

INTEGRATED ANNUAL REPORT 2015



CLICKS GROUP
LIMITED

YEAR IN REVIEW

Group turnover up

15.3%

to R22.1 billion

Diluted headline EPS up

14.0%

to 383.9 cents per share

Cash generated
by operations

R1.7 billion

Total dividend up

23.7%

to 235 cents per share

Total shareholder
return

35.8%

Return on equity
at sector-leading

53.7%

- Health and beauty markets resilient to slower consumer spending
- Good trading performance as Clicks continues to gain market share
- UPD occupies market-leading positions in pharmaceutical wholesale and distribution
- Strong cash generation
- Record capital investment for long-term growth

INTRODUCING THE REPORT

Clicks Group has pleasure in presenting its Integrated Report for the 2015 financial year. The report aims to demonstrate in a balanced way how the group's retail-led health, beauty and wellness strategy creates value for shareholders in the short, medium and long term.

The Integrated Reporting Framework (the Framework) of the International Integrated Reporting Council has been applied in the preparation of this report.

As recommended by the Framework, our Integrated Report is aimed primarily at our shareholders who are the providers of financial capital. However, the report is relevant to a range of other stakeholder groups who influence the group's ability to create shareholder value. These include our customers, employees, suppliers and industry regulators.

Reporting boundary

The report covers the integrated financial and non-financial performance of the Clicks Group and its subsidiaries (the group) for the period 1 September 2014 to 31 August 2015. Reporting covers the main operating entities Clicks and UPD which collectively account for 95% of the group's turnover. The report focuses on the group's operations in South Africa where the majority of revenue is generated.

There has been no material change from last year in the comparability of reporting and all significant items are reported on a like-for-like basis, with no major restatements.

Material issues

Materiality has been applied in determining the content and disclosure in this report. Material issues are determined by the board based on matters that substantively affect the group's ability to deliver its strategy and are likely to have a material impact on the current and projected revenue and profitability of the group. These material issues are covered on pages 10 and 11. This does, however, exclude the disclosure of price-sensitive or competitor-sensitive information.

Assurance

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

The annual financial statements have been audited by Ernst & Young Inc. (EY) who expressed an unmodified audit opinion. The financial statements have been prepared according to International Financial Reporting Standards. Preliminary reviewed condensed consolidated financial statements and the audited annual financial statements are available on the group's website.

Accredited service providers and agencies have verified selected non-financial performance metrics contained in the report, including market shares and the BBBEE rating, while management has verified the processes for measuring all other non-financial information.

Capitals of value creation

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

We have chosen not to present the Integrated Report according to these capitals. However, the performance and activities relative to these capitals are covered throughout the report:

- **Financial capital** relates to the financial resources deployed by the company and is covered in the chief financial officer's report and the five-year performance review.
- The physical infrastructure used in the selling of merchandise is classified as **manufactured capital** and includes the retail store network and distribution facilities of the group which are dealt with in the operational reviews for Clicks and UPD.
- The **intellectual capital** harnessed in the group is covered mainly in the group strategy and business model, and in the operational reviews for Clicks and UPD.
- **Human capital** deals with the competency, capability and experience of the board, management and employees and this is featured in the board of directors, remuneration committee report and the social and ethics committee report.
- **Social and relationship capital** is covered in the social and ethics committee report.
- The group has a low environmental impact and therefore has limited use of **natural capital**.

Directors' approval

The board acknowledges its responsibility to ensure the integrity of the Integrated Report. The directors have collectively assessed the content and confirm the report addresses all material issues, and fairly represents the integrated performance of the group. The directors also believe the group has materially reported in accordance with the Integrated Reporting Framework.

The audit and risk committee, which has oversight responsibility for integrated reporting, recommended the report for approval by the board. The board approved the 2015 Integrated Report for release to shareholders on 10 November 2015.



David Nurek
Independent
non-executive chairman



David Kneale
Chief executive officer



GROUP PROFILE

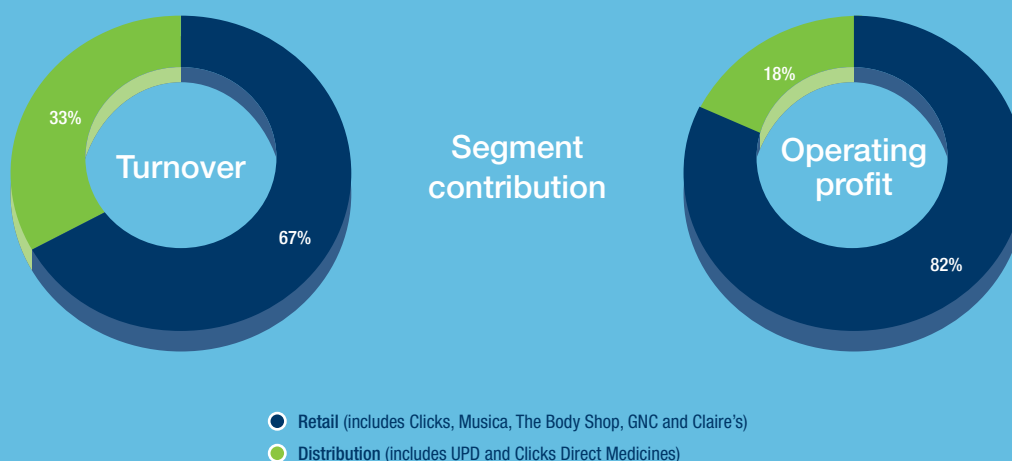
Clicks Group is a retail-led healthcare group which is listed in the Food and Drug Retailers sector on the JSE.

Clicks was conceived as a drugstore in 1968 but legislation at the time prevented corporate ownership of pharmacies in South Africa. This meant that Clicks operated as a drugstore without drugs until legislation was changed in 2003 to allow corporate pharmacy ownership, and the first Clicks pharmacy opened in 2004.

United Pharmaceutical Distributors (UPD) was acquired by the group in January 2003 to provide the distribution capability for the group's healthcare strategy.

Over the past decade the group has grown into a leader in the healthcare market where Clicks has an 18.7% share of the retail pharmacy market and UPD a 25.2% share of the private pharmaceutical wholesale market.

The group's history is available at www.clicksgroup.co.za.



Group profile (continued)

Group brands

Clicks, Musica, The Body Shop, GNC and Claire's are market-leading brands and have a combined footprint of 657 stores, including 34 in the neighbouring countries of Namibia, Botswana, Swaziland and Lesotho.

- **Clicks** is South Africa's leading health and beauty retailer, offering value for money in convenient and appealing locations. Clicks has the largest retail pharmacy chain with 361 in-store pharmacies.
- **The Body Shop** sells natural, ethically-produced beauty products and has been operated under a franchise agreement with The Body Shop International since 2001.
- **GNC** is the largest global specialty health and wellness retailer, and has been operated under an exclusive franchise agreement for southern Africa since 2014.
- **Claire's** is one of the world's leading specialty retailers of fashionable jewellery and accessories for young women and girls, and the group concluded an exclusive franchise agreement in July 2015.
- **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.

Customers

Clicks targets consumers in the growing middle to upper income markets (LSM 6 – 10). The Clicks ClubCard is one of the largest loyalty programmes in South Africa with over 5 million active members. 76% of ClubCard customers are women and 61% are in the 25 to 49 age group.

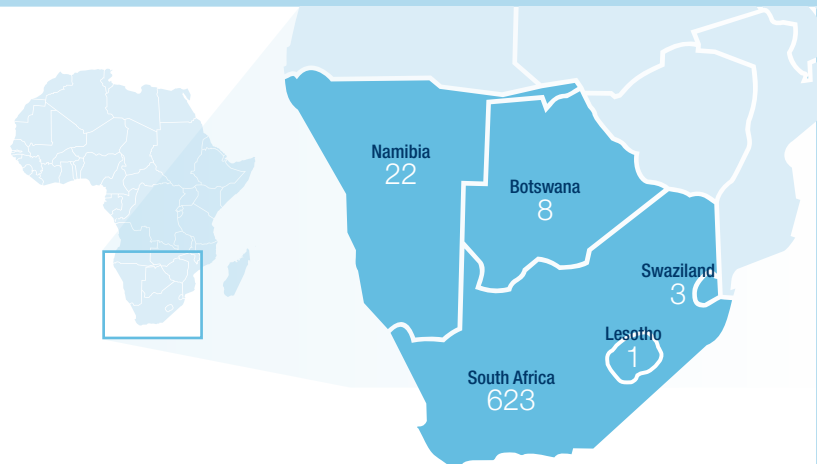
UPD fulfils the pharmaceutical supply needs of Clicks, major private hospital groups and over 1 300 independent pharmacies. UPD also provides bulk distribution services to pharmaceutical manufacturers.

Store footprint

	2015	Standalone stores New/ (closed)	2014	Presence in Clicks stores
Clicks	486	22	464	
Musica	116	(2)	118	
The Body Shop	50	2	48	86
GNC	4	2	2	257
Claire's	1	1	-	1
Total	657	25	632	

Geographic footprint

South Africa	623
Namibia	22
Botswana	8
Swaziland	3
Lesotho	1



GROUP STRATEGY AND BUSINESS MODEL

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

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



Clicks business model

Value

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

Product

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

Customer care

Great customer service from friendly and knowledgeable staff in well-presented stores

Convenience

Extensive store and pharmacy network allowing easy access for customers

Rewards

Delivered through the ClubCard loyalty programme



Group strategy and business model (continued)

Group business enablers

Supply chain

UPD provides an integrated healthcare supply chain channel for Clicks

UPD offers wholesale and distribution services to pharmaceutical manufacturers

Centralised supply from distribution centres to all retail stores

Information technology

Efficient and flexible integrated bespoke and proprietary systems

People

Motivated and skilled staff operating in a values-driven culture which rewards performance

Financial management

Efficient management of cash and capital to enhance returns

Capitals of value creation

Financial capital

- Total shareholder return of 35.8%
- R491 million paid to shareholders in dividends
- Cash generated from operations R1.7 billion
- Return on equity 53.7%

Manufactured capital

- 657 retail stores
- 361 Clicks pharmacies
- 9 distribution centres
- R370 million invested in capital expenditure

Intellectual capital

- Clicks is the leading health and beauty retailer in SA
- Market share gains in all businesses
- Own label and exclusive brands account for 19.8% of Clicks sales

Human capital

- 8 658 permanent employees
- R49 million invested in staff development

Social and relationship capital

- Level 3 BBBEE rating
- Included in JSE Socially Responsible Investment Index

Natural capital

- Participation in Carbon Disclosure Project

Performance against objectives in 2015 and plans for 2016



Strategic objectives	Developing a competitive and differentiated front shop product offer	Creating a great customer experience in pharmacies	Growing the retail footprint	Driving customer loyalty through ClubCard	Maintaining a motivated and skilled workforce
Plans and targets for 2015	<p>Increase front shop private label and exclusive brand sales to 25%</p> <p>Achieve price parity with national retailers</p>	<p>Expand private label scheduled generic medicines range</p> <p>Grow repeat prescription service to 30% of repeat scripts</p> <p>Expand clinic services and open 19 new clinics</p>	<p>Open 20 to 25 new Clicks stores</p> <p>45 stores to be expanded/refurbished</p> <p>Open 20 to 25 new pharmacies</p>	<p>Increase active membership to 5 million</p> <p>Grow Baby Club to 250 000 members</p> <p>Grow Seniors Club to 300 000 members</p>	<p>200 pharmacy assistants to be enrolled</p> <p>100 pharmacy bursary students</p> <p>50 pharmacy internships</p>
Achieved in 2015	<p>Front shop private label sales 25.7% (2014: 24.7%)</p> <p>Achieved price parity with national retailers</p>	<p>76 private label medicines (2014: 66)</p> <p>33% of scripts now on repeat prescription service</p> <p>Net 18 new clinics opened</p> <p>157 clinics at year-end</p>	<p>Net 22 stores opened (2014: 22)</p> <p>486 stores at year-end (2014: 464)</p> <p>43 stores expanded/refurbished</p> <p>Net 22 pharmacies opened (2014: 8)</p> <p>361 pharmacies at year-end (2014: 339)</p>	<p>5.0 million members (2014: 4.7 million)</p> <p>Baby Club 131 000 members</p> <p>Seniors Club 601 000 members</p>	<p>332 pharmacy assistants enrolled (2014: 277)</p> <p>82 pharmacy bursary students (2014: 98)</p> <p>49 pharmacy internships (2014: 48)</p>
Plans and targets for 2016	<p>Increase front shop private label and exclusive brand sales to 26%</p> <p>Expand presence of franchise brands in Clicks</p>	<p>Expand private label scheduled generic medicines range</p> <p>Grow repeat prescription service to 40% of repeat scripts</p> <p>Expand clinic services and open 23 new clinics</p>	<p>Open 20 to 25 new Clicks stores</p> <p>50 stores to be expanded/refurbished</p> <p>Open 25 to 35 new pharmacies</p>	<p>Increase membership to 5.5 million</p> <p>Grow Baby Club to 250 000 members</p> <p>Grow Seniors Club to 650 000 members</p>	<p>200 pharmacy assistants to be enrolled</p> <p>100 pharmacy bursary students</p> <p>50 pharmacy internships</p>



Performance against objectives in 2015 and plans for 2016 (continued)



Growing private wholesale pharmaceutical market share to 30%	Growing pharmaceutical distribution market share to 30%	Ensuring effective pharmaceutical quality management	Driving operational excellence and cost reduction	Maintaining a motivated and skilled workforce	Strategic objectives
<p>Increase market share to 26% in 2015</p> <p>Maintain volume of business with private hospital groups</p> <p>Increase Clicks' buying levels from UPD to 97.5%</p>	<p>Secure additional agency distribution contracts</p>	<p>Ensure satisfactory outcome from regulatory inspections and maintain licences</p>	<p>Maintain on-time deliveries of 98%</p> <p>Reduce labour and transport costs</p>	<p>Reduce employee turnover to 14%</p>	<p>Plans and targets for 2015</p>
<p>Market share maintained at 25.2%</p> <p>Sales to hospital groups increased 7.5% and accounted for 32% of turnover</p> <p>Clicks' buying levels from UPD at 96%</p>	<p>22 contracts managed at year-end (2014: 19)</p>	<p>Approval of new distribution warehouse by the Medicines Control Council (MCC)</p>	<p>Maintained 98% of on-time deliveries</p> <p>Cost growth contained to 8.4%, well below turnover growth of 21.6%</p>	<p>Employee turnover 14% (2014: 16%)</p>	<p>Achieved in 2015</p>
<p>Increase market share to 26% in 2016</p> <p>Maintain volume of business with private hospital groups</p> <p>Increase Clicks' buying levels from UPD to 98%</p>	<p>Tender for additional agency distribution contracts</p>	<p>Maintain licences</p> <p>Continuous improvement in quality standards and implement electronic quality management system</p>	<p>Maintain on-time deliveries of 98%</p> <p>Reduce labour and transport costs</p>	<p>Maintain employee turnover at 14%</p>	<p>Plans and targets for 2016</p>

Group financial and operating targets

	Medium-term targets 2015 – 2017	Performance in 2015	Medium-term targets 2016 – 2018
Return on equity (%)	50 – 60	53.7	50 – 60
Shareholders' interest to total assets (%)	25 – 30	26.6	25 – 30
Return on total assets (%)	14 – 18	14.0	14 – 18
Inventory days	55 – 60	68	55 – 60
Operating margin (%)			
• Group	6.0 – 7.0	6.3	6.0 – 7.0
• Retail	7.0 – 8.0	7.8	7.0 – 8.0
• Distribution	2.0 – 2.5*	2.5	2.0 – 2.5*

* Excludes any trading gains from annual increase in single exit price of medicines.

The group's performance relative to these medium-term targets is analysed in the chief financial officer's report on pages 18 to 21.

MATERIAL ISSUES, RISKS AND OPPORTUNITIES

Material issues have been identified which could impact on the sustainability of the group. These material issues are reviewed annually by the board and management as part of the group's three-year strategic and financial planning process where all relevant internal, industry and macro-economic factors are evaluated. The interests, expectations and concerns of the stakeholder groups that are most likely to influence the group's ability to create sustainable shareholder value – notably shareholders, customers, suppliers and staff – are also considered.

In the board's review for the 2016 financial year, the material issue relating to "Attracting and retaining pharmacy professionals" has been broadened beyond pharmacists to "People" to cover all talent for core business needs.

Risks posed for each of these material issues have been identified and are based on the major risks on the group's risk

register as determined by the methodology applied by the audit and risk committee.

The only change in the major risks has been the inclusion of the risk relating to the group's ability to trade during periods of Eskom electricity power disruptions. The group invested R13.6 million in alternate power supply solutions in stores during 2015 and plans to invest a further R15 million in 2016 to minimise trading disruptions. Clicks lost approximately 1% of trading hours due to load shedding during the year. All group distribution centres and information technology systems are covered by existing back-up power supply.

Opportunities are detailed for each material issue to indicate to shareholders how the group is mitigating potential risks and also how the business is using its competitive advantage to minimise any negative impacts of the material issues.

Trading environment

Risk	Opportunity
<ul style="list-style-type: none"> ■ Further deterioration in the economic environment which will impact on consumer spending which is already under severe pressure. ■ Inability to trade as a result of power outages disrupting stores, information technology systems, distribution centres and third-party service providers. 	<ul style="list-style-type: none"> • Clicks will continue to pursue an aggressive promotions strategy to maintain price competitiveness, grow sales volumes and entrench Clicks as a value retailer. • Focus on differentiators including extensive and convenient store and pharmacy footprint, private label and exclusive ranges, and ensure customer loyalty through Clicks ClubCard rewards and consistent high standards of customer care. • Alternate power solutions for stores, systems and distribution centres ensure disruptions to trading patterns will be minimised.

Competition

Risk	Opportunity
<ul style="list-style-type: none"> ■ 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. 	<ul style="list-style-type: none"> • Clicks has an extensive store network and plans to open 20 to 25 new stores each year, expanding to over 600 stores in the longer term. • Continued expansion of the pharmacy network with the long-term plan to open dispensaries in all Clicks stores (currently in 77% of South African stores). • Continued recruitment of new members to the Clicks ClubCard. • Ongoing improvement in pricing, product offer and customer service.

Key to managing residual risk

- Effective mitigation plan in place, risk completely under management control
- Effective mitigation plan in place but certain risk elements outside management control
- Mitigation plan in place but risk not fully mitigated/certain risk elements outside management control
- No or very limited mitigation in place

Material issues, risks and opportunities (continued)

Regulation

Risk	Opportunity
<ul style="list-style-type: none"> Healthcare markets are highly regulated across the world and South Africa is no exception. Legislative and regulatory changes introduced by the Department of Health (DoH), SA Pharmacy Council (SAPC) and Medicines Control Council (MCC) could impact on Clicks and UPD. Introduction of international benchmark drug pricing will place pressure on UPD turnover and margins. 	<ul style="list-style-type: none"> Continued management engagement with the DoH, SAPC and MCC on legislation and regulation. Formal written and oral submissions to DoH, SAPC and MCC in response to draft legislation or regulations. As the market leaders in retail pharmacy and pharmaceutical wholesaling, position Clicks and UPD to benefit from market consolidation arising from changes in legislation and regulation. Ensure Clicks and UPD are operating efficiently to maintain margins and profitability.

People

Risk	Opportunity
<ul style="list-style-type: none"> Inability to recruit, attract and retain talent for core business needs, including pharmacy and management. 	<ul style="list-style-type: none"> Salaries 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 to be launched. Accredited training programmes for store management, key store roles and merchandise and planning being developed. Senior leadership development programme to strengthen management talent.



CHAIRMAN'S REPORT

“The group again performed well in the 2015 financial year and continued to generate highly competitive returns, with a sector-leading return on equity of 53.7%.”



Slowing economic growth prospects

Low economic growth continues to hamper the prospect of a recovery in South Africa's fortunes in the short to medium term, with widespread power outages, a depreciating currency, falling commodity prices, low business and consumer confidence all being features of the domestic economy in the past year.

The country's poor growth prospects are reflected in the forecast growth in gross domestic product (GDP) which has recently been revised downwards to only 1.5% for 2015, 1.7% for 2016 and 2.6% in 2017. As recently as 2011 the country's GDP growth rate was 3.5%.

Capacity constraints at the state power utility, Eskom, resulted in extensive power outages which had a severe impact on the national economy. This was particularly disruptive and costly for the retail sector as the electricity load shedding resulted in regular store closures and restricted trading hours. While the frequency and duration of power outages did lessen in the second half of the financial year, this remains a major risk to economic growth in the country.

Consumer sentiment remains negative. In the third quarter of 2015 the Consumer Confidence Index was at levels last recorded during the global and local recession in 2008/9, which is not supportive of growth in consumer spending in the year ahead.

Interest rates are in an upward cycle and the South African Reserve Bank (SARB) increased its benchmark interest rate, the repurchase (repo) rate, by 25 basis points to 6% in July 2015. Interest rates are expected to increase in the new financial year although the SARB needs to balance the impact of the Rand's depreciation on inflation without further limiting economic growth.

South Africa's appeal as an investment destination has also suffered from the negative impacts on the economy, with foreign investment and interest in the country declining over the past year.

The Minister of Finance's medium-term budget policy statement in October 2015 also confirmed that lean times are likely to continue as the country faces growing economic headwinds in the context of a muted outlook for global growth.

Strong financial performance

Against the background of low economic growth and constrained consumer spending that has prevailed in recent years, the group has produced consistently good financial results, highlighting the defensive nature of the business and the resilience of the markets in which we trade.

It is pleasing to report that the group again performed well in the 2015 financial year and continued to generate highly competitive returns, with a sector-leading return on equity of 53.7%.

The group's diluted headline earnings per share increased by 14% to 383.9 cents per share, having grown at a five-year annual compound rate of 12.7%.

Chairman's report (continued)

The total dividend was increased by 23.7% to 235.0 cents per share, based on a reduced dividend cover ratio of 1.7 times headline earnings per share. Dividends have grown at an annual compound rate of 17.2% over the past five years.

The group remains highly cash generative and is committed to investing for longer-term growth and returning surplus capital to shareholders. As part of the group's capital management strategy the board regularly reviews the dividend cover. The current level equates to a dividend payout ratio of 59% compared to 50% in 2011.

Over the past five years the group has generated over R5.2 billion in cash, invested R1.5 billion in organic growth and returned R3.3 billion to shareholders in dividends and share buy-backs.

The group's trading and financial performance is covered in the chief executive's report and in the chief financial officer's report.

Attractive investment case

The group's retail focused health, beauty and wellness strategy is aimed at driving organic growth and generating long-term shareholder value. The directors believe Clicks Group offers a compelling investment case for investors seeking non-cyclical equity exposure to the retail and healthcare sectors in South Africa.

Indeed Clicks Group has proven to be attractive to international investors. At year-end 62% of the group's shares were held by offshore fund managers, including 43% in the United States where investors have a thorough understanding and appreciation of the corporate retail pharmacy model.

The group has a resilient business model, with over 80% of turnover in defensive merchandise categories. All businesses in the group have market-leading positions, with Clicks growing its share of the core health and beauty markets. UPD has market-leading positions in both the pharmaceutical wholesale and distribution markets.

Clicks is the country's leading health and beauty retailer and has strong organic growth prospects. This includes extending the store footprint in South Africa from the current 460 stores to 600 in the longer term, incorporating a pharmacy into every Clicks store, driving the growth of higher margin private label and exclusive brand sales and expanding the 5 million member ClubCard loyalty programme which accounts for 75% of the chain's sales.

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

Best practice governance

Governance and reporting standards of the South African corporate sector are highly rated internationally. This was again confirmed in the World Economic Forum's Global Competitiveness Report 2014 – 2015 which ranked South Africa first out of 144 economies for the strength of auditing and reporting standards, and third for the efficacy of corporate boards.

This authoritative endorsement of the country's governance practices should provide reassurance to international fund managers investing in local companies like ourselves.

Clicks Group has a strong, stable, diverse and independent board with extensive collective knowledge of our business. The diversity of the directors in terms of gender, race and their professional backgrounds encourages constructive debate and ensures that the board considers the needs of a wide range of stakeholder interests. All six of the non-executive directors are classified as independent.

Keith Warburton, the chief operating officer of Clicks, resigned as an executive director in January this year and we thank him for his service to the board.

The group continues to provide best practice reporting and disclosure to shareholders. The 2014 Integrated Report was again rated in the "Excellent" category in the authoritative EY Excellence in Integrated Reporting Awards.

Executive remuneration is closely aligned with shareholder interests and value creation. The group's remuneration policy is proposed to shareholders annually for a non-binding advisory vote and was approved by 97.6% of the votes at the AGM in January 2015.

The group has again in all material respects applied the recommendations of the King III governance code in the past year. We look forward to the expected release of the King IV Code of Corporate Principles in 2016, anticipated to be effective from 2017, which should ensure that South Africa remains at the forefront of governance developments globally.

Clicks Group was the top ranked retail company in the Most Empowered Companies ratings for 2015, based on research by empowerment rating agency, Empowerdex. The group maintained its level 3 BBBEE rating on the Department of Trade and Industry generic scorecard in the 2015 financial year and achieved an improved score of 84.23 points compared to 80.54 in the previous year.

Acknowledgements

Thank you to David Kneale and his executive team for their leadership of the business in delivering a strong all-round performance. My fellow non-executive directors provide valuable insight and guidance and I thank them for their continued support over the past year.

I also wish to thank our 8 600 employees for their commitment to meeting the needs of our customers and for ensuring our businesses remain market leaders.

Thank you to our external stakeholders, including our customers, shareholders and investment analysts, suppliers, industry regulators and business partners for your continued support and contribution to our success.



David Nurek
Independent non-executive chairman

CHIEF EXECUTIVE'S REPORT

“Over R1 billion has been reinvested in capital expenditure in the past three years and another year of record investment of R432 million is planned for 2016.”



Resilient trading performance

Trading conditions in 2015 again proved to be demanding, as we had anticipated, with consumers in the group's middle income target market under continued financial pressure. The core health and beauty markets in which we trade have proven relatively resilient, highlighting the defensive nature of the group's business model.

It is pleasing to report that in this constrained spending climate the Clicks Group delivered another good trading performance, with all the group's retail brands reporting real volume growth.

Group turnover increased by 15.3% to R22.1 billion. Retail sales across Clicks, The Body Shop, GNC and Musica grew by 10.4% and accounted for 67% of group turnover.

The Clicks chain entrenched its leadership position by continuing to gain share of the health and beauty markets. More competitive pricing and an effective promotions strategy to attract value-conscious customers contributed to sales increasing 10.9%. Promotions contributed 29% of sales, confirming Clicks as a value retailer.

The trends towards greater use of generic medicines and the shift to self-medication on which we have commented in the past few years are increasingly evident. Clicks is actively shifting patients to lower-cost generic medication and promoting over-the-counter medicines. Generics now account for 45.4% of sales in Clicks and grew by 19.0% in the past year. As customers become more health and lifestyle conscious they are choosing to self-medicate and Clicks showed double digit growth in front shop medicines, vitamins and supplements.

R3.3bn

returned to
shareholders over
the past five years

5m

Clicks ClubCard
active members

Chief executive's report (continued)

The Body Shop has a loyal and growing customer base, with over 160 000 Love Your Body loyalty programme cardholders who account for 59% of the brand's sales. Turnover for the year increased by 12.7% driven mainly by product innovation and new store openings as the brand expanded its store footprint to 50.

GNC showed encouraging sales growth in its first full year in the group. GNC is the world leader in health and wellness supplements, and has a pipeline of 100 new products which will be launched in the new financial year.

Musica gained market share in all product categories and now has over 60% of the country's CD market and 43% of the DVD market. Sales increased by 2.3%, with double digit growth in gaming and technology.

We recognise that Musica is non-core to the group's health and beauty strategy. However, we believe the demand for the physical music format will remain for some years to come, as has been proven even in developed economies with high-speed broadband connectivity.

As the downloading of music gains popularity the demand for accessories such as headphones and speakers increases and this is reflected in the strong growth of Musica's technology category in recent years. Musica remains profitable, delivers a superior return on assets to the group and will continue to grow market share as the "last man standing" in entertainment retail.

UPD benefited from the growth in its preferred supply chain partner distribution contracts and increased turnover by 21.6%. Fine wholesale turnover grew by 7.4% and distribution turnover by 34.6%. UPD's total managed turnover, which combines wholesale turnover with the turnover managed on behalf of distribution agency clients, increased by R2.7 billion to R15.2 billion.

The trading performance of Clicks and UPD is covered in the operational review on pages 24 to 27. The financial performance is detailed in the chief financial officer's report on pages 18 to 21.

Delivering on our strategy

Clicks Group's strategy is to create sustainable long-term shareholder value through a retail-led health, beauty and wellness offering. The strategy has been consistently applied in the year under review and encouraging progress has been made in delivering on this strategy.

Clicks aims to be the customer's first choice in health and beauty retailing and the chain was independently rated as South Africa's top health and beauty retailer in The Times/Sowetan Retail Awards for the seventh year. Clicks has the largest pharmacy network in the country and this was extended to 361, with primary care clinics in 157 of these pharmacies. Retail pharmacy market share increased to 18.7%.

Front shop health market share increased to 29.4% while in the beauty category, skincare increased to 26.8% and haircare to 25.4% of the market.

Clicks ClubCard active membership reached 5 million and accounted for 75% of the brand's sales. Customers have responded positively to the relaunch of ClubCard which enables cash back rewards to be loaded directly onto their loyalty cards.

We continue to differentiate the Clicks offer by being the exclusive southern African partner of global health and beauty brands who are market leaders in their sector. Our range of exclusive brands, The Body Shop and GNC, was extended with the launch of Claire's, a leading speciality retailer in fashionable jewellery and accessories. Claire's has over 3 000 stores in 46 countries, targeting young women and girls at affordable prices.

The franchise brands operate either as standalone stores or with capsule ranges in Clicks stores. The Body Shop has 50 stores, with a presence in 86 Clicks stores, and GNC has four stores and ranges available in 257 Clicks stores. Claire's opened its first store in Cavendish Square in Cape Town in July 2015 and has extended its presence post-year-end to 77 Clicks stores.

UPD, which provides the supply chain channel for Clicks pharmacies, now has market-leading positions in both the pharmaceutical wholesale and bulk distribution markets. Total managed turnover is now R15.2 billion and has shown a four-year compound annual growth rate of 25.1%, highlighting the success of the strategy of developing the distribution business alongside UPD's traditional fine wholesaling business. UPD manages a portfolio of 22 distribution clients which accounts for 51% of UPD's total managed turnover.

Investing for growth

The group is committed to investing in stores, distribution facilities, infrastructure and information technology to sustain and grow the business.

Over R1 billion has been reinvested in capital expenditure in the past three years and another year of record investment of R432 million is planned for 2016.

A key focus of our capital investment programme is on expanding and refreshing the store network. In the past year 41 new retail stores were opened, bringing the group's footprint to 657, including 34 stores in the neighbouring countries of Namibia, Botswana, Swaziland and Lesotho.

In the year ahead the group will open 33 retail stores and refurbish 60 stores. Our store refurbishment programme ensures that stores remain modern and appealing to customers, and that trading densities are optimised.

Investing in our people

Attracting and retaining talent for our core business needs is one of the material issues confronting the group and is critical to our ongoing success.

The employee share ownership scheme introduced four years ago allows our people to share in the long-term growth and success of the business. Over 7 900 employees are now shareholders and dividends totalling R15.7 million

Chief executive's report (continued)

have been paid to participants in the scheme. This is also a mechanism to attract and retain scarce talent while accelerating transformation, with black staff accounting for 87% of the employee shareholders and women 64%.

The group also invests in retaining high-potential employees, black staff and employees with scarce and critical skills. Currently 51 employees participate in this retention scheme. Since the inception of the scheme in 2009 the group has been successful in retaining 80% of the participants.

As the largest employer of pharmacy staff in the private sector the group is actively building capacity to assist in addressing the critical shortage of pharmacists. In the past year Clicks invested in bursaries for 82 pharmacy students, provided 49 pharmacy internships and trained over 320 learners through the in-house Healthcare Academy for pharmacy assistants.

Clicks' standing as an employer of choice in the pharmacy profession is also resulting in the group attracting an increasing number of graduates from all pharmacy schools.

Our ongoing investment has resulted in a steady decline in the turnover of pharmacists to 22% in 2015 from 37% in 2012. The increasing pipeline of pharmacists is also enabling Clicks to accelerate the pace of its pharmacy opening programme.

The group has invested R49 million in skills development over the past year, training over 4 000 employees.

Leadership appointments

Following the resignation of Keith Warburton as chief operating officer of the Clicks chain in early 2015, we promoted executives internally to head our two major business units.

Vikesh Ramsunder, the managing director of UPD, was promoted to head the Clicks chain. Vikesh has gained extensive

experience in both Clicks and UPD in his 22 years with the group. During his tenure as head of UPD he was responsible for growing the bulk distribution business into a significant player in the market while maintaining UPD's market leadership in pharmaceutical wholesaling.

Vikash Singh, head of operations and distribution at UPD, was appointed as managing director of UPD. He too has an impressive track record of delivery in both Clicks and UPD over the past decade.

These internal appointments reflect the quality of the group's talent and succession planning process, and the benefits of investing in our people.

Growth opportunities and outlook

The anticipated growth in the country's health and beauty markets creates opportunities for sustained organic growth, supporting the investment case outlined by the chairman in his report.

The corporate pharmacy market is expected to continue to expand and benefit from the longer-term decline of the independent pharmacy sector. Corporate pharmacy comprises well over 50% of the market in the USA and United Kingdom and we believe South Africa has the potential to reach similar levels. Corporate pharmacy has only been operating in South Africa for just over a decade and still accounts for less than 40% of the retail pharmacy market today.

South Africa's healthcare market is expected to show long-term real growth as an increasing proportion of the population enters the private healthcare market.

The introduction of low cost benefit options for medical schemes for lower income earners would also stimulate growth,



Chief executive's report (continued)

although the proposed introduction of such options was recently withdrawn by the Council for Medical Schemes.

Increasing life expectancy and improving living standards are creating a growing market for health and beauty products. Higher living standards are contributing to steady growth in the country's middle class population which is also expanding the universe of formal retail shoppers. This is evident in the increasing number of South Africans in the LSM 6 to 10 categories, the Clicks target market, which has grown from 48% in 2008 to 61% of the population in 2015.

Shifting population demographics and increasing urbanisation will also benefit formal retail.

The group has a portfolio of strong, market-leading brands which have the capacity to capitalise on these growth opportunities and increase market share over the medium term.

Clicks is well positioned in these growing markets with its extensive store footprint offering convenience to customers. In the longer term Clicks is targeting to reach 600 stores in South Africa, with a pharmacy in every store. Expansion outside of South Africa is not a strategic imperative owing to the extensive opportunities in the local market.

Private label and exclusive brands offer differentiated ranges at higher margins and Clicks is targeting to reach 25% of sales from these products.

As a health and beauty retail group we face competition on several fronts, including independent and corporate pharmacy, food and general merchandise retailers.

The directors believe the group's retail-led strategy remains relevant in the current environment, offers competitive advantage and should ensure sustainable growth. The strategy

will continue to be supported by the investment for long-term sustainable growth, as outlined above.

In the short term we do not expect consumer spending to improve and this means that the retail trading environment will remain constrained in the 2016 financial year. UPD is expected to face a demanding year owing to the ongoing margin pressure from the faster growth in generic medicines, while there are no significant distribution contracts coming up for tender in 2016.

The directors are confident of the group's ability to continue to generate cash and to achieve its medium-term financial targets.

Appreciation

Thank you to our chairman, David Nurek, and the non-executive directors for their insight, guidance and counsel. My colleagues on the group executive, Michael Fleming, Bertina Engelbrecht and Vikesh Ramsunder, lead by example and I thank them for their valuable support.

Thanks to our people at head office, stores and distribution centres across the country for their contribution to the group's success over the past year.

Our customers continue to make us their first choice health and beauty retailer, and we look forward to their continued support.



David Kneale
Chief executive officer



CHIEF FINANCIAL OFFICER'S REPORT

“The business remained strongly cash generative over the past year while investing record levels of capital expenditure and returning substantial funds to shareholders.”

Introduction

Clicks Group continued to pursue its organic growth strategy supported by sound capital management which delivered highly competitive returns to shareholders. The business remained strongly cash generative over the past year while investing record levels of capital expenditure and returning substantial funds to shareholders.

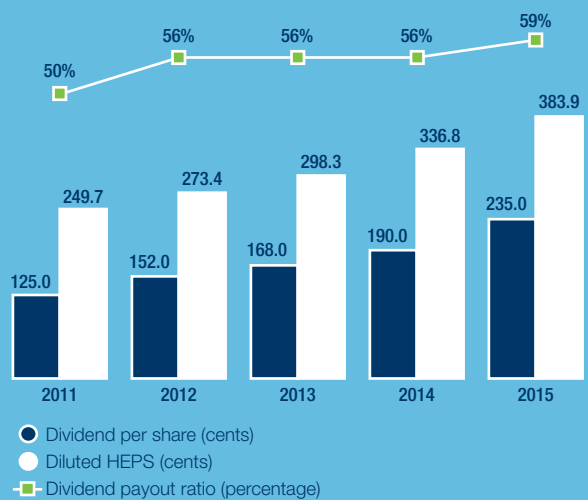
Diluted headline earnings per share (HEPS) grew by 14.0% to 383.9 cents and the total dividend was increased by 23.7% to 235 cents per share, based on an increased dividend payout ratio of 59% (2014: 56%). The dividend together with the growth in the share price represents a total shareholder return of 35.8% for the year.

The group also performed well relative to its medium-term financial targets, achieving four of the five indicators, and only being outside of the targeted range on inventory management. The return on equity (ROE) at 53.7% is the highest in the retail sector. These financial targets benchmark favourably against global health and beauty retailers.

Financial performance

The review of the group's financial performance for the year ended 31 August 2015 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 review should be read in conjunction with the annual financial statements on the group's website and the five-year analysis of financial performance on page 22.

Sustained financial performance



Chief financial officer's report (continued)

Summary statement of comprehensive income

R'million	2015	2014	% change
Turnover	22 070	19 149	15.3
Total income	5 735	5 172	10.9
Operating expenses	4 339	3 954	9.7
Operating profit	1 396	1 218	14.6
Profit for the year	955	865	10.4

Turnover

Group turnover increased by 15.3% to R22.1 billion (2014: R19.1 billion), with selling price inflation being contained to 4.0% for the year.

Turnover in the second half accounted for 51.7% (2014: 51.2%) of total turnover. There is generally minimal seasonal effect on the group's turnover as the festive season in the first half of the financial year is counter-balanced by the winter season, which is the peak trading period for the healthcare business.

Retail turnover, covering Clicks (including GNC and Claire's), The Body Shop and Musica, increased by 10.4%, with comparable store growth of 7.5%. Retail selling price inflation averaged 4.0% for the year.

The Clicks chain increased sales by 10.9% and by 7.9% in comparable stores. This was driven by real volume growth of 3.6% through effective promotions and price competitiveness. A net 22 Clicks stores were opened during the year which accounted for 3% of the chain's turnover growth.

The Body Shop increased turnover by 12.7% and by 9.4% in same store sales. Musica grew sales by 2.3% as the brand gained share in the shrinking entertainment retail market.

UPD benefited from the growth in its preferred supply chain partner distribution contracts and increased turnover by 21.6%.

The trading performance of Clicks and UPD is covered in the operational review on pages 24 to 27.

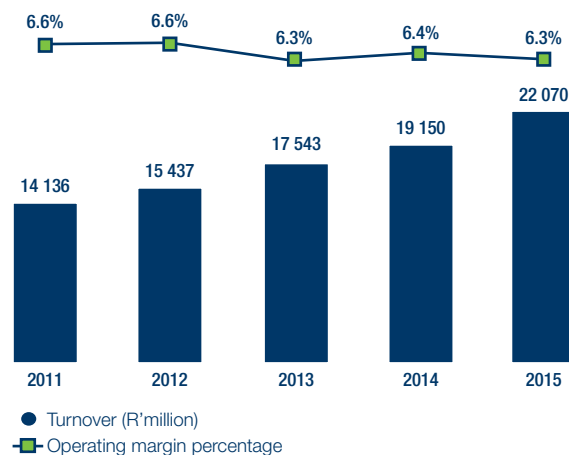
Total income

Total income, comprising gross profit and other income, increased by 10.9% to R5.7 billion. The faster turnover growth in UPD has resulted in the group's total income margin reducing by 100 basis points to 26.0%.

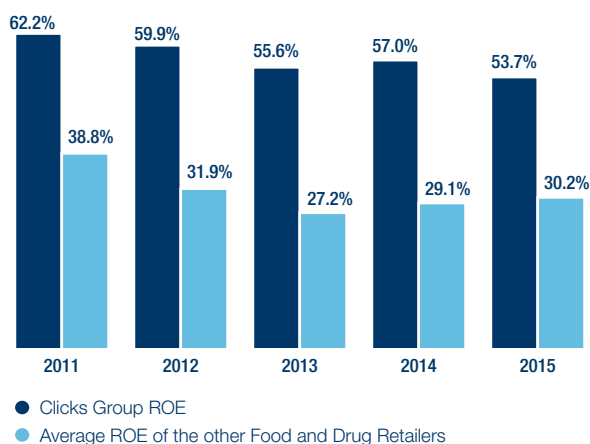
The retail total income margin improved by 20 basis points to 34.0%, benefiting from private label margin growth in Clicks and well managed promotional campaigns.

UPD's total income increased by 11.0%. However, the margin was impacted by the shift in business mix with the faster growth of the distribution contracts which are reflected in turnover. This contributed to the margin declining by 70 basis points to 7.8%.

Turnover and margin



Return on equity



Chief financial officer's report (continued)

Operating expenditure

Operating expenses increased by 9.7% as the group continued to focus on tight cost control.

Retail expenses were 10.1% higher primarily due to the increased investment in stores, staff and marketing costs. Employment costs, which increased by 11.2%, were well controlled. Pharmacy professional costs rose 11.8% and the pharmacy staff turnover ratio reduced from 24% to 22%. The charge for the broad-based employee share ownership scheme increased to R52 million (2014: R31 million) owing to the higher share price over the period. Comparable retail cost growth was contained at 8.0%.

UPD expense growth of 8.4% was well below turnover growth of 21.6% for the year. The increase was mainly attributable to the higher variable costs from the growth in the distribution business. Comparable costs increased by 6.1%.

Operating profit

Operating profit increased by 14.6% to R1.4 billion (2014: R1.2 billion). The retail business, which accounts for 82% of group profit, improved its operating margin by 30 basis points to 7.8%. UPD increased operating profit by 17.0% although the increase in the lower-margin generics business continues to place pressure on the margin which reduced by 10 basis points to 2.5%. All the margins are within the group's medium-term target ranges.

Summary statement of financial position

R'million	2015	2014	% change
Non-current assets	2 009	1 772	13.4
Current assets	5 547	4 420	25.5
Total assets	7 556	6 192	22.0
Total equity	2 013	1 567	28.5
Non-current liabilities	308	286	7.7
Current liabilities	5 235	4 339	20.6
Total equity and liabilities	7 556	6 192	22.0

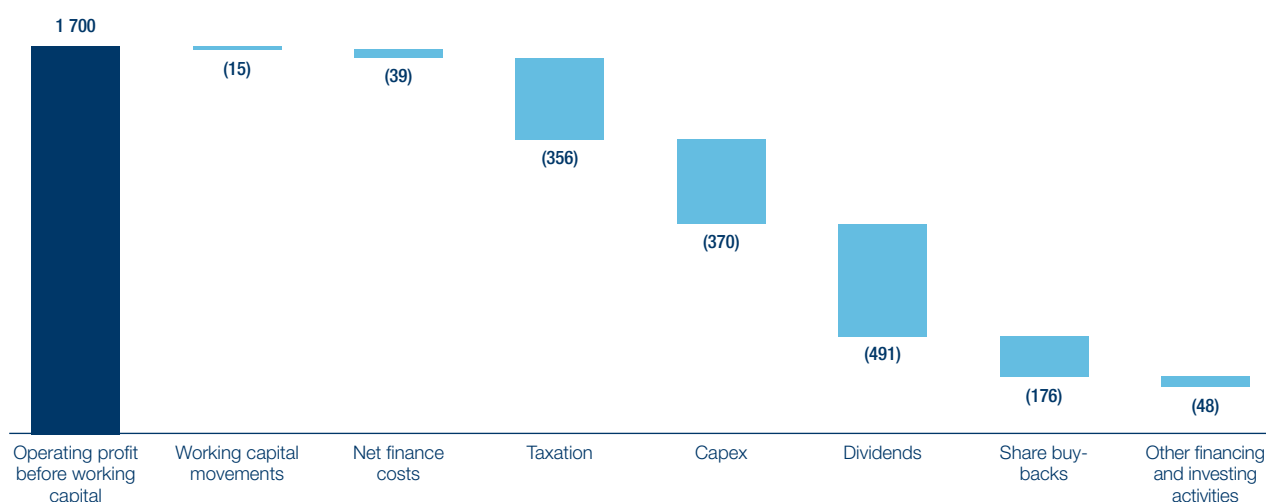
The ratio of shareholders' interest to total assets was 26.6% (2014: 25.3%) and the average gearing level during the year was 33%.

The ratio of current assets to current liabilities at year-end was consistent at 1.1 times (2014: 1.0 times) and indicates that working capital remains adequately funded.

The group continues to hedge direct exposures to foreign exchange rate fluctuations which impact between 7% to 8% of the cost of sales in the retail business. In addition, the group hedged elements of the long-term incentive scheme for the 2016 – 2018 period. Further detail on the respective hedges is contained in note 15 in the annual financial statements on the group's website.

Cash flow analysis

R'million



Chief financial officer's report (continued)

Inventory

Group inventory days increased from 64 to 68 days which was outside the medium-term targeted range of 55 to 60 days.

Inventory levels were 24.3% higher at year-end. This can be attributed to the group focusing on improving product availability in the retail brands, with Clicks achieving record average availability of 97.5%, and also buying stock for the expansion of the retail franchise brands in Clicks stores. UPD stock levels were higher than expected and have normalised subsequent to the year-end.

Cash and capital management

Cash inflow from operations before working capital changes increased by R209 million to R1.7 billion.

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:

- a record R370 million was invested in capital expenditure, this included R216 million on opening 41 new retail stores and refurbishing 43 stores; R100 million in IT infrastructure, systems and software; and R28 million in UPD for warehousing and infrastructure; and
- the group returned R667 million to shareholders through dividend payments of R491 million and share buy-backs of R176 million.

Since the inception of the share buy-back programme in May 2006, the group has acquired R3.1 billion in shares at an average price of R22.40, representing 41.2% of the issued shares at the start of the programme.

Dividends

The total dividend for the financial year was increased by 23.7% to 235 cents per share (2014: 190 cents), based on a reduced dividend cover of 1.7 times HEPS (2014: 1.8 times). This comprises the interim dividend of 65.5 cents (2014: 53.5 cents) and a final dividend of 169.5 cents (2014: 136.5 cents). A dividend of 23.5 cents per "A" share (2014: 19 cents) was declared for participants in the employee share ownership programme.

Targets and plans for 2016

The group's medium-term financial targets have been reviewed based on the performance for 2015 and the outlook for the next three years, and are unchanged for 2016 to 2018 (refer to page 9).

Capital expenditure of R432 million is planned for the 2016 financial year:

- R227 million for 33 new stores across all retail brands, 25 to 35 new pharmacies, and 60 store refurbishments;
- R167 million for retail infrastructure to drive operational efficiencies; and
- R38 million for UPD which will include the completion of the warehouse facility in Port Elizabeth.

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

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

Appreciation

Thank you to our shareholders and the broader investment community both locally and internationally for their continued investment and interest in the group. I also thank the finance staff across the group for their dedication and commitment to achieving best practice reporting standards.



Michael Fleming
Chief financial officer



FIVE-YEAR PERFORMANCE REVIEW

for the year ended 31 August

		5-year compound growth (%)	2015	2014	2013 Restated*	2012 Restated*	2011
Statements of comprehensive income							
Turnover	(Rm)	10.7	22 070	19 150	17 543	15 437	14 136
Operating expenses	(Rm)	9.9	(4 339)	(3 954)	(3 590)	(3 262)	(3 008)
Operating profit	(Rm)	11.1	1 396	1 218	1 104	1 012	938
Profit before tax	(Rm)	11.5	1 330	1 207	1 050	958	898
Headline earnings	(Rm)	10.8	960	838	756	693	655
Statements of financial position							
Non-current assets	(Rm)	7.7	2 009	1 772	1 602	1 505	1 415
Trade and other receivables	(Rm)	16.6	1 871	1 608	1 508	1 172	999
Inventories	(Rm)	15.6	3 250	2 614	2 225	2 080	1 802
Other current assets	(Rm)	(28.6)	25	3	18	9	21
Cash and cash equivalents	(Rm)	21.4	401	195	92	7	18
Total assets	(Rm)	12.9	7 556	6 192	5 445	4 773	4 255
Total equity	(Rm)	12.0	2 013	1 567	1 377	1 349	965
Non-current liabilities	(Rm)	1.9	308	286	252	286	265
Current liabilities	(Rm)	15.4	5 235	4 339	3 472	2 923	2 650
Call borrowings	(Rm)	(100.0)	–	–	344	215	375
Total equity and liabilities	(Rm)	12.9	7 556	6 192	5 445	4 773	4 255
Statements of cash flows							
Cash inflow from operating activities before dividends paid	(Rm)	24.4	1 290	1 464	1 008	759	677
Dividends paid	(Rm)	14.9	491	429	394	337	296
Capital expenditure	(Rm)	12.4	370	337	310	256	216
Returns and margin performance							
		5-year average					
Total income margin	(%)	27.1	26.0	27.0	26.8	27.7	27.9
Operating margin	(%)	6.4	6.3	6.4	6.3	6.6	6.6
Return on assets	(%)	14.8	14.0	14.4	14.8	15.3	15.7
Return on shareholders' interest	(%)	57.7	53.7	57.0	55.5	59.9	62.2
Inventory days		63	68	64	59	63	60
Asset turnover	(times)	3.1	2.9	3.1	3.2	3.2	3.3
Return on net assets	(%)	79.3	96.7	85.2	69.7	69.7	75.0
Shareholders' interest to total assets	(%)	25.6	26.6	25.3	25.3	28.2	22.7
Net debt to equity	(%)	7.7	(19.9)	(12.5)	18.3	15.4	37.1
Share performance							
		5-year compound growth (%)					
Headline earnings per share – basic	(cents per share)	13.5	399.2	341.7	302.0	273.5	250.1
Headline earnings per share – diluted	(cents per share)	12.7	383.9	336.8	298.3	273.4	249.7
Cash equivalent earnings	(cents per share)	18.6	527.2	433.7	386.2	362.9	294.3
Net asset value	(cents per share)	14.4	839	647	558	533	382
Dividends declared	(cents per share)	17.2	235.0	190.0	168.0	152.0	125.0
Dividend cover	(times)		1.7	1.8	1.8	1.8	2.0
Weighted average number of shares in issue (net of treasury shares)	('000)		240 603	245 364	250 297	253 154	262 118
Weighted average diluted number of shares in issue (net of treasury shares)	('000)		250 204	248 892	253 434	253 258	262 515
Shares repurchased	(Rm)		176	285	354	12	552
Shares repurchased	('000)		2 376	4 620	6 187	217	13 664

* 2013 and 2012 results have been restated due to the adoption in the 2014 financial year of IAS 19 (Revised) – Employee Benefits and IFRS 10 – Consolidated Financial Statements.

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



“The Clicks offer is further differentiated by stocking the best-selling ranges of the group’s exclusive health and beauty franchise brands, The Body Shop, GNC and Claire’s.”

Sales performance

Clicks delivered a strong performance in the constrained consumer spending environment, increasing market share in all key merchandise categories as the chain continued to pursue its strategy of being the customer’s first choice health and beauty retailer.

Sales increased by 10.9% to R13.7 billion, driven primarily by volume growth through effective promotions and price competitiveness. Promotions accounted for 29% of sales.

Comparable store sales increased by 7.9% with real volume growth of 3.6% as selling price inflation averaged 4.3% for the year. The financial performance of Clicks is covered in the chief financial officer’s report on pages 18 to 21.

Sales performance	% increase	% contribution to total sales
Pharmacy	12.8	27.5
Front shop health	15.3	23.0
Beauty and personal care	10.1	32.1
General merchandise	4.5	17.4
Total turnover	10.9	100.0

Pharmacy and front shop healthcare accounted for 50.5% of sales (2014: 49.3%). Pharmacy sales increased by 12.8% as lower cost generic medicines continued to grow faster and more patients chose to self-medicate. Sales of generic medicines increased by 19.0% and accounted for 45.4% (2014: 43.0%) of pharmacy sales, while over-the-counter medicines, which do not require a prescription, grew by 15.6%. Clicks increased its share of the retail pharmacy market to 18.7%.

Front shop health showed strong sales growth of 15.3%. The key sub-categories of medicines, vitamins, supplements, first aid and diagnostics performed well and benefited from expanded ranges, additional space and better customer service in-store. Baby merchandise, which is a strategically important category in attracting new customers, continues to be the fastest growing category in Clicks, with sales increasing by 20.3%.

Beauty and personal care remain highly competitive markets where consumers are most responsive to promotions and product innovation. The fragrance sub-category benefited from extended ranges and increased sales by 22.1%, with colour cosmetics and skincare both showing double digit growth. Haircare sales were slower at 5.5% with relatively less product innovation in this category.

General merchandise, with the most discretionary product offering, grew sales by 4.5%. As Clicks increases its health, beauty and wellness focus, it is exiting certain non-core product categories which declined by 20.0%. In the core product categories, domestics increased by 13.7% and confectionery by 9.6%. Clicks increased its leading market share of small household appliances to 20.2%.



1st
in health and beauty
in the country

25.7%
of front shop sales
from private label

Operational review: Clicks (continued)

Market share (%)	2015	2014
Health		
Retail pharmacy*	18.7	18.3
Front shop health**	29.4	28.4
Baby**	11.2	9.9
Beauty and personal care		
Skincare**	26.8	26.3
Haircare**	25.4	24.9
General merchandise		
Small household appliances***	20.2	18.7

* IMS (methodology changed in 2015; comparative not restated).

** AC Nielsen (comparatives restated).

*** GfK (comparative restated).

Competitive and differentiated offer

Private label products and exclusive brands ensure that customers are offered differentiated ranges at competitive prices, while also increasing loyalty and enhancing margins. Sales of private label products increased to 19.8% (2014: 19.0%) of total sales in Clicks, and 25.7% (2014: 24.7%) of front shop sales.

The Clicks offer is further differentiated by stocking the best-selling ranges of the group's exclusive health and beauty franchise brands. The Body Shop has a presence in 86 Clicks stores, GNC in 257 stores and Claire's has extended its presence post-year-end to 77 Clicks stores.

Customer loyalty and rewards

Clicks ClubCard increased active membership by over 300 000 to reach 5 million at year-end. The loyalty programme accounted for 75% of sales in Clicks and the average basket value of ClubCard members remains double that of non-ClubCard members.

The ClubCard was relaunched during the year to enable cashback rewards to be loaded directly onto customers' cards to increase convenience and modernise the programme. Over R294 million was returned to customers in cashback benefits.

Clicks was rated as the country's leading health and beauty retailer for the seventh consecutive year in The Times Sowetan Retail Awards 2015. The chain was also placed first in the specialist and pharmaceutical outlet category. In the retail grand prix category Clicks was ranked fourth among all retail chains in the country.

Expanding and refreshing the retail footprint

Clicks continues to expand its store footprint to increase customer convenience. A net 22 new stores were opened to increase the brand's footprint to 486 at year-end. This includes 24 stores in the neighbouring countries of Namibia, Swaziland, Botswana and Lesotho. A further 43 stores across the chain were extended or refurbished.

The pharmacy footprint grew to 361 after adding a net new 22 pharmacies during the year. Primary care clinics in pharmacies are an integral part of the healthcare offering to customers and a driver of pharmacy foot traffic. The number of clinics was increased by 18 to 157.

Outlook for 2016

Clicks will continue to focus on delivering good value and appealing promotions while offering differentiated product ranges. Private label and exclusive brands are targeted to contribute 25% of sales in the long term.

ClubCard membership is planned to increase to 5.5 million in the new financial year and customer engagement will be increased through the launch of a transactional website.

Clicks is targeting to grow its store base to 600 in South Africa in the medium term and aims to open 20 to 25 new stores in 2016. The pharmacy expansion programme will be accelerated, with 25 to 35 new pharmacies planned in both new and existing stores. The goal is to ultimately incorporate a pharmacy into every Clicks store.



Vikesh Ramsunder

Chief operating officer

Vikesh (44) was appointed as chief operating officer of Clicks in April 2015. He was previously managing director of UPD where he was instrumental in driving the integrated pharmaceutical wholesale and distribution strategy. Vikesh joined the group in 1993 and served in store, general management and distribution centre management positions in Clicks, including serving on the Clicks operating board as head of logistics for two years. He was also responsible for re-engineering store business processes in Clicks.

“UPD now has market-leading positions in both the pharmaceutical wholesale and bulk distribution markets.”

UPD continued to entrench its integrated pharmaceutical wholesale and distribution strategy and increased reported turnover by 21.6% as the business benefited from the growth in its preferred supply chain partner distribution contracts.

Total managed turnover, combining wholesale turnover with the turnover managed on behalf of distribution agency clients, increased by R2.7 billion to R15.2 billion. Total managed turnover has grown strongly in recent years, delivering a four-year compound annual growth of 25.1%.

This growth highlights the success of the strategy of developing the distribution business alongside UPD’s traditional fine wholesaling business. UPD now has market-leading positions in both the pharmaceutical wholesale and bulk distribution markets.

UPD continues to face ongoing margin pressure from the faster growth in lower priced generics, which now account for 45.7% (2014: 40.5%) of medicines. The increasing penetration in generics is expected to continue and UPD is therefore focused on constantly improving efficiencies.

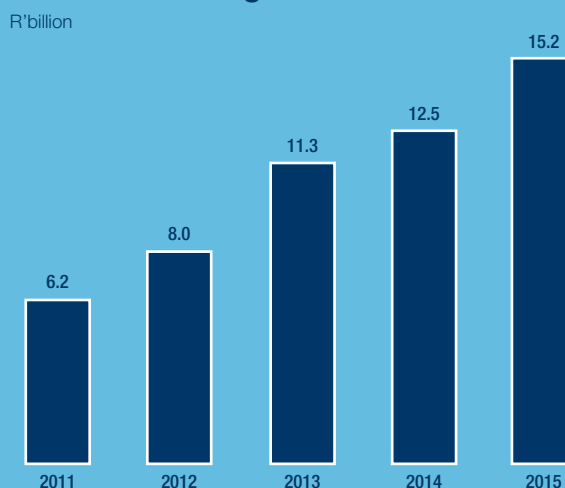
Inflation averaged 4.2% for the year despite an increase of a maximum of 7.5% being allowed in the regulated single exit price (SEP) of medicines for 2015.

UPD’s financial performance is covered in the chief financial officer’s report on pages 18 to 21.

Fine wholesale

	% change	% contribution
Fine wholesale turnover		
Clicks	10.7	41.4
Hospitals	7.5	31.9
Independent pharmacy	2.3	19.0
Other channels	3.9	7.7
Fine wholesale turnover	7.4	100.0

UPD total managed turnover



Operational review: UPD (continued)

Fine wholesale turnover grew by 7.4%. Clicks remains UPD's largest single customer, with sales to Clicks pharmacies increasing by 10.7% and accounting for 41.4% of fine wholesale turnover. Sales to the private hospital groups, including Life Healthcare, Mediclinic and Netcare, grew by 7.5% and contributed 31.9% of turnover.

Sales to independent pharmacies grew by 2.3%. Despite the contraction in this sector in recent years, UPD still services over 1 300 independent pharmacies which account for 19.0% of turnover.

Product availability, which is core to offering superior range and service to customers, was 95% and UPD maintained on-time deliveries at 98%.

Distribution

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

Distribution turnover increased by 34.6% and now accounts for 51% of UPD's total business.

The business managed a portfolio of 22 distribution clients at year end.

Outlook for 2016

In the year ahead UPD aims to increase wholesale market share in line with the growth from its core customers of Clicks pharmacies and the private hospital groups. The planned acceleration in the rate of Clicks pharmacy openings is positive for UPD, with Clicks targeting to open 25 to 35 pharmacies.

UPD is currently building a new distribution centre in Port Elizabeth. On the completion of this facility in mid 2016 UPD will own all five of its distribution centres in South Africa.

The margin pressure from the faster growth in generics will continue and there are no more significant distribution contracts expected to benefit UPD in 2016, which will make it a demanding year for UPD. In this environment UPD will focus on becoming more efficient through improved business processes, quality management and system enhancements.



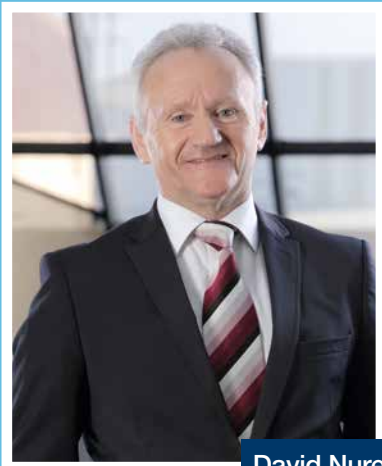
Vikash Singh
Managing director

Vikash (41) was appointed as managing director of UPD in April 2015. He is a seasoned executive with extensive experience in 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.

UPD
market share
25.2%



BOARD OF DIRECTORS



David Nurek



Prof. Fatima Abrahams



John Bester



Bertina Engelbrecht



Michael Fleming



Fatima Jakoet



David Kneale



Nkaki Matlala



Martin Rosen

Board of directors (continued)

David Nurek (65)

Independent non-executive chairman
Dip Law, Grad Dip Company Law

Chairman of the social and ethics committee and member of the remuneration and nominations committee

Appointed June 1997

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. He is non-executive chairman of Distell Group and Lewis Group, and a non-executive director of Trencor.

Prof. Fatima Abrahams (53)

Independent non-executive director
B Econ (Hons) (cum laude), M Com, D Com

Chairperson of the remuneration and nominations committee and member of the social and ethics committee

Appointed March 2008

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. Prof. Abrahams is chairperson of TSiBA Education, a non-profit private higher educational institution, and is a non-executive director of Iliad Africa, Lewis Group, The Foschini Group and Marsh (Pty) Ltd.

John Bester (69)

Independent non-executive director
B Com (Hons), CA (SA), CMS (Oxon)

Chairman of the audit and risk committee and member of the remuneration and nominations committee

Appointed October 2008

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 34 years, holding a number of financial directorships during this time. He is non-executive chairman of Ascendis Health and a non-executive director of HomeChoice Holdings, Personal Trust International, Sovereign Food Investments, Tower Property Fund and Western Province Rugby (Pty) Limited, as well as a trustee of the Children's Hospital Trust.

Bertina Engelbrecht (52)

Group human resources director
B Proc, LL M, admitted attorney

Member of the social and ethics committee

Appointed as a director in March 2008

An experienced human resources professional, Bertina joined Clicks Group in July 2006. She was previously general manager for Shell SA Energy and regional human resources manager for Shell Oil Products Africa. Prior to this Bertina was director of organisational effectiveness at Sea Harvest, managed her own consultancy practice and spent eight years with Transnet.

Michael Fleming (48)

Chief financial officer
B Com, CTA, CA (SA)

Appointed as a director in March 2011

Michael joined the Clicks Group in February 2011 and was previously chief financial officer of Tiger Brands Limited. He joined the Tiger Brands group in 2000, was appointed as financial executive of the Tiger Brands consumer brands division in 2005 and promoted to chief financial officer in June 2008. During his tenure as CFO of Tiger Brands, Michael also served as a non-executive director of Oceana Group Limited.

Fatima Jakoet (55)

Independent non-executive director
B Sc, CTA, CA (SA), Higher certificate in financial markets

Member of the audit and risk committee

Appointed March 2008

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. Fatima is a non-executive director of MMI Holdings, Tongaat Hulett, Rand Refinery, AfriSam and various MTN subsidiaries.

David Kneale (61)

Chief executive officer
BA

Member of the social and ethics committee

Appointed as a director in April 2006

David was appointed chief executive officer of Clicks Group in January 2006. He was previously chief commercial officer of health and beauty retailer, Boots Group plc, in the United Kingdom. During his career at Boots, David 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.

Nkaki Matlala (62)

Independent non-executive director
B Sc, M Sc, M D, M Med (Surgery), FCS

Member of the audit and risk committee and the social and ethics committee

Appointed August 2010

Dr Matlala is an experienced teacher and surgeon and is currently executive director: government and stakeholder relations at Mediclinic Southern Africa. He was deputy president of the National Medical and Dental Association in the late eighties, and worked for a number of years in academic medicine and private surgical practice before establishing Safika Health in 1999. He joined Mediclinic in 2005. Dr Matlala is a member of the Hospital Association of South Africa board, a trustee of the University of Limpopo Trust and a founding member and chairman of Phodiso Holdings, a healthcare investment company.

Martin Rosen (65)

Independent non-executive director

Member of the remuneration and nominations committee

Appointed April 2006

Martin is an accomplished retailer and marketer, having spent 33 years with Pick n Pay before starting his own marketing consultancy in 2004. After 17 years in the retail operations of Pick n Pay, Martin was appointed group marketing director in 1998 and managing director of Pick n Pay Group Enterprises in 2001.

CREATING VALUE THROUGH GOOD GOVERNANCE

Corporate governance philosophy

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

While the board is unwavering in its adherence with legislation, regulations and codes, our commitment to good governance goes beyond compliance. The directors recognise that good governance can benefit long-term equity performance and enhance shareholder value.

We believe that governance can contribute to value creation through enhanced accountability to shareholders, more effective risk management and mitigation, equitable performance management and reward structures, greater transparency and disclosure, improved reporting to shareholders, effective leadership and decision-making, and avoiding sanction or penalties for non-compliance.

Governance processes are regularly reviewed to align with legislative and regulatory changes and to reflect changes in the business to ensure processes remain relevant.

The annual evaluation for inclusion in the JSE Socially Responsible Investment Index provides an independent assessment of companies' corporate governance, social and environmental practices. Clicks Group qualified for inclusion in the Index for the fifth time in the 2015 financial year, meeting all the required social and governance related core indicators, which is a pleasing external endorsement of our governance standards.

The group voluntarily applies the principles of the King Code of Governance Principles 2009 (King III) and the board remains satisfied with the manner in which the group has applied the recommendations of the code. Principle 9.3 was not fully applied during 2015.

The governance landscape in South Africa will be further enhanced with the proposed introduction of the King IV Code of Corporate Principles in 2016, which is anticipated to be effective from 2017. There have been significant corporate governance and regulatory developments, both locally and internationally, since the introduction of King III in 2009 which will hopefully be incorporated into the new code. We welcome governance codes which facilitate value creation without adding burdensome compliance requirements on companies.



David Nurek

Independent non-executive chairman

Board diversity and independence

Clicks Group has a diverse and independent board of nine directors, comprising three salaried executive directors and six non-executive directors.

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

All six non-executive directors are classified as being independent in terms of King III. This was confirmed in the 2015 internal evaluation of the performance and independence of the non-executive directors which included a rigorous assessment of chairman, David Nurek, who has served as a non-executive director for 18 years.

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

Director election

Regular election of directors ensures that shareholders are able to exercise their right to appoint directors they believe will add value to the company. One-third of the non-executive directors are required to retire at the AGM each year. Executive directors retire on the third-year anniversary of their appointment or most recent re-election to the board. All retiring directors are eligible for re-election. Independent non-executive directors David Nurek and Fatima Jakoet, and executive director David Kneale, are standing for re-election at the forthcoming AGM.

The board elects the chairman after the AGM each year and all members of the audit and risk committee are elected annually by shareholders.

Ongoing evaluation

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

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

Board and executive relationship

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

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

Creating value through good governance (continued)

Board oversight

Specialised governance functions are delegated to committees to assist the board in meeting its oversight responsibilities. All board committees are chaired by independent non-executive directors and the composition of the committees conforms to the requirements of King III.

These committees are as follows:

- audit and risk committee;
- remuneration and nominations committee; and
- social and ethics committee.

Board and committee meeting attendance

	Director status	Board	Audit and risk	Remuneration and nominations	Social and ethics
Number of meetings		4	4	3	2
David Nurek	Independent	4 ⁺		3 [^]	2 ⁺
Fatima Abrahams	Independent	4		3 ^{^^}	2
John Bester	Independent	4	4 ⁺	3	
Bertina Engelbrecht	Executive	4			2
Michael Fleming	Executive	4			
Fatima Jakoet	Independent	3	4		
David Kneale	Executive	4			2
Nkaki Matlala	Independent	3	3		1
Martin Rosen	Independent	4		3	
Keith Warburton*	Executive	2/2			
Meeting attendance 2015 (%)		95	92	100	90
Meeting attendance 2014 (%)		97	100	100	100

⁺ Chair.

[^] Chairs nominations agenda items.

^{^^} Chairs remuneration agenda items.

* Resigned with effect 28 January 2015.

Ethics and values

The group strives to achieve the highest ethical standards of business practice. A set of values and a behavioural code of conduct require staff to display integrity, mutual respect and openness, and affords them the right and obligation to challenge others who are not adhering to these values. Policies have been implemented which require all employees to adhere to ethical business practices in their relationships with colleagues, suppliers, intermediaries, shareholders and investors. These policies also set stringent standards relating to the acceptance of gifts from third parties and declarations of potential conflicts of interests.

Anti-competitive conduct

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

The group's corporate governance report with detailed disclosures on the functioning of the board and its committees, risk management, accountability and compliance is available to shareholders on the website.



REMUNERATION COMMITTEE REPORT

Remuneration policy

The group's remuneration philosophy is based on the total rewards strategy which integrates the five key elements of compensation, benefits, performance and recognition, talent development and work-life integration that attract, motivate and retain the human capital necessary to deliver the group's long-term objectives.

This philosophy is aimed at driving a high-performance culture that delivers sustainable returns to shareholders, through employees who are engaged and committed, underpinned by equitable reward and recognition mechanisms.

The remuneration policy supports the attraction, development and retention of employees who contribute to sustained business growth. The policy is transparent with a pay framework that clearly differentiates between occupational levels of work and pay grades that facilitate remuneration benchmarking for each job within a skill pool. The reward principles of market competitiveness, internal equity, equitable treatment and pay for performance are entrenched in the policy.

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

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

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

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

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

Annual salary increases are merit based, with increases being directly related to the employee's annual performance rating. The range of increase percentages per performance rating is applied consistently across the group, including to the executive directors. The annual increase for an employee in the bargaining unit is based on a collective bargaining process (refer to the section on management and staff on page 35).

Remuneration structure

The total rewards framework enhances the group's employment proposition as an employer of choice while providing flexibility to meet the differing needs of employees.

Annual guaranteed pay is determined by considering the following factors:

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

Benchmarking

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.

External compensation and benefit consultants conduct an independent review of the group's pay policy outcomes and practices, and advise the group, including the committee, on best pay practices, competitive positioning and benchmarking.

The group's benchmarking and market information is based on independent surveys, including the PricewaterhouseCoopers Remchannel, Hay Group and Deloitte Execeval surveys. The group also participates in a biannual benchmarking exercise aimed at ensuring the maintenance of a competitive remuneration position in respect of pharmacists and pharmacy managers.

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.

As recommended by King III, the committee comprises independent non-executive directors, chaired by Professor Fatima Abrahams and also includes John Bester, David Nurek and Martin Rosen. The chief executive officer and the group human resources director attend committee meetings by invitation to provide input and are recused from discussions that relate to their own performance appraisal and remuneration. Detail on the committee meeting attendance is included on page 31.

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.

Remuneration committee report (continued)

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 annual general meeting (AGM).

The group's remuneration policy was proposed to shareholders for a non-binding advisory vote at the AGM in January 2015 and was approved by 97.6% (2014: 99.1%) of the votes cast. The policy is proposed to shareholders annually.

The remuneration paid to directors is disclosed on pages 36 to 37. The group's prescribed officers in terms of the Companies Act are all executive directors and their remuneration is, in accordance with the King III requirements, fully disclosed in this report.

Executive directors' remuneration

The remuneration of executive directors consists of three components:

- annual guaranteed pay, which allows for flexible structuring of retirement fund contributions;
- annual short-term cash-based incentive bonus; and
- participation in the long-term incentive scheme.

The remuneration of executive directors is aligned to the achievement of the group's published medium-term financial and operating targets (refer to page 9). A significant portion of remuneration is variable and designed to incentivise executive directors' performance and ensure alignment of their interests with those of shareholders. Base salaries are set according to an annual benchmarking exercise of the executive roles in similar-sized market capitalisation companies on the JSE. This benchmarking scope recognises the complexity in the group's business model, product and service offering, and the regulatory environment within which the group operates.

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.

The performance of the chief executive officer is assessed by the chairman and the board, while the performance of the other executive directors is evaluated by the chief executive officer and reviewed by the committee. The annual pay increase of the executive directors is directly related to individual performance ratings and aligned to the annual increase ranges per performance rating as determined by the committee and applied consistently across the group.

Short-term incentive scheme

Executive directors participate in the annual short-term cash-based incentive scheme. Financial targets, based on the group's average monthly return on net assets (RONA), are set by the board and embedded in the budgets, operating plans and the performance contracts, and are aligned to the group's published medium-term financial targets. The incentive scheme is designed to encourage all employees to focus on both financial and non-financial levers across financial, customer, learning and growth as well as internal business process improvement metrics.

The achievement of targets is reviewed by the committee before any incentive payments are made to executive directors.

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

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

Bonus payments are capped at 120% of annual guaranteed remuneration for the chief executive officer and at 80% for the other executive directors. The targets and value of all bonuses awarded to executives are approved by the committee.

Executive directors participate in the cash-settled long-term incentive schemes which are detailed on pages 35 to 37.

Management and staff

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

An annual performance-based salary increase is paid to all permanent monthly non-bargaining unit employees. The average performance-linked increases for the new financial year will result in a 5.6% (2014: 5.6%) increase in payroll costs.

Remuneration committee report (continued)

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. Following a private mediation process, a two-year wage agreement was concluded in 2014 in terms of which an annual salary increase of 8.0% for 2014 and 7.9% for 2015 was granted to all staff in the bargaining unit in South Africa. Trade union membership comprises 27.5% of the total group employees (2014: 30%). The employees in the bargaining unit also participate in the group's short-term incentive schemes.

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

Employee share ownership programme

The employee share ownership programme (ESOP) is aimed at attracting and retaining scarce and critical skills, accelerating transformation, building employee commitment and enabling employees to share in the growth and success of the business. Executive directors and senior employees who participate in the group's long-term incentive schemes do not also 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) have been 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 have been allocated to 7 993 employees, with black staff receiving 87% and women 64% of the shares. Pharmacists comprise 5% of the ESOP beneficiaries. A dividend of R4.9 million (2014: R4.3 million) was paid to 7 777 (2014: 7 161) qualifying employees during the year.

The ESOP has a minimum term of three years and a maximum of seven years, with a sliding scale that applies to employees who leave the group within the three to seven-year period.

Group retention scheme

The group retention scheme is aimed at retaining talented employees by providing them with a long-term financial incentive linked to the growth in the group's earnings. In 2014, the scheme was revised to align the interests of these key employees with shareholders' interests.

The scheme targets high-potential employees, black staff and employees with scarce and critical skills. There are currently 51 employees participating in the scheme, of which 29% are black and 45% are women. The candidates recommended for inclusion in the retention scheme are reviewed and approved by the committee, which also approves all payments made under the scheme. During the financial year R5.5 million (2014: R5.9 million) was paid out to participants in the retention scheme.

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.

The committee annually reviews the short-term incentive schemes and any allocation and payment is approved.

RONA-based short-term incentive scheme

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

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

The group and all business units achieved the short-term targets and R77.5 million will be paid in accordance with the scheme rules (2014: R60.9 million).

Retail store incentive scheme

The retail store incentive scheme rewards staff in retail stores for outperforming quarterly store sales targets. The scheme paid out R9.8 million to retail store staff for the 2015 year.

Long-term incentive schemes

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

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

2013 to 2016 LTI scheme

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

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

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

Remuneration committee report (continued)

Units are forfeited if an executive resigns within the three-year period.

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

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

Diluted headline earnings per share

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

2014 to 2017 and 2015 to 2018 LTI schemes

Based on further feedback from shareholders the LTI scheme was amended to strengthen the alignment between executive and long-term investor interests by exposing participants to market volatility, in addition to the earnings performance metric applied in the other LTI scheme.

The value of appreciation units granted is apportioned equally between two performance components: (1) diluted HEPS, as applied in the 2013 to 2016 scheme above; and (2) total shareholder return (TSR) units based on the Clicks Group share price (VWAP). The financial incentive received by the participants is the gain earned on the appreciation units over

a three-year period. The TSR units are also subject to the following performance hurdles:

Total shareholder return

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

TSR is defined as “the overall return to shareholders which is equal to the 20-day volume weighted average price (VWAP) appreciation of a Clicks Group Limited share plus dividend payments reinvested over the three-year performance period divided by the VWAP of a Clicks Group Limited share at the commencement of the three-year performance period, expressed as a percentage”.

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

A cap has been introduced to limit the value payable at the end of the three-year performance period to no more than five times the annual guaranteed pay of participants in the scheme.

The requirement for scheme participants to purchase shares with the proceeds does not apply to this scheme.

Currently 14 (2014: 16) executives participate in the schemes. The appreciation units allocated to executive directors under the three schemes is detailed in the table below. The relevant amounts have been expensed through the statement of comprehensive income.

	2013 to 2016 scheme	2014 to 2017 scheme	2015 to 2018 scheme
	HEPS units allocated at R35.83 per unit	HEPS units allocated at R40.42 per unit	TSR units allocated at R66.34 per unit
Bertina Engelbrecht	307 005	145 967	88 936
Michael Fleming	466 090	221 178	134 760
David Kneale	1 243 371	597 476	364 034

Remuneration committee report (continued)

Directors' remuneration

Executive directors' remuneration

Director (R'000)	Salary	RONA short-term incentive	Performance- based long-term incentive***	Pension fund	Other benefits	Total
2015						
Bertina Engelbrecht	2 579	1 239	4 041	371	–	8 230
Michael Fleming	3 819	1 877	6 304	594	57	12 651
David Kneale	7 037	5 072	16 668	1 011	2	29 790
Keith Warburton*	1 425	n/a	n/a	190	27	1 642
Total	14 860	8 188	27 013	2 166	86	52 313
2014						
Bertina Engelbrecht	2 405	1 100	3 185	345	–	7 035
Michael Fleming	3 593	1 670	5 181	524	57	11 025
David Kneale	6 491	4 455	13 461	933	2	25 342
Keith Warburton**	1 827	1 500	n/a	157	32	3 516
Total	14 316	8 725	21 827	1 959	91	46 918

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

** Appointed as an executive director on 18 February 2014, with remuneration disclosed from this date.

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

Non-executive directors' remuneration

Director (R'000)	2015 Directors' fees	2014 Directors' fees
David Nurek	878	798
Fatima Abrahams ¹	368	337
John Bester	476	437
Fatima Jakoet	326	297
Nkaki Matlala	376	344
Martin Rosen	260	236
Total	2 684	2 449

¹ The fees paid to Professor Abrahams include an amount of R19 800 (2014: R18 082) for performing the role of chairperson of The Clicks Group Employee Share Ownership Trust.

Total directors' remuneration

R'000	2015	2014
Executive directors (including the long-term incentive scheme)	52 313	46 918
Non-executive directors	2 684	2 449
Total directors' remuneration	54 997	49 367

Remuneration committee report (continued)

Directors' shareholdings at 31 August

Director	2015 Beneficial shares			2014 Beneficial shares		
	Direct	Indirect	Total	Direct	Indirect	Total
David Nurek	–	200 000	200 000	–	240 000	240 000
John Bester	12 000	10 000	22 000	12 000	10 000	22 000
Bertina Engelbrecht	91 701	–	91 701	85 560	–	85 560
Michael Fleming	24 833	–	24 833	14 844	–	14 844
David Kneale	309 256	–	309 256	285 974	–	285 974
Martin Rosen	–	2 000	2 000	–	2 000	2 000
Total	437 790	212 000	649 790	398 378	252 000	650 378

The total number of ordinary shares in issue is 246 137 763 (2014: 246 137 763). The percentage of issued share capital held by directors is 0.26% (2014: 0.26%). Details of dealings in Clicks Group shares by directors during the financial year are contained in the directors' report in the annual financial statements.

Non-executive directors' fees

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

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 10 JSE listed retail companies.

The committee commissioned a survey to benchmark the current fee structure against this comparator group. The results indicated that the fees for board and social and ethics committee members were significantly below the comparator median. The proposed fees for 2016 will bring the board and committee members within the group's policy range of 80% to 120% of the comparator median. The fee structure for non-executive directors will be benchmarked annually.

Directors' fees are paid for a calendar year. The fees have been adjusted for the 2016 calendar year and are subject to approval by shareholders at the AGM in January 2016. The proposed total fees for non-executive directors for the 2016 calendar year represents an increase of 9.8% over the previous year.

In line with best governance practice, non-executive directors do not participate in incentive schemes. None of the non-executive directors have service contracts with the group and no consultancy fees were paid to directors during the year.

Board position	2016*			2015* Total fees R
	Proposed total fee R	Proposed base fee R	Proposed meeting fee R	
Board chairman**	970 000	727 500	242 500	905 000
Board member	240 000	180 000	60 000	210 000
Chair: Audit and risk committee	236 500	177 375	59 125	220 000
Member: Audit and risk committee	130 000	97 500	32 500	125 000
Chair: Remuneration and nominations committee	100 000	75 000	25 000	96 000
Member: Remuneration and nominations committee	60 000	45 000	15 000	57 750
Chair: Social and ethics committee	n/a	n/a	n/a	n/a
Member: Social and ethics committee	60 000	45 000	15 000	51 200

* Fees relate to the calendar year.

** The total 2015 fee and proposed 2016 fee for the board chairman is inclusive of all committee memberships.



SOCIAL AND ETHICS COMMITTEE REPORT

The Clicks Group social and ethics committee is constituted as a formal committee of the board in terms of the Companies Act. The committee is governed by a formal charter and has an independent role. This report is prepared in compliance with the requirements of the Companies Act.

Role of the committee

The social and ethics committee acts in terms of the delegated authority of the board and assists the directors in monitoring the group's activities in terms of legislation, regulation and codes of best practices relating to:

- ethics;
- stakeholder engagement, including employees, customers, communities and the environment; and
- strategic empowerment and transformation.

Responsibilities of the committee

The responsibilities of the committee are as follows:

- monitor activities relating to social and economic development, good corporate citizenship, the environment, and health and public safety;
- ensure appropriate short and long-term targets are set by management;
- monitor progress on strategic empowerment and performance against targets;
- monitor changes in the application and interpretation of empowerment charters and codes; and
- monitor functions required in terms of the Companies Act and its regulations.

Composition and functioning

The committee comprises three independent non-executive directors, namely David Nurek (chairman), Professor Fatima Abrahams and Dr Nkaki Matlala, and two executive directors, David Kneale (chief executive) and Bertina Engelbrecht (group human resources director).

David Nurek is a highly experienced company director and former legal professional; Professor Fatima Abrahams is an accomplished academic in the field of industrial psychology and consults widely on human resources and transformation; and Dr Nkaki Matlala is a senior executive within the private healthcare sector and a representative on the Public Health Enhancement Fund.

The effectiveness of the committee is assessed as part of the annual board and committee self-evaluation process.

Activities of the committee

The committee met twice during the year and performed the following activities:

- monitored progress against transformation targets across all areas of strategic empowerment;
- monitored progress against its socio-economic development aspirations and the 10 principles set out in the United

National Global Compact, with specific reference to the work undertaken by the Clicks Foundation, Clicks Helping Hand Trust, and the bursary and internship programmes for pharmacy students;

- monitored the group's sustainability performance with specific reference to the JSE Socially Responsible Investment (SRI) Index and participation in the Carbon Disclosure Project; and
- monitored the group's legal and regulatory compliance in the areas of environment, health and public safety, consumer relationship, labour and employment law.

While the group is not a signatory to the United Nations Global Compact, it has adopted the 10 principles and monitors compliance against these principles in the areas of human rights, labour, anti-corruption and the environment.

The group qualified for inclusion in the JSE SRI Index in the 2015 financial year.

Black empowerment and transformation

Clicks Group is committed to the spirit of the Broad-based Black Economic Empowerment (BBBEE) Act. The group's transformation strategy is aligned to the Department of Trade and Industry's (dti) codes of good practice.

Transformation is managed within a governance framework that includes the board's social and ethics committee, the internal transformation committee, which is chaired by the chief executive and co-ordinated by the group human resources director, and the business unit transformation forums which are responsible for implementation.

The group maintained its level 3 BBBEE rating on the dti generic scorecard in the 2015 financial year and achieved an improved score of 84.23 points compared to 80.54 in the previous year.

BBBEE element	Maximum points	2015	2015 target	2014
Ownership	20	15.87	12.00	15.64
Management control	10	9.18	7.97	8.83
Employment equity	15	10.68	10.00	10.46
Skills development	15	12.15	15.00	11.43
Preferential procurement	20	16.35	14.00	14.19
Enterprise development	15	15.00	15.00	15.00
Socio-economic development	5	5.00	5.00	5.00
Total	100	84.23	78.97	80.54
BBBEE level		3	3	3

Ownership

The group achieved 15.87 (2014: 15.64) points on the ownership element of the scorecard which is attributable to the employee share ownership programme (ESOP) and an independent analysis conducted on the group's shareholding to determine the level of beneficial black ownership.

Social and ethics committee report (continued)

At the end of the reporting period, 7 993 employees were participants in the ESOP scheme, with black employees accounting for 87% and women 64%. A dividend of R4.9 million (2014: R4.3 million) was paid to scheme participants this year. Since the inception of the ESOP in 2011, total dividends of R15.7 million have been paid out to employees.

Management control

The management control element of the scorecard is a reflection of the composition of the board of directors, group executive committee and senior management who are members of the business unit operating boards. The board comprises 44% black directors with females making up 33%. The group executive committee has 50% black representation and 25% female. The group achieved 9.18 (2014: 8.83) out of 10 points on this element.

Employment equity

The group is committed to creating a diverse workforce through the attraction and development of previously disadvantaged people, women and employees with disabilities. The group's workforce comprises 90% (2014: 86%) black employees and 62% (2014: 63%) female. 70% of employees are below the age of 35 with 27% between 36 and 55 years.

The group supports the national agenda aimed at the employment of youth in sustainable positions. During the financial year, the group employed 3 649 employees under the age of 35 into permanent positions.

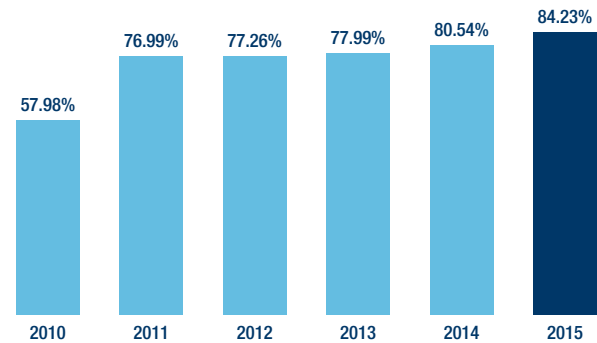
The group continues to align its employment equity targets and the national economically active population statistics, in line with the Department of Labour Director General's review process since 2012.

The staff turnover of 18.8% (2014: 20.9%) is in line with the targeted range of 18% – 20%.

Skills development

The group remains committed to investing in the development of the skills, knowledge and capability of its employees. A total of R49.0 million (2014: R52.5 million) was invested in learning and skills development which equates to 2.9% of basic payroll (2014: 3.3%). A total of 4 156 employees (2014: 4 483) participated in learning and development interventions of which 83% were black employees and 62% females.

BBBEE scorecard



Learning and development statistics	2015	2014
Learning and development spend as a % of payroll	2.9	3.3
Learning and development spend (R'million)	49.0	52.5
Employees trained	4 156	4 483
Black employees as a % of all employees trained	83	82
Female employees as a % of all employees trained	62	61
Delegates on the leadership development programme	36	38
Delegates on management development programmes	221	252
Delegates on retail learnership and skills programmes	115	106
Delegates on pharmacy learnership and skills programmes	332	277
Delegates on health and safety training	121	234
Interns or graduates on workplace experience programmes	69	48
Pharmacy bursary spend (R'million)	4.0	3.8

Learning and skills development interventions focused on enhancing management and leadership competencies, developing scarce and critical skills, and facilitating organisational transformation. 84% of employees completed their individual development plans which formed the basis for participation in learning and development interventions.

Social and ethics committee report (continued)

This year, R4.0 million (2014: R3.8 million) was invested in bursaries for 82 students completing the Bachelor of Pharmacy degree at registered South African universities. 35% of bursary recipients were black and 25% female. 49 students were provided an opportunity to complete their pharmacy internship programme.

332 learners were registered on pharmacist assistant learnership programmes through the group's in-house Pharmacy Healthcare Academy.

Preferential procurement

The group's procurement practices are focused on sourcing merchandise and services from locally based and empowered suppliers. In the past year 52% (2014: 55%) of procurement was from level 4 and higher rated BBBEE suppliers, 6% (2014: 5%) from qualifying small and exempt micro enterprises and 26% (2014: 7%) from black owned enterprises.

Enterprise development

The group invested R93 million (2014: R101 million) in enterprise development initiatives and achieved the maximum 15 points on the dti scorecard.

A total of R33 million (2014: R38 million) was paid to the UPD independent owner-driver scheme, which was established in 2003, and an additional R1 million (2014: R1 million) to the management company supporting the owner-drivers. The owner-driver scheme contracts 43 small enterprise owner-drivers to deliver products from UPD to Clicks, independent pharmacies, hospitals and clinics.

Clicks spent R50 million (2014: R53 million) with Bakers Transport, a black-owned independent transport and logistics service provider and also provided an interest-free loan to Triton, a 50% black-owned manufacturing enterprise.

Socio-economic development

The group continues to demonstrate its commitment to making a sustainable contribution to the communities within which it operates by investing 1% of profit after tax in social development programmes. A total of R11.1 million (2014: R9.5 million) was

invested in social development through financial and product donations to non-profit organisations and initiatives aligned to the group's focus on health and wellbeing.

The group has donated R3.5 million to the Public Health Enhancement Fund over the past three years. The fund aims to help address skills shortage, improve the quality of public healthcare and advance research.

The Clicks Helping Hand Trust continues to offer free clinic services to mothers whose babies were born in state hospitals and who do not belong to a medical aid. The trust was established in response to the need to reduce infant and maternal mortality in South Africa. Through the trust, Clicks clinics have undertaken over 34 000 baby consultations, 13 000 family planning interventions and 14 000 HIV counselling and testing sessions.

Clicks donated R2.9 million (2014: R1.1 million) in surplus stock to the Clothing Bank to support and empower previously disadvantaged women.

Other beneficiaries of the group's social investment included organisations such as the Carel du Toit Trust for hearing impaired children, Heal the Hood and Topsy Foundation.

Employees are encouraged to support social development projects, schools and charities in local areas. As part of the 16 days of activism for no violence against women and children, employees supported the Woodstock Trauma Centre which is located near the group's head office.



David Nurek

Chairman: Social and ethics committee

10 November 2015





SHAREHOLDER ANALYSIS

at 31 August 2015

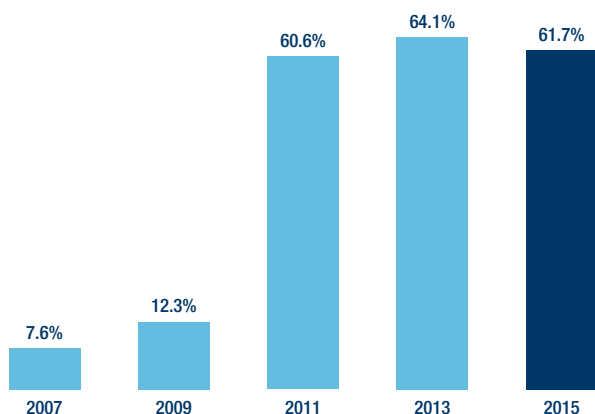
Public and non-public shareholders	Number of shares	Percentage of shares
Public shareholders	239 234 548	97.2
Non-public shareholders		
Shares held by directors	649 790	0.2
Treasury stock held by New Clicks South Africa Proprietary Limited	6 082 975	2.5
The New Clicks Holdings Share Trust	170 450	0.1
Total non-public shareholders	6 903 215	2.8
Total shareholders	246 137 763	100.0

According to the company's register of shareholders, read in conjunction with the company's register of disclosure of beneficial interests made by registered shareholders acting in a nominee capacity, the following shareholders held 3% or more of the issued share capital at 31 August 2015:

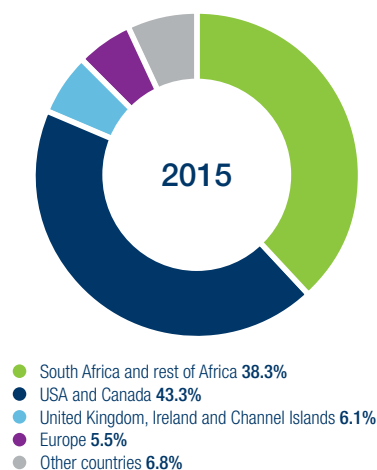
Major beneficial shareholders holding 3% or more	2015 Percentage of shares	2014 Percentage of shares
Government Employees Pension Fund	17.8	15.8
Fidelity International Growth Fund	4.0	4.0
GIC Private Limited	3.5	4.1

Major fund managers managing 3% or more	2015 Percentage of shares	2014 Percentage of shares
Public Investment Corporation (SA)	15.2	13.4
Fidelity Management & Research (US)	7.4	7.8
Coronation Fund Managers (SA)	6.5	19.1
Baillie Gifford & Co (UK)	4.4	2.7
Mawer Investment Management (CA)	3.8	2.9
MFS Investment Management (US)	3.5	–
GIC (Singapore)	3.4	4.1
Aberdeen Asset Management (UK)	3.2	6.6
<i>Fund managers no longer managing over 3%:</i>		
Mondrian Investment Partners (UK)	1.0	3.9

Offshore shareholding



Geographic distribution of shareholders



SHAREHOLDERS' DIARY

Annual general meeting	27 January 2016
Preliminary results announcements	
Interim results to February 2016	on or about 21 April 2016
Final results to August 2016	on or about 27 October 2016
Publication of 2016 Integrated Annual Report	November 2016
Ordinary share dividend	
2015 final dividend	
Last day to trade with dividend included	15 January 2016
Date of dividend payment	25 January 2016
2016 interim dividend	
Last day to trade with dividend included	July 2016
Date of dividend payment	July 2016
2016 final dividend	
Last day to trade with dividend included	January 2017
Date of dividend payment	January 2017

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

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 Cape Town 8001
 Telephone: +27 (0)21 460 1911

Postal address

PO Box 5142
 Cape Town 8000

Company secretary

David Janks, BA, LL B
 E-mail: David.Janks@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 (Pty) Limited
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Investor relations consultants

Tier 1 Investor Relations
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