitable projects each received toiletries and basic essentials worth R5 000

Chapel Street Primary School in Woodstock, which adjoins the group's head office, received R200 000 for the upgrading of bathroom facilities used by children attending the school

R31.1 million invested in enterprise and supplier development programmes

UPD OWNER-DRIVER SCHEME

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

66 owner-drivers contracted to deliver products for UPD

R33 million paid to the driver scheme in 2018

Over **R483 million** paid since start of the scheme in 2003



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



119 active business owners

Over **86 000 appliances** sold by business owners, **generating profits of R2.7 million**

CREATING VALUE THROUGH STAKEHOLDER ENGAGEMENT

Clicks Group's stakeholder engagement process focuses primarily on the five primary stakeholders that management believes are most likely to influence the ability to create value in the short, medium and long term. Proactive and transparent relationships enable the group to identify and address the needs, expectations and concerns of these stakeholder groups.

CUSTOMERS

Clicks targets consumers in the growing middle to upper-income markets (LSM 6 – 10)

UPD customers include Clicks, major private hospital groups, pharmaceutical manufacturers and independent pharmacies

Engagement issues in 2018	Value created through engagement
<ul style="list-style-type: none"> Product range in store and online Product availability in store and online Service levels Price competitiveness Pharmacy and clinic services ClubCard benefits 	<p>Clicks:</p> <ul style="list-style-type: none"> Meeting customer needs and creating trust in products and practices: <ul style="list-style-type: none"> – 125.7 million customer transactions – 41.1 million prescriptions processed – 11.7% growth in health and beauty sales – Market share gains in all key categories Increasing customer loyalty <ul style="list-style-type: none"> – 800 000 increase in ClubCard membership to 7.8 million active members – ClubCard accounts for 77.2% of sales <p>UPD:</p> <ul style="list-style-type: none"> Meeting customer needs through range, availability and service <ul style="list-style-type: none"> – Over 2 000 corporate and independent pharmacies serviced – 230 million units of medicine delivered – 96.7% order fulfilment to customers

SHAREHOLDERS AND LENDING INSTITUTIONS

Shareholders: Local and international institutional and private investors, as well as fund managers and analysts from the broader investment community.

Lending institutions: South African financial institutions which provide funding and trade finance facilities to the group

Engagement issues in 2018	Value created through engagement
<ul style="list-style-type: none"> Group strategy Current trading environment Impact of economic climate on consumers Trading and financial performance Store and pharmacy expansion plans Regulatory environment Capital management Growth prospects 	<ul style="list-style-type: none"> Delivered total shareholder return of 39.0% and return on equity of 38.2% Meetings with 213 local and international funds and brokerages contributed to better-informed investor community High levels of investor interest with 122% of shares traded in the year Attractive investment case with 70% international share ownership Engagement issues addressed in annual and interim results presentations and webcasts, local and international investor roadshows, integrated report and annual financial statements Funding and trade finance facilities provided at competitive rates

EMPLOYEES

All permanent and part-time employees across the group

Engagement issues in 2018	Value created through engagement
<ul style="list-style-type: none"> • Remuneration and benefits • Performance management • Personal development • Career path planning • Training and skills development • Transformation • Employee share ownership plan (ESOP) 	<ul style="list-style-type: none"> • Total staff complement increased by 2.7% to 15 067, with 394 new jobs created • Ability to attract and retain staff reflected in turnover of 13.9% • R3.2 billion paid to employees • R1.3 billion paid to over 5 800 employees in the first 50% payout under the broad-based ESOP • Investment of R124.7 million in training and skills development • Transformation of workforce evident in employment equity profile: <ul style="list-style-type: none"> – Black staff 92% of total staff – Female staff 63% of total staff

GOVERNMENT AND INDUSTRY REGULATORS

Department of Health, SA Revenue Service and other government departments, industry regulatory bodies and local authorities. As a listed company, the JSE Limited is the primary regulator

Engagement issues in 2018	Value created through engagement
<ul style="list-style-type: none"> • Pharmacy licences • Registration of medicines • Complementary and alternative medicines • Legislative and regulatory compliance • Tax compliance • Submission of statutory returns 	<ul style="list-style-type: none"> • Clicks operates 510 pharmacies • Slow pace of medicine registration by SA Health Products Regulatory Authority continues to restrict launch of new private label medicine ranges • Direct engagement with industry regulators and indirect engagement with regulators through industry bodies • Lobby for regulatory reform and fair legislation which will not adversely affect returns to shareholders • Paid R267 million in direct and indirect taxes

SUPPLIERS

Local and international suppliers of products and services, including producers of exclusive brands and private label products

Engagement issues in 2018	Value created through engagement
<ul style="list-style-type: none"> • Quality, safety and ethical standards • Product availability and exclusivity • Product innovation, strength of brands • Private label products • Transformation and BEE scorecards • Legislative compliance 	<ul style="list-style-type: none"> • Stable supply of merchandise reflected in supplier infill levels of 84.4% in Clicks and 96.4% in UPD • Clicks offers over 13 800 private label and exclusive brand products • Consistent supply and maintenance of franchise agreements with The Body Shop International, GNC and Claire's • Continued transformation of the supplier base with 64.1% preferential procurement • R25.2 billion paid to suppliers of goods and services

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 2019. The application of the remuneration policy in 2018, which details how the group has rewarded value creation, is covered in part 2 of this report. In accordance with the 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 engage directly with these shareholders to:

- determine 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' integrated report.

The remuneration philosophy and reward principles remain consistent with last year when the remuneration policy was aligned to King IV to outline the group's approach to fair, responsible and transparent remuneration practices across the business. At the 2018 AGM, 93.9% of shareholders who voted supported the group's remuneration policy and 94.6% supported the group's remuneration implementation report.

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 2018 financial year is detailed on pages 75 and 77.



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 and incorporates 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 benchmarked on national and retail market benchmark data. The 2018 benchmarking process and the resultant pay framework was peer reviewed by independent reward consultants (21st Century) who verified the accuracy of the benchmarking process and outcomes, as well as compliance to King IV. 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 71).

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 Korn Ferry 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 biennial benchmarking exercise to maintain a competitive remuneration position in respect of pharmacists and pharmacy managers.

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

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

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 qualify for full participation in the short-term incentive scheme.

REWARDING VALUE CREATION (CONTINUED)

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 71 to 73 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 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 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.

Long-term incentive scheme

Executive directors participate in the cash-settled long-term incentive scheme which is detailed on pages 72 to 74.

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 monthly paid 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 13% of the total group employees (2017: 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 and is above the national minimum wage 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.

Through a partnership with Discovery Health, and as an additional element within the total reward strategy, approximately 9 000 employees with six months continuous service in customer service, clerical and supervisory roles will be enrolled on the Discovery PrimaryCare Comprehensive plan on 1 January 2019. The employee's membership will be funded by the company. Employees will have the option to include their spouse and child dependants at their own cost through a monthly payroll deduction. The plan provides comprehensive primary and trauma care, including unlimited access to a general practitioner, optical and dental benefits, ambulance and casualty services. The introduction of this health benefit will contribute to reducing the inequality in healthcare services provided to the different segments of society, and will contribute to increased employee affiliation and retention, as well as improving the health and well-being of employees and their family members.

The healthcare needs of all other permanent employees are catered for through membership of one of the company's approved medical aid schemes (Horizon Medical Scheme, Discovery Health Medical Scheme and Profmed Medical Aid Scheme).

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 7 839 beneficiaries, with black employees receiving 86% and women 65% 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 42 employees participating in the scheme, of whom 31% 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.

REWARDING VALUE CREATION (CONTINUED)

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. 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 a maximum of five times the annual guaranteed pay of participants in the scheme.
- The 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 (2017: 15) executives participate in the schemes. The relevant amounts are expensed through the statement of comprehensive income.

• 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%

REWARDING VALUE CREATION (CONTINUED)

(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 and 2018 to 2021 LTI scheme**

The design of the 2018 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 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 for the 2017 to 2020 and 2018 to 2021 LTI schemes 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%

REWARDING VALUE CREATION (CONTINUED)

Directors' participation in the LTI

Executive directors have been awarded the following appreciation units:

	2016 – 2019 scheme		2017 – 2020 scheme		2018 – 2021 scheme	
	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	HEPS units allocated at R69.36 per unit	TSR units allocated at R193.96 per unit
Bertina Engelbrecht	136 830	57 129	129 461	53 388	121 107	43 308
Michael Fleming	198 404	82 837	189 212	78 029	176 759	63 209
David Kneale*	547 320	228 517	525 809	216 838	–	–

* As a result of Mr Kneale's retirement on 31 August 2019 he has not been awarded any appreciation units in the 2018 – 2021 scheme

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 current 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 independently benchmarked each year. The group's policy is to pay non-executive director fees in a range of 80% to 120% of the median of a comparator group of 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 58.

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 2018

Annual salary increase

The average performance-linked increase effective from 1 September 2018 is 6.0% (2017: 5.8%). Negotiations regarding the salary increase for the bargaining unit employees in South Africa have not yet been concluded. In 2017 the average salary increase for bargaining unit staff was 7.8%.

Short-term incentive schemes

RONA-based short-term incentive scheme: The targeted average monthly RONA was 85.7% and the group achieved 102.2%. The group achieved 99.7% of the targeted operating profit. The Clicks, UPD, The Body Shop and group services business units exceeded the short-term targets and R90.4 million will be paid in accordance with the scheme rules (2017: R97.5 million). This includes incentives paid in terms of the retail store incentive scheme where R21.0 million (2017: R20.3 million) was paid to retail store staff for the 2018 year.

Employee share ownership scheme

In February 2018, R1.3 billion was paid to 7 839 beneficiaries, representing the gain on the first 50% of the shares allocated under the ESOP. The remaining 50% will be paid in 2019. A dividend of R7.2 million (2017: R6.8 million) was paid to scheme participants in 2018.

Group retention scheme

During the financial year R46.1 million (2017: R50.4 million) was paid out to participants in the scheme.

Long-term incentive scheme

For the three-year performance period ended 31 August 2018 the group achieved the following compound annual growth rates (CAGR):

- Diluted HEPS: 14.6% CAGR: This is within the “on target” performance hurdle range.
- TSR: 30.2% 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 R162.7 million (2017: R153.5 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	Performance-based long-term incentive*	Total variable pay	Total
2018								
Bertina Engelbrecht	3 489	411	–	3 900	1 560	17 453	19 013	22 913
Michael Fleming	5 287	356	57	5 700	2 280	25 268	27 548	33 248
David Kneale**	9 909	649	2	10 560	6 336	52 800	59 136	69 696
Total	18 685	1 416	59	20 160	10 176	95 521	105 697	125 857
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

* 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

REWARDING VALUE CREATION (CONTINUED)

Non-executive directors' remuneration

Director (R'000)	2018 Directors' fees	2017 Directors' fees
David Nurek	1 169	1 059
Fatima Abrahams ¹	630	459
John Bester	647	581
Fatima Daniels ³	523	408
Nonkululeko Gobodo ²	450	213
Nkaki Matlala ⁴	n/a	161
Martin Rosen	354	329
Total	3 773	3 210

¹ The fees paid to Professor Abrahams include an amount of R78 150 (2017: R24 610) for performing the role of chairperson of The Clicks Group Employee Share Ownership Trust and R72 917 for her appointment as director of Clicks Retailers Proprietary Limited

² Appointed with effect from 1 March 2017

³ The fees paid to Fatima Daniels include an amount of R72 917 for her appointment as director of Clicks Retailers Proprietary Limited

⁴ 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	2018	2017
Executive directors (including the long-term incentive scheme)	125 857	119 109
Non-executive directors	3 773	3 210
Total directors' remuneration	129 630	122 319

Directors' shareholdings at 31 August

Director	2018 beneficial shares			2017 beneficial shares		
	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	75 068	–	75 068	105 068	–	105 068
Michael Fleming	30 421	–	30 421	30 421	–	30 421
David Kneale	285 370	–	285 370	285 370	–	285 370
Martin Rosen	–	2 000	2 000	–	2 000	2 000
Total	402 859	112 000	514 859	432 859	112 000	544 859

The total number of ordinary shares in issue is 253 948 352 and the percentage of issued share capital held by directors is 0.20% (2017: 0.22%). 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.

REWARDING VALUE CREATION (CONTINUED)

NON-EXECUTIVE DIRECTORS' FEES

The fee structure for non-executive directors was benchmarked externally 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 2019 take into account these benchmarking results. Higher increases are proposed for the remuneration and nominations committee and social and ethics committee chairs, and members of the remuneration committee, which were below the group's policy range of 80% of the median of the benchmarked comparator group. The total fees proposed for non-executive directors for the 2019 calendar year represent an increase of 12.5% over the previous year.

The fees for the 2019 calendar year are subject to approval by shareholders at the AGM in January 2019.

Board position	2019*			2018*		
	Proposed base fee R	Proposed meeting fee R	Proposed total fee R	Base fee R	Meeting fee R	Total fee R
Board chairman**	1 012 500	337 500	1 350 000	900 000	300 000	1 200 000
Board member	255 000	85 000	340 000	226 500	75 500	302 000
Chair: Audit and risk committee	238 500	79 500	318 000	225 000	75 000	300 000
Member: Audit and risk committee	126 000	42 000	168 000	120 000	40 000	160 000
Chair: Remuneration and nominations committee	105 000	35 000	140 000	86 625	28 875	115 500
Member: Remuneration and nominations committee	60 000	20 000	80 000	48 825	16 275	65 100
Chair: Social and ethics committee	82 500	27 500	110 000	60 000	20 000	80 000
Member: Social and ethics committee	n/a	n/a	n/a	n/a	n/a	n/a

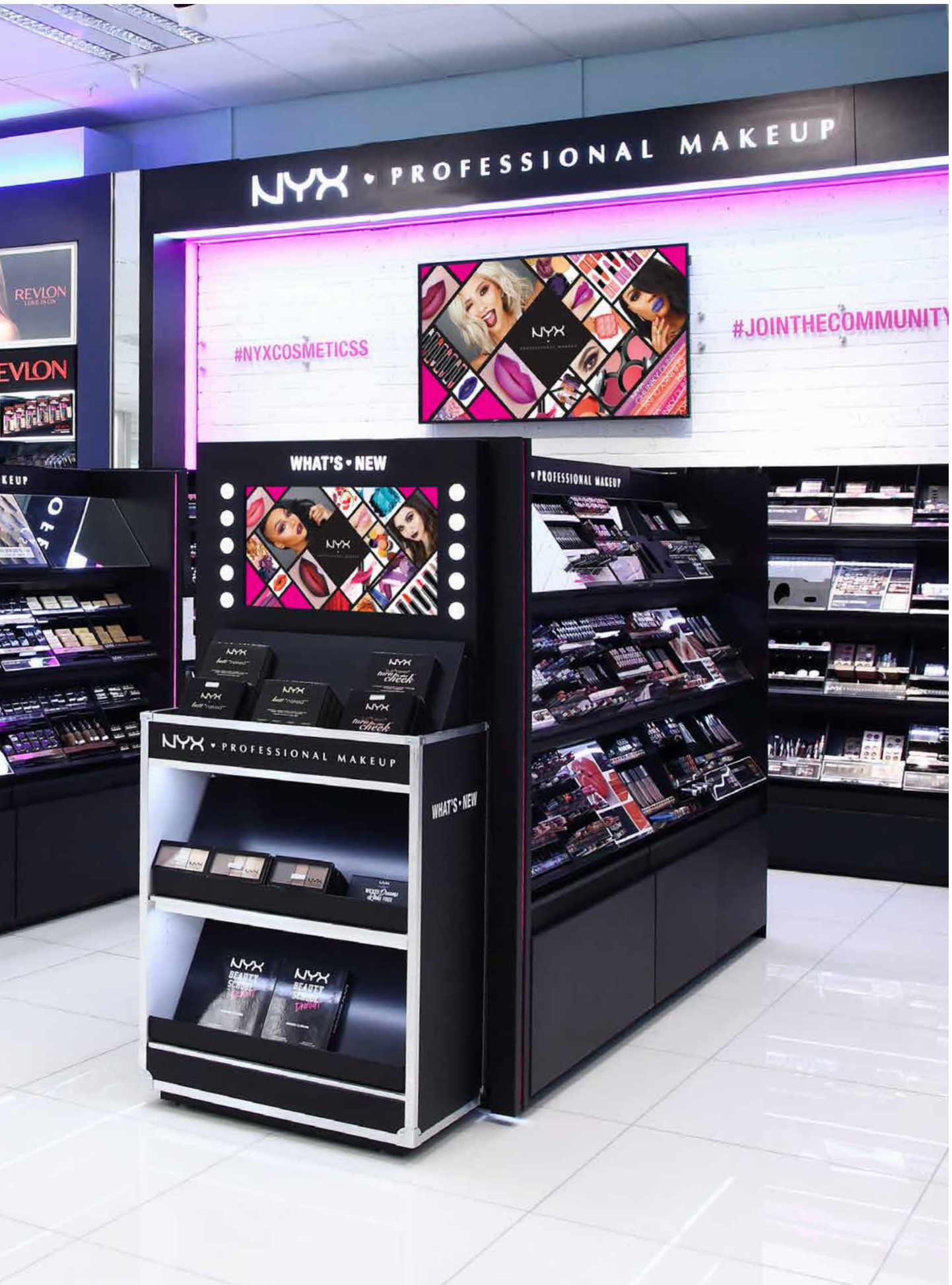
* Fees relate to the calendar year

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



SHAREHOLDER INFORMATION

*Clicks Group
has proven to be
increasingly attractive
to international investors
over the past decade
and 70% of the group's
shares are now held by
offshore fund managers.*



SHAREHOLDER ANALYSIS

AT 31 AUGUST 2018

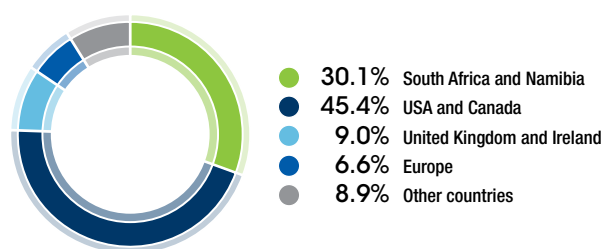
	Number of shares	Percentage of shares
Public and non-public shareholders		
Public shareholders	243 990 048	96.1%
Non-public shareholders		
Shares held by directors	514 859	0.2%
Treasury stock held by New Clicks South Africa Proprietary Limited	9 443 445	3.7%
Total non-public shareholders	9 958 304	3.9%
Total shareholders	253 948 352	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 2018:

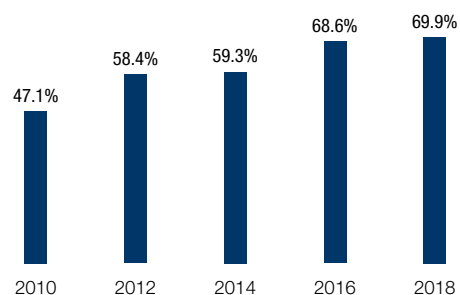
	2018 Percentage of shares	2017 Percentage of shares
Major beneficial shareholders holding 3% or more		
Government Employees Pension Fund	12.8%	15.5%
GIC Private Limited	3.3%	4.3%
Fidelity International Growth Fund	3.2%	3.4%

	2018 Percentage of shares	2017 Percentage of shares
Major fund managers managing 3% or more		
Public Investment Corporation (SA)	13.3%	14.2%
Fidelity Management & Research (US)	6.5%	5.2%
Baillie Gifford & Co (UK)	5.2%	5.5%
BlackRock (US and UK)	4.1%	1.7%
The Vanguard Group (US)	3.6%	3.4%
Mawer Investment Management (CA)	3.4%	3.8%
GIC (Singapore)	3.3%	4.3%
JPMorgan Asset Management (UK and US)	3.1%	4.1%
<i>Fund managers no longer managing over 3%:</i>		
MFS Investment Management (US)	0.1%	3.3%

Geographic distribution of shareholders



Offshore shareholding



SHAREHOLDERS' DIARY

Annual general meeting	30 January 2019
Preliminary results announcements	
Interim results to February 2019	on or about 17 April 2019
Final results to August 2019	on or about 24 October 2019
Publication of 2019 integrated annual report	November 2019
Ordinary share dividend	
2018 final dividend	
Last day to trade with dividend included	22 January 2019
Date of dividend payment	28 January 2019
2019 interim dividend	
Last day to trade with dividend included	July 2019
Date of dividend payment	July 2019
2019 final dividend	
Last day to trade with dividend included	January 2020
Date of dividend payment	January 2020

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

www.clicksgroup.co.za

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