

Financial Report



M BOSMAN
GENERAL MANAGER:
GROUP FINANCE



Income Statement

Sale of Merchandise

Total turnover increased by 24,5% to R59,319 billion. The combined sales of the three supermarket brands – Shoprite, Checkers and Usave and including the non-RSA operations – increased by 24,8% to R53,866 billion, up from R43,147 billion in 2008. The period under review was marked by the effects of the global credit crisis and a general slowdown in the economy. The Group, however, managed to overcome all these negative factors with the strong foundation laid in the past. It was especially the Group's investment in a world-class supply chain and its policy of lowest prices that saw it gain on the opposition. In a market characterised by declining income and increasing pressure on consumers across the spectrum, the Group, as the country's leading value-provider, gained market share.

The Group's one-stop shopping concept of in-store pharmacies, well-stocked liquor stores located at the entrance to supermarkets and the extending range of services in Money Markets, is increasingly gaining favour with consumers.

The total number of customers served increased by 9%, while transaction value for the 12 months was 14,8% higher. During the reporting period food inflation, as part of CPI, rose to an average of 15,1%. However, it reduced substantially during the second six months to end the year at 10,2%.

The contribution from the Group's supermarket operations outside South Africa showed a positive growth of 39,9% to R7,315 billion. Countries that continued to perform well are Angola, Zambia and Mozambique, while a meaningful contribution was also made by Nigeria and Ghana.

The furniture business produced an acceptable performance under difficult circumstances and increased turnover by 13,9% to R2,573 billion. This segment was under continued pressure after the implementation of the National Credit Act in 2007 as well as the deteriorating economic environment during the current year. A positive was the slight increase in demand for credit, specifically in the House & Home chain.

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 continued to maintain its price competitiveness in a market characterised by aggressive food discounting. This was as a result of the Group's sacrifice of gross margins which for the year was further reduced from 19,9% to 19,3%. This reduction, however, gave rise to higher turnover. Gross profit increased by 20,6% to R11,440 billion, due mainly to the increase in turnover, rebates, efficient replen-

ishment 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 26,6% to R1,244 billion, mainly due to an increase in commissions received (32,4%) and finance income earned (16,1%). The increase in finance income earned is directly attributable to the improved credit participation in the furniture division.

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.

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.

Operating leases. Rental increases for existing stores are generally in line with those



in the property market as a whole. A record number of 95 net new stores were opened during the year and the increase in turnover also saw a commensurate increase in turnover rentals paid. Certain 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 21,8% was well below the turnover growth of 24,5%. Employee benefits grew by 19,4% for existing stores and the supermarket division again increased productivity. The Group is in final negotiations to purchase an annuity policy to settle the obligation for post-retirement medical benefits. Included in employee benefits is a resulting increase in the provision for post-retirement medical benefits due to a higher medical inflation assumed as well as a risk premium payable to the insurer concerned.

Other expenses. These costs, which increased by 15,2%, cover expenses such as electricity and water, repairs and maintenance and security. This increase is lower than the turnover growth of 24,5%. The Group maintained its provision for reinstatement of leased buildings where it has an obligation to maintain the exterior of such buildings.

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 first strengthened and then weakened against the US dollar and ended on a conversion rate of R8,02 compared to a rate of R7,96 on 30 June 2008 and R7,10 on 30 June 2007. The exchange rate gain of R3,0 million in 2009 was the result of 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 decrease in net interest received was due to the reductions in interest rates, the increased capital expenditure as well as other cash flow items resulting in a less positive cash flow.

Tax

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. The tax charge includes an amount of R97,0 million in respect of secondary tax on companies.

Diluted Headline Earnings per Share

Diluted headline earnings per share increased 30,9% from 298,6 cents to 390,8 cents and result mainly from the turnover growth of 24,5% and an increase in expenses of only 19,2%.

Balance Sheet

Non-Current Assets

Property, plant and equipment and intangible assets

During the year the Group spent R1,820 billion on property, plant and equipment and software compared to R1,441 billion in 2008. The Group is also continuing to purchase vacant land for strategic purposes and building retail premises when no developers can be found. During the year the Group spent R347,2 million on such land and buildings. The investment in refurbishments amounted to R606,0 million while R334,0 million was spent on new stores (excluding land and buildings), R242,4 million on information technology and the balance on normal replacements. The Group is in the process of upgrading its merchandising, master data and central stock ledger systems. This will be ongoing for the next two financial years.

Intangible assets consist mainly of goodwill paid for new acquisitions, trademarks acquired and software.

Goodwill represents the premium paid for certain supermarket businesses and is tested for impairment annually based on the value-in-use of these businesses, calculated by using cash flow projections.

Software represents the Group's investment in certain computer software that is used in its daily operations. Software is amortised over its useful life of three to seven years.

Trademarks represent mainly the purchased Computicket trademark and is amortised over 20 years.

Available-for-sale-investments

100 "S" class ordinary shares in RMB Global Solutions (Pty) Ltd valued at R47,8 million. This represents the Group's investment in an international treasury system that is utilised by the Group in its international trade.

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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 R33,9 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 fixture 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 R 6,042 billion, an increase of 28,3% on the previous year. The inventory turn, based on sales of merchandise, was 11,0 times (2008: 11,3 times) and, based on cost of sales, 8,9 times (2008: 9,1 times). The increase in inventory resulted mainly from the provisioning of a net of 95 new stores opened during the year, buoyant sales, and particularly from the need to stockpile products in the Group's distribution centres to counter inconsistent supplier deliveries.

Trade and other receivables

Trade and other receivables mainly represent instalment sale debtors, franchise debtors, buy-aid societies and rental debtors. Adequate allowance is made for potential bad debts and the outstanding debtors' book is reviewed regularly.

The allowance for impairment and unearned finance income in respect of instalment sale debtors amounted to 12,9% compared to 13,8% the previous year. This

decrease on the back of the turnover growth was made possible by the quality of the book. The reduction was also due to finance charges no longer being capitalised at the inception of the debt, but charged on a monthly basis. This had no effect on the recognition of finance income in the income statement.

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 R2,811 billion at year-end, compared to R3,136 million in 2008. The reduction was mainly due to the capital expenditure mentioned earlier.

Current Liabilities

Provisions

Adequate provision is made for post-retirement medical benefits, reinstatements, onerous lease contracts, long-term employee benefits and all outstanding insurance claims. The Group is currently well advanced in negotiations to purchase an annuity from an insurer to settle the post-retirement medical benefit liability. The increase in the provision for post-retirement medical benefits is due to a higher medical inflation assumed as well as a risk premium payable to the insurer concerned.

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 is done in-house as the granting of credit is deemed an integral part of selling furniture.

Shoprite Insurance

The Group operates its own short-term

insurance company as part of the furniture business. During the year under review net premiums earned amounted to R215,0 million compared to R201,0 million the previous year. As in the past, the Group accounts for premiums earned and extended guarantee fees over the life of the policy.

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 66% (2008: 64%) compared to the minimum requirement of 15% as per the Insurance Act.

General

The Group trades in Zimbabwe thus the principles of IAS 29: Financial Reporting in Hyperinflationary Economies, were applied in previous financial years. During the prior year a decision was taken to deconsolidate the Zimbabwean operations effective 1 July 2007 due to the continuing deterioration of the business environment in that country at that time. This decision had no significant effect on the Group's results.



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