



M Bosman GENERAL MANAGER: GROUP FINANCE



INCOME STATEMENT

SALE OF MERCHANDISE

- Total turnover increased by 16,2% to R38,950 billion. The combined sales of the three supermarket brands – Shoprite, Checkers and Usave and including the non-RSA operations – increased by 16,4% to R34,919 billion, up from R29,997 billion in 2006. The period under review continued to be a time of high consumer spending in South Africa, on food but also on durable and semi-durable goods.
- The total number of customers served increased by 7,8%, while transaction value for the 12 months was 8,1% higher. During the reporting period food inflation, as part of CPIX, rose to an average of 8,5%. However, it was substantially higher in certain food categories such as meat, dairy and maize products.
- The contribution from the Group's supermarket operations outside South Africa showed a positive growth of 29,4% to R3,785 billion. Countries that performed well are Angola, Zambia and Mozambique, while a meaningful contribution was also made by Nigeria after being in operation for only 18 months.
- The furniture business continued to perform well and increased turnover by 14,1% to R2,139 billion. This segment came under increased pressure during the last few months of the year. Cash sales reached record heights while lenders extended credit facilities to all and sundry in the months leading up to the introduction of the National Credit Act. In addition, we also saw lost sales due to the protracted strike by public sector employees.

GROSS PROFIT

Gross profit comprises primarily gross margin after markdowns and shrinkage. In line with IFRS (IAS 2: Inventory and IFRIC Circular 9/2006), the Group deducted settlement discounts and rebates received from the cost of inventory.

The Group managed to maintain its price competitiveness in a buoyant market characterised by aggressive food discounting. Gross profit increased by 17,7% to R7,997 billion, due mainly to improved product ranges, efficient replenishment and the continued contribution to income by service and perishable product departments. Shrinkage remains well under control.

OTHER OPERATING INCOME

Other operating income increased by 4,3% to R798 million, mainly due to an increase in premiums earned (12,4%) and commission received (37,6%). The increase in the latter was the result of the continued good performance by Computicket, acquired in November 2005.

The reduction in operating lease income resulted mainly from head leases cancelled and properties sold. The increase in finance income was only 4,5% due to a reduction in the credit participation in the Furniture Division for reasons stated above.

EXPENSES

There is always the risk of cost increases outstripping sales growth, especially in times of low inflation when retailers find themselves locked in longer-term contracts, e.g. leases. However, cost management remains a high priority for the Group as trading margins are always under pressure due to the stiff competition in food retailing. Expenses were well managed over the period.



The Group maintained its **PRICE COMPETITIVENESS IN A BUOYANT MARKET**, characterised by **AGGRESSIVE FOOD DISCOUNTING**

- Depreciation and amortisation.** The Group increased its investment in information technology in recent years. It is also continuously opening new stores while simultaneously implementing an ongoing refurbishment programme for older stores. On average, stores are revamped every seven to eight years. These two factors combined have the temporary effect of higher increases in depreciation and amortisation charges than sales increases.
- Operating leases.** Rental increases for existing stores are generally in line with those in the property market as a whole. A number of new stores were opened during the year and certain leases renegotiated, leading to a slightly higher increase. Lease payments were reduced by head leases that were either not renewed or were renegotiated during the year.
- Employee benefits.** The increase in staff costs at 10,1% was below the turnover growth of 16,2%. Employee benefits grew by 6,6% for existing stores and the supermarket division again increased productivity.
- Other expenses.** These costs, which increased by 16,5%, cover expenses such as electricity and water, repairs and maintenance, security, packaging and net advertising cost. This increase is marginally higher than the turnover growth of 16,2%. This is due to the fact that the Group was forced to utilise generators because of erratic power supply, both locally and elsewhere. The Group has also increased its provision for reinstatement of leased buildings where we have an obligation to also maintain the exterior of said buildings. This increase was mainly because of higher costs associated with such reinstatement.

FOREIGN EXCHANGE DIFFERENCES

As stated in the accounting policies, the balance sheets of foreign subsidiaries are converted to rand at closing rates. These translation differences are recognised in equity in the foreign currency translation reserve (FCTR). In essence, most foreign exchange differences in the

income statement are due to US dollar denominated short-term loans of operations outside South Africa and balances in US dollar held in offshore accounts.

During the financial year the rand strengthened 0,1% against the US dollar compared to a weakening of 5,6% in 2006 (calculated on a conversion rate of R6,73 on 30 June 2005, R7,11 on 30 June 2006 and R7,10 on 30 June 2007). The exchange rate gain of R23,7 million in 2007 was the result of the effective use of FECs during the financial year in which the rand fluctuated significantly against the US dollar, as well as the movement against the US dollar of major currencies of African countries in which the Group operates.

NET INTEREST RECEIVED

The Group utilises overnight call facilities for both short-term deposits and borrowings. As in the past, the Group funded all capital projects utilising short-term borrowings and cash reserves. The increase in net interest received was due to an improvement in inventory management, resulting in an improved positive cash flow.

TAX

In addition to secondary tax on companies of R56,6 million, the tax charge includes an amount of R3,8 million for capital gains tax that relates to the sale of properties and a listed investment. The effective tax rate is higher than the nominal tax rate due to certain non-deductible expenses such as leasehold improvements as well as tax losses in certain non-RSA countries that cannot be utilised for Group purposes.

DILUTED HEADLINE EARNINGS PER SHARE

Diluted headline earnings per share from continued operations increased 33,3% from 145,8 cents to 194,3 cents and results mainly from the turnover growth of 16,2% and a lower increase in expenses of only 14,1%.

BALANCE SHEET

NON-CURRENT ASSETS

Property, plant and equipment and intangible assets

During the year the Group spent R1,264 billion on property, plant and equipment and software, compared to R1,340 billion in 2006. The Group is also continuing to purchase vacant land for strategic purposes and building stores, when no developers can be found. During the year the Group spent R308 million on land and buildings. The investment in refurbishments amounted to R463 million, while R239 million was spent on new stores (excluding land and buildings), R159 million on information technology and the balance on normal replacements. The Group is in the process of upgrading its back-office systems and is planning to spend an additional R91 million on this over the next two financial years.

Intangible assets consist of goodwill paid for new acquisitions, trademarks acquired, as well as software. Goodwill is subject to impairment testing on an annual basis while trademarks are amortised over 20 years. The cost of software is amortised over its estimated useful life, normally from three to five years.

Loans and receivables

13 500 000 redeemable, convertible (both under certain conditions, such as achieved levels of profitability), cumulative preference shares in Pick & Buy Ltd, a retailing supermarket group in Mauritius, valued at R30,8 million. These shares were acquired as part of a reciprocal arrangement with the owners of Pick & Buy Ltd, who in turn invested in the Group's subsidiary in Mauritius.

The balance consists mainly of amounts owing by franchisees for franchises and fixtures and fittings sold to them.

Deferred tax assets

Deferred tax is provided, using the liability method, for calculated tax losses and temporary differences between the tax bases of assets and liabilities, and their carrying values for financial reporting purposes. This asset developed primarily from provisions created for various purposes as well as the fixed escalation operating lease accrual.

CURRENT ASSETS

Inventories

Inventories amounted to R3,699 billion, an increase of 13,1% on the previous year. The inventory turn, based on sales of merchandise, was 11,2 times (2006: 10,3 times) and, based on cost of sales, 8,9 times (2006: 8,9 times). The increase in inventory resulted mainly from the provisioning of a net of 71 new owned stores opened during the year, buoyant sales, higher food inflation and particularly from the need to stockpile products in the Group's distribution centres to counter the drop in supplier service levels.

Trade and other receivables

Trade and other receivables mainly represent instalment sale debtors, franchise debtors, buy-aid societies and staff debtors. Adequate provision is made for potential bad debts and the outstanding debtors books are reviewed regularly.

The provisions for impairment and unearned finance income in respect of instalment sales debtors amounted to 18,7%, compared to 19,2%

the previous year. This modest decrease on the back of the turnover growth was made possible by the quality of the book.

Assets held for sale

Certain land and buildings are classified as assets held for sale as the Group is currently in the process of actively seeking buyers for these properties. This is in line with the Group's policy of only investing in fixed property when appropriate rental space is not available.

Cash and cash equivalents and bank overdrafts

Net cash and cash equivalents amounted to R1,988 billion at year-end, compared to R536,7 million in 2006, and should be read with the increase in trade and other payables.

Available-for-sale investments

100 "S" class ordinary shares in RMB Global Solutions (Pty) Ltd, valued at R23,7 million. Global Solutions is a supplier of international treasury solutions to the Group. This investment forms part of the payment structure agreed upon with RMB Global Solutions (Pty) Ltd.

CURRENT LIABILITIES

Provisions

Adequate provision is made for post-retirement medical benefits, reinstatements, onerous lease contracts, long-service awards and all outstanding insurance claims.

CREDIT SALES

The Group continued to supply credit facilities as part and parcel of its furniture business. The management and administration of this debtors book are done in-house, as the granting of credit is deemed an integral part of selling furniture.

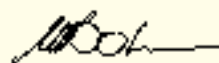
SHOPRITE INSURANCE

The Group established its own short-term insurance company as part of the furniture business in November 2001. Prior to that date it operated a cell captive at another short-term insurer. During the year under review premiums earned amounted to R186,0 million compared to R165,5 million the previous year.

The following provisions are made on an annual basis:

- Outstanding claims payable = average of actual claims outstanding for the relevant periods
- Contingency reserve = 10% of net premiums whereas premiums are earned as per the following formula:
 - Premiums earned = Net premium x expired period
 - Premiums unearned = Net premium x unexpired period

At year-end the insurance company had a solvency margin of 58% (2006: 66%) compared to the minimum requirement of 15% as per the Insurance Act. This reduction was mainly due to a dividend paid to Shoprite Holdings Ltd.



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