

# Financial Report

## STATEMENT OF COMPREHENSIVE INCOME

### Sale of merchandise

- Total turnover increased by 7.26% to R72,298 billion. Retailers in general find it more appropriate to manage and measure their businesses in full weeks. The Group also adheres to this procedure, with the result that approximately every five years an extra week must be included in a financial year. In the Group's case, it is to bring the year end back, or close to, 30 June. The Group included this extra week during the previous financial year. When this extra week is excluded, the Group increased its turnover by 9.7%. This was a satisfactory performance seen in the context of the state of the economy in general.
- The following table gives the relevant turnover per segment, adjusted for the extra week:

### SEGMENTAL SALES

	Sales 2009/2010 (53 weeks) R'000	Sales 2009/2010 (52 weeks) R'000	Sales 2010/2011 (52 weeks) R'000	Sales Growth on 52 weeks %
Supermarkets RSA	53 367 171	52 121 519	57 213 793	9.8
Supermarkets Non RSA	7 163 977	7 002 912	7 316 698	4.5
Furniture	3 002 589	2 943 508	3 059 648	4.0
Other Segments	3 868 703	3 835 474	4 707 638	22.7
<b>Total Sales</b>	<b>67 402 440</b>	<b>65 903 413</b>	<b>72 297 777</b>	<b>9.7</b>

- Supermarkets Non-RSA, in a low inflationary environment, contributed R7,317 billion to Group turnover after conversion to rand. Due to the strength of the rand relative to the US dollar and the continued weakness of most African currencies in which the Group trades, this translated into a turnover growth of 2.1% (52 weeks: 4.5%) in rand terms compared to the previous year. In constant currency terms the growth in turnover was 10.2% (12.8% on a 52-week basis).
- The Group's investment in world-class systems and logistics infrastructure and its policy of lowest prices saw it continuing to gain on the opposition. By sticking to these principles, the Group was able not only to retain the loyalty and support of customers across the spectrum, but also to extend its customer base.
- Internal food inflation came down from 15.8% in 2009 to 2.2% in 2010. This reduced further to an average of -0.1% during the past financial year. The drop is best illustrated by the fact that in the first six months of the reporting period the Group had an internal food deflation that averaged 1.6%.
- The furniture business had to contend with very difficult trading circumstances, yet managed to increase turnover by 4.0% (52 weeks) to R3,060 billion. Margins were reduced to achieve turnover growth under these conditions, with a consequent negative impact on its trading profit, which only increased to R131,4 million (2010: R131,2 million). The strongest turnover growth was reported by OK Furniture at 4.88%, which targets middle to lower income consumers. This growth was achieved in a mostly deflationary environment and in a fiercely contested market. Credit participation was reduced in OK Furniture and OK

Power Express by 1.3%, with a 0.25% increase in House & Home. This resulted in further pressure on trading margins as finance income growth was affected negatively.

### 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. Despite cutting the margins on basic foods, the Group increased gross profit margins as a result of a slightly higher contribution by non-food items and an increase in efficiencies in systems and logistics infrastructure. This resulted in the gross profit margin increasing from 19.7% to 20.3%. Gross profit increased by 10.7% to R14,67 billion, due mainly to the increase in turnover and efficiencies in logistical infrastructure previously mentioned. Shrinkage remains well under control, but the Group is coming under increased pressure with crime being on the increase and perpetrators more brazen.

### Other operating income

Other operating income increased by 17.7% to R1,856 billion, mainly due to an increase in commissions received and recoupments earned. Finance income earned (-7.5%) came under pressure due to the reduction in the credit participation in the furniture segment, but other items grew in excess of turnover growth.

### Expenses

Cost management remains a high priority for the Group as trading margins are always under pressure due to the stiff competition in food retailing.

- **Depreciation and amortisation.** The Group is continuing to increase its investment in information technology. It is also opening new stores while simultaneously implementing an ongoing refurbishment programme for older stores. On average, stores are revamped every seven to eight years. Two distribution centres were enlarged and 96 new stores were opened during the year.
- **Operating leases.** Rental increases for existing stores are generally in line with those in the property market as a whole. 78 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 9.3% was mainly due to the resulting staff requirements of increased turnover and the number of new stores. Productivity improvement slowed, while the focus has shifted to improving and maintaining in-store service levels. Included in Employee benefits are provisions for long term incentives to retain staff.
- **Other expenses.** These costs, which increased by 12.8%, cover expenses such as electricity and water, repairs and maintenance and security. The Group maintained its provision for reinstatement of leased buildings where it has an obligation to maintain the exterior of such buildings. The growth in other expenses was more than that of turnover, but was mainly due to the increases in electricity. Excluding electricity, then other expenses increased by a more modest 8.2%.

## Trading profit

Trading margins increased from 5.18% to a record level of 5.51%, due to an increase in gross margins and expenses that were well managed over the period.

## 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 year the strong rand prevailed – while the currencies of some of the countries in Africa where the Group does business weakened against the US dollar, the rand held firm. The result was a smaller currency loss of R0,446 million compared to a currency loss of R77,8 million in the previous financial year.

The table below gives the approximate cost of a unit of the following major currencies at year-end:

	2008	2009	2010	2011
USA dollar	7.956	8.02	7.745	6.7697
Euro	12.516	11.2511	9.674	9.82511
Zambia kwacha	0.003	0.0015	0.0015	0.001403
Angolan kwanza	0.103	0.1033	0.0834	0.07274
Mozambique metical	0.321	0.2976	0.2245	0.2394
Nigerian naira	0.054	0.0541	0.0518	0.0444

## Net interest paid

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. During the current financial year interest received turned from a net interest received of R12m into net interest paid of R31,3m, due to the increase in capital expenditure and the reductions in interest rates. As stated elsewhere, the Group has embarked on a major drive to increase capacity in its distribution centres. As at year end the capacity in both Centurion and Brackenfell Centres has virtually doubled.

## Income tax expense

The effective income tax rate is higher than the nominal income tax rate due to certain non-deductible expenses, such as leasehold improvements, as well as income tax losses in certain non-RSA countries that cannot be utilised for Group purposes. The income tax expense includes an amount of R121,7 million in respect of secondary tax on companies.

## Diluted headline earnings per share

Diluted headline earnings per share increased by 12.4% from 451,6 cents to 507,6 cents and result mainly from the turnover growth of 7.26%; an increase in trading profit of 14.2% and the decrease in exchange rate losses. This was a satisfactory performance considering the extra week included in the previous year.

## STATEMENT OF FINANCIAL POSITION

### Non-current assets

#### PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the year the Group spent R3,005 billion on property, plant and equipment and software compared to R2,509 billion in 2010. The Group is also continuing with its policy to purchase vacant land for strategic purposes and building retail premises when no developers can be found. During the year the Group spent R937 million on such land and buildings. The investment in refurbishments amounted to R361 million, while R610 million was spent on new stores (excluding land and buildings), R374 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 continuing into the next financial year. Capital commitments of R1,344 billion have been made relating to these improvements for the next financial year.

Intangible assets consist mainly of goodwill paid for acquisitions, trademarks acquired and software. Goodwill represents the premium paid for certain businesses and is tested for impairment annually based on the value-in-use of these businesses, calculated by using cash flow projections. The last major addition was due to the purchase of the Transpharm Group in December 2009.

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

Trademarks represent the purchased Computicket and Transpharm trademarks and is amortised over 20 and 16 years respectively.

#### AVAILABLE-FOR-SALE-INVESTMENTS

100 "S" class ordinary shares in RMB Global Solutions (Pty) Ltd valued at R60 million. This represents the Group's investment in an international treasury system that is utilised by the Group in its international trade.

#### 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 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. Pick & Buy has since divested from said subsidiary.

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

#### DEFERRED INCOME TAX ASSETS

Deferred income tax is provided, using the liability method, for calculated income tax losses and temporary differences between the income 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.



# Financial Report (continued)

## Current assets

### INVENTORIES

Inventories amounted to R7,06 billion, an increase of 15% on the previous year. The inventory turn, based on sales of merchandise, was 11,0 times (2010: 11,1 times) and, based on cost of sales, 8,8 times (2010: 8,9 times). The increase in inventory resulted mainly from the following:

- the provisioning for a net 78 new stores;
- further growth in the business of Transpharm, the wholesale pharmaceutical operation; and
- the extension to the DC in Centurion.

### TRADE AND OTHER RECEIVABLES

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

The allowance for impairment and unearned finance income in respect of instalment sale debtors amounted to 13.87% compared to 13.7% the previous year. This minimal increase 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 an overdraft of R81 million at year-end, compared to R1,3 billion positive balance in 2010. The reduction was mainly due to the following:

- capital expenditure, mainly on land and buildings, of R3 billion; and
- the 53rd week included in the Group's results in the previous year has resulted in the Statement of Financial Position date moving to after the calendar month-end, causing certain 30-day term creditors to be paid before year end.

## 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 has settled a major portion of the post-retirement medical liability in the previous financial year. The remaining liability relates to mainly pensioners and will be settled during the next financial years.

### CREDIT SALES

The Group continued to supply credit facilities as part and parcel of its furniture business. The management and administration of this debtor's 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 R257 million compared to R228 million the previous year. As in the past, the Group accounts for premiums earned and extended guarantee fees over the life of the policy. In South Africa, insurance premiums are invoiced and earned on a monthly basis. This is in line with the National Credit Act.

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 76% (2010: 69%) compared to the minimum requirement of 15% as per the Insurance Act.