



Annual financial statements

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

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The annual financial statements for the year ended 30 June 2019 have been audited by PricewaterhouseCoopers Inc., in compliance with the applicable requirements of the South African Companies Act, 71 of 2008. The preparation of the audited annual financial statements was supervised by Mr A de Bruyn, CA(SA).

Currency of the annual financial statements

The annual financial statements are expressed in South African rand. The approximate rand cost of a unit of the following currencies at year-end was as follows (based on Reuters, with the exception of the DRC franc and the Nigeria naira, which were sourced from Citibank):

	2019	2018		2019	2018		2019	2018
US dollar	14.174	13.710	DRC franc	0.009	0.008	Mozambique metical	0.226	0.229
Pound sterling	17.960	17.979	Ghana cedi	2.587	2.862	Nigeria naira	0.039	0.045
Euro	16.106	15.972	Kenya shilling	0.138	0.136	Uganda shilling	0.004	0.004
Angola kwanza	0.041	0.055	Madagascar ariary	0.004	0.004	Zambia kwacha	1.095	1.370
Botswana pula	1.338	1.318	Malawi kwacha	0.018	0.019			



Statement of responsibility by the Board of Directors

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

The directors are responsible for the preparation and fair presentation of the annual financial statements of the Company and Group, comprising the directors' report, the statements of financial position as at 30 June 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

The directors are satisfied that the information contained in the annual financial statements fairly represents the financial position at year-end and the financial performance and cash flows of the Company and Group.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors believe that the Company and Group have adequate resources to continue trading as a going concern in the foreseeable future. The annual financial statements support the viability of the Company and the Group.

The Group's external auditors, PricewaterhouseCoopers Incorporated, audited the Company's separate and Group's consolidated annual financial statements, and their report is presented on page 10. The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

Approval of the annual financial statements

The Company's separate and Group's consolidated annual financial statements of Shoprite Holdings Ltd and its subsidiaries, as identified in the first paragraph, were approved by the Board of Directors on 19 August 2019 and signed on its behalf by:

CH Wiese
Chairman

PC Engelbrecht
Chief Executive Officer

Certificate of the Company Secretary

In terms of section 88(2)(e) of the Companies Act no 71 of 2008 (as amended) I, PG du Preez, in my capacity as Company Secretary, confirm that for the year ended 30 June 2019, the Company has lodged with the Companies and Intellectual Property Commission, all such returns as are required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

PG du Preez
Company Secretary

19 August 2019

Directors' report

Nature of business

Shoprite Holdings Limited ("Shoprite Holdings") is an investment holding company listed on the Johannesburg Stock Exchange Limited ("JSE") in the "food retailers & wholesalers" sector. Secondary listings are also maintained on the Namibian and Zambian Stock Exchanges. Cash income is derived mainly from dividends and interest. The consolidated annual financial statements of Shoprite Holdings and its subsidiaries also incorporate the equity accounted attributable income of associated companies and joint ventures.

Shoprite Holdings comprises of the following main subsidiaries

Shoprite Checkers (Pty) Ltd

Supermarkets: Serves a broad customer base through our Shoprite, Shoprite Hyper, Checkers, Checkers Hyper and Usave store formats.

Supply Chain Management: Supplies the Group's outlets in South Africa and 14 Non-RSA countries.

Franchise: The OK Franchise division's stores offer a wide range of perishable and non-perishable food items through supermarket/convenience outlets primarily under the OK brand. Wholesale franchise partners trade under the Megasave brand and retail buying partners under the Sentra brand. Add-on retail liquor outlets operate mainly under the OK Liquor brand.

Freshmark: Freshmark is the Group's fruit and vegetable procurement and distribution division and supplies fresh produce to the Group's retail outlets.

Liquor Stores: Trading under the Shoprite LiquorShop and Checkers LiquorShop brands respectively, the liquor shops have extended the Group's offering by providing a selection of wines, beers and a wide range of premium spirits to its customers.

Meat Markets: The Group's customers are served through in-store butcheries that employ qualified butchers and technicians.

Money Markets: The Money Markets offer a comprehensive range of financial services and products to the Group's customers through dedicated in-store service counters.

Furniture: The Furniture division offers furniture, electrical appliances and home entertainment products to customers for cash or credit through its OK Furniture, OK Power Express and House & Home outlets in South Africa, Botswana, Namibia, Eswatini, Lesotho, Zambia, Mozambique and Angola.

Pharmacies and wholesale distribution: MediRite's in-store pharmacies offer consumers an easy access to affordable healthcare and healthcare professionals and through in-store dispensaries with outlets throughout South Africa and also in Angola, Mozambique and Eswatini. The Group's pharmaceutical wholesaler, Transpharm, sells and distributes pharmaceutical products and surgical equipment to hospitals and clinics, dispensing doctors, veterinary surgeons and private and corporate pharmacies.

Properties: This division is tasked to expand the Group's supermarket portfolio through the identification and leasing of new supermarket premises or developing new shopping centres to accommodate one of the supermarket formats. New retail developments and the redevelopment of existing properties are supervised through every stage of the planning-, design- and construction process.

Shoprite Investments Ltd

Conducts the Group's treasury function and financing of credit sales to third parties.

Computicket (Pty) Ltd

Offers theatre, concert, festival, sport and cinema tickets along with bus tickets and gift vouchers through a network of outlets located across South Africa, Botswana, Mozambique, Namibia and Zambia, a call centre as well as the Computicket website. Computicket Travel also offers a variety of travel packages and services.

Shoprite International Ltd

Incorporated in the Republic of Mauritius, Shoprite International is the holding company for the majority of the Group's non-South African retail and property investments.

Shoprite Insurance Company Ltd

Provides first and third party short-term insurance to the Group and its customers.

Shoprite DTMC (Pty) Ltd

Registered as a domestic treasury management company with the South African Reserve Bank with the US dollar as its functional currency.

Other Group Subsidiaries

The interests of Shoprite Holdings in other subsidiaries are set out on page 96 of the annual financial statements.

Financial review

The Group's diluted headline earnings per share amounts to 779.9 cents for the year (2018*: 970.5 cents). Details of the profit of Shoprite Holdings and its subsidiaries are contained in the statement of comprehensive income on page 17 with reference to the operating segment information on pages 38 and 39. The financial position of Shoprite Holdings and its subsidiaries are recorded in the statement of financial position on page 16. Further details are furnished in the notes to the annual financial statements on pages 21 to 95. The Group's net asset value per share as at 30 June 2019 was 4 701 cents (2018: 4 937 cents).

* Restated for the change in accounting policy. Refer to note 39 of the annual financial statements for more detail.

Distribution to shareholders

Ordinary dividends

An interim cash dividend (no 140) of 156 cents per share was paid on 18 March 2019. A final dividend (no 141) of 163 cents per share, is payable on 9 September 2019, bringing the total dividend for the year to 319 cents (2018: 484 cents) per ordinary share.

Share capital

During the period under review the authorised share capital remained unchanged as follows:

- 1 300 000 000 ordinary shares having no par value;
- 720 000 000 deferred shares.

Going concern

The annual financial statements of the Group were prepared on a going concern basis.

The Board has performed a formal review of the Group's results and its ability to continue trading as a going concern in the foreseeable future.

The directors of Shoprite Holdings confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future.

Borrowings

Shoprite Holdings has unlimited borrowing powers in terms of its Memorandum of Incorporation (MOI).

The Group's overall level of debt increased from R6.977 billion to R11.706 billion during the financial year under review.

Special resolutions

At the annual general meeting of Shoprite Holdings held on 29 October 2018, shareholders approved the following special resolutions:

- **Special resolution number 1:** Remuneration payable to non-executive directors;
- **Special resolution number 2:** Financial assistance to subsidiaries, related and inter-related entities;
- **Special resolution number 3:** Financial assistance for subscription of securities; and
- **Special resolution number 4:** General authority to repurchase shares.

During the reporting period the following special resolutions were passed by the main Group subsidiaries:

Shoprite Checkers (Pty) Ltd

- **Special resolution number 1:** Financial assistance to subsidiaries, related and inter-related entities.

Shoprite Investments Ltd

- **Special resolution number 1:** Financial assistance to subsidiaries, related and inter-related entities.

Directors and secretary

The directors' names and details are furnished on pages 58 and 59 and the Company Secretary's name on the inside back cover of the Integrated Report.

In terms of the Memorandum of Incorporation of Shoprite Holdings ("the MOI"), no less than one third of the non-executive directors shall retire by rotation at each annual general meeting.

Dr CH Wiese retires as director, in terms of Article 33.5.1 of the MOI of the Company, at the annual general meeting. He has offered himself for re-election as director of Shoprite Holdings.

Ms AM le Roux was appointed as an independent non-executive director on 30 November 2018 but retires in terms of Article 33.5.3 of the MOI at the annual general meeting on 4 November 2019. Being eligible for election, Ms le Roux offers herself for re-election.

The Board supports the re-election of these directors.

Mr JJ Fouché retired as non-executive director on 27 February 2019 and Prof EC Kieswetter on 6 May 2019.

Directors' and alternate directors' interests in ordinary shares

Non-executive directors

	Direct beneficial	Indirect beneficial	Total 2019	Total 2018
CH Wiese	—	63 247 189	63 247 189	82 232 795
JF Basson	—	1 000	1 000	1 000
JJ Fouché*	n/a	n/a	n/a	472 171
EC Kieswetter**	n/a	n/a	n/a	9 509
CG Goosen***	n/a	n/a	n/a	1 017 202
JA Louw***	n/a	n/a	n/a	50 000
AM le Roux	—	—	—	n/a
ATM Mokgokong	—	—	—	—
JA Rock	—	—	—	—
SA Zinn	—	—	—	n/a
JD Wiese ****	—	14 674	14 674	14 674

* Retired as non-executive director on 27 February 2019

** Resigned as non-executive director on 30 April 2019 effective from 6 May 2019

*** Retired as non-executive director on 30 October 2018

**** Alternate director

Executive directors

	Direct beneficial	Indirect beneficial	Total 2019	Total 2018
PC Engelbrecht	313 555	316 039	629 594	514 594
M Bosman [#]	n/a	n/a	n/a	196 410
A de Bruyn	13 854	1 700	15 554	n/a
B Harisunker	407 379	—	407 379	407 379

[#] Retired with effect from 2 July 2018

There were no changes in the shareholdings of directors in ordinary shares between the financial year-end and the date of this report.

Non-executive director's interest in non-convertible, non-participating, no par value deferred shares

	Total 2019	Total 2018
CH Wiese through Thibault Square Financial Services (Pty) Ltd	305 621 601	305 621 601

In terms of the transaction agreement concluded between the Company, Thibault Square Financial Services (Pty) Ltd and Titan Premier Investments on 18 April 2019, the voting rights attached to 40 652 489 deferred shares held by Thibault Square will remain restricted whilst all the required approvals are obtained to enable the acquisition of these deferred shares as required in the MOI of the Company.

Directors' report (continued)

Corporate governance

Statements of the Board's application of the codes of good corporate governance are set out in the Integrated Annual Report on pages 53 to 67.

Board committees

The reports of the various board committees are included in the corporate governance and remuneration report sections of the Integrated Annual Report on pages 53 to 78.

Auditors

Subject to shareholder approval at the annual general meeting, PricewaterhouseCoopers Incorporated will continue in office in accordance with Section 90(1) of the Companies Act.

Events after the reporting date

Other than the facts in the annual financial statements, there have been no material changes in the affairs or financial position of the Group and its subsidiaries from 30 June 2019 to the date of this report.

Holding company

Shoprite Holdings has no holding company. An analysis of the main shareholders appears in annexure B of the annual financial statements.

Litigation statement

Save for the disclosures as stated in note 33 of the annual financial statements, the directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous twelve (12) months, a material effect on the Group's financial position.

Audit and Risk Committee report

Introduction

The Audit and Risk Committee ("the Audit Committee") is established as an independent statutory committee in terms of section 94(2) of the Companies Act 71 of 2008, as amended ("the Companies Act") and oversees audit and risk matters for all the South African subsidiaries of Shoprite Holdings Limited ("the Group"), as permitted by section 94(2)(a) of the Companies Act.

The Audit Committee's terms of reference are formalised in a charter informed by the Companies Act, the King IV Report on Corporate Governance for South Africa ("King IV™") and the JSE Listings Requirements. The charter, which is available at www.shopriteholdings.co.za, has been approved by the Board. It is reviewed on an annual basis.

During the 2019 financial year, the Audit Committee conducted its affairs in accordance with the charter and has performed its responsibilities as required.

Audit Committee members, meeting attendance and assessment

Membership

The Audit Committee currently consists of three independent non-executive directors of the Group and is chaired by Johan Basson who is a chartered accountant. All the Audit Committee members are suitably skilled and experienced. During the 2019 financial year, Nols Louw and Jimmy Fouché, who served as non-executive directors for many years, resigned from the Shoprite Group Board and consequently as members of the Audit Committee. On 30 November 2018, Alice le Roux was appointed as an independent non-executive director and member of the Audit Committee.

Membership of the Audit Committee is restricted to independent non-executive directors. The Chief Financial Officer, internal auditors and external auditors attended the Audit Committee meetings by invitation while the Company Secretary acted as secretary to the Audit Committee meetings. Other senior managers responsible for finance, risk and compliance, and information and technology attended as required.

Meetings

The charter requires a minimum of four Audit Committee meetings each year. During the 2019 financial year, the Audit Committee met six times. In addition, a special Audit Committee meeting was held on 16 August 2019 to approve the 2019 annual financial statements of the Group.

The attendance of the Audit Committee members is recorded below:

Audit Committee members	13 August 2018	17 August 2018 (Special)	26 October 2018	19 November 2018 (Special)	22 February 2019	24 May 2019
Johan Basson (Chairman)	✓	✓	✓	✓	✓	✓
Nols Louw	✓	✓	✓	N/A	N/A	N/A
Jimmy Fouché	✓	X	✓	✓	✓	N/A
Joseph Rock	X	✓	✓	✓	✓	✓
Alice le Roux	N/A	N/A	N/A	N/A	✓	✓

The Audit Committee agendas provide for separate meetings between the Audit Committee members, internal and external auditors, and management.

Audit Committee evaluation

As part of the annual self-evaluation, the performance of the Audit Committee and its members were assessed and found to be satisfactory in line with the Audit Committee's responsibilities set out in the Audit Committee charter. In addition, members were assessed against the independence requirements of King IV™ and the Companies Act to encourage independent judgement and an effective balance of power within the Audit Committee. The assessments found that all members of the Audit Committee are independent. Although Johan Basson (the Chairman) and Joseph Rock were previously employed by PricewaterhouseCoopers Incorporated (PwC), the Group's appointed external auditors, in both cases, their employment ended more than ten years ago.

Responsibilities and functions

The responsibilities and functions of the Audit Committee are set out in the charter. This section summarises the Audit Committee's responsibilities and how it performed its functions.

Internal control framework

Internal financial controls

During the 2019 financial year, the Audit Committee reviewed reports on the Group's systems of internal financial controls. No material breakdowns in the internal and financial controls came to management's attention that required reporting.

The Group receives assurance on compliance with and the effectiveness of internal control systems through regular management reviews and assurance from internal audit, as well as from the work of the external auditors who test aspects of these control systems as part of their statutory audit of the annual financial statements.

Finance function

Anton de Bruyn was appointed as Chief Financial Officer (CFO) from 2 July 2018. The Audit Committee is satisfied, having undertaken a formal assessment process, that he has the appropriate expertise and experience for his role. Anton de Bruyn's qualifications and experience are set out in the Integrated Annual Report (Governance Section) and are also available on the Group's website (www.shopriteholdings.co.za).

In addition, the Audit Committee considered a written assessment of the capacity, roles and responsibilities, qualifications and experience of senior members of the Group Finance Department. Based on this assessment, the Audit Committee is satisfied that the Group finance function has the expertise and resources it requires to perform its function.

Risk assessment and management

The Shoprite Group Board is ultimately responsible for ensuring that Group management maintains an effective risk management process on an ongoing basis. The Audit Committee is charged with assisting the Board to assess the adequacy and effectiveness of the Group's risk management process.

Over the years, the Group has managed its risks in terms of the applicable enterprise risk management fundamentals by:

- Establishing the context of its internal and external environments;
- Developing its risk landscape (which includes its risk taxonomy in relation to its organisational structure, risk categories, processes and controls);
- Setting its strategy, objectives, risk appetite and tolerance levels; and
- Implementing a Group risk register.

Audit and Risk Committee report (continued)

A dedicated Group Risk and Compliance Manager role was formally established during 2017 to continue to develop governance, risk and compliance in the Group.

The Group Risk Forum, which is a management committee chaired by the CFO that comprises various members of the senior management team, met four times during the 2019 financial year. During these meetings, significant risks affecting the Group and its business units were discussed to ensure the executive management team's awareness of those risks and how they are being monitored and managed. Minutes of these meetings are submitted to the Audit Committee for consideration.

The Group's risk governance policy and framework provides an effective and consistent approach for identifying, evaluating, monitoring and responding to key risks that may affect achievement of the Group's objectives over time. The framework is based on the principles embodied in the Enterprise Risk Management Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, the International Guideline on Risk Management ("ISO31000") and King IV™. Risk governance is also integral to setting the Group's strategy and objectives to respond to management's assessment of the key risks and opportunities associated with those matters that materially influence the Group's ability to create and maintain long term value. Risk management processes and procedures are integrated with the Group's daily management activities through the Group risk management framework, which is embedded across the business.

The Group's risk landscape includes 55 risk descriptions which remain key focus areas on an ongoing basis and are aligned to the Group's strategy.

The following risks remained high priority for the Group for the 2019 financial year:

- Cyber and information security;
- Injury to employees, contractors, customers and other third parties;
- Business continuity management and disaster recovery;
- Deterioration of trade union relationships and risk of third-party supplier employee strike actions;
- Food safety;
- Brand deterioration and reputational risk;
- Internal fraud;
- Regulatory risk; and
- Loss of distribution centre facilities due to fire risk.

These risks are closely monitored and managed within the business on a daily basis. For some risks the assessed residual risk rating remains high even after ensuring that effective controls are being applied to those risks, which increases the importance of ongoing effective risk monitoring processes and procedures.

In conjunction with each business unit, the Group Risk and Compliance Manager has reviewed the risks specific to each business unit and related controls to determine the aggregate assessed residual risks for the Group. Critical and high residual risks are reported on an ongoing basis to ensure adequate management and transparency. The Group's combined assurance framework is used to monitor the effectiveness of risk management and identify any material defects.

An internal operational risk loss database is being finalised for future use to quantify losses at a granular level in real time. This will enable highlighting of any internal control failures, apart from those identified through executing the internal audit plans and through the external audit.

The Group has a low risk appetite and zero tolerance for losses due to fraud, so it will continue to increase focus on these losses, whether internal (employees) or external (any trade or expense vendor).

Compliance governance

Compliance governance, as an integral part of corporate governance, is embedded throughout the Group. Each business unit manages and mitigates its own regulatory compliance risks on a daily basis, with oversight from the Group's Legal, Risk and Compliance Department as a second line of assurance.

Each business unit has a unique regulatory universe, which has been categorised and risk-assessed, to be rated as critical, high, medium or low likelihood and where the compliance risk impact on the business is assessed.

The constantly changing regulatory landscape is carefully monitored to ensure that important regulatory changes and any significant compliance matters are escalated to the relevant management and executive teams. If required, after consultation the Group Risk and Compliance Manager engages South African regulators, directly or through the Consumer Goods Council South Africa, to discuss legal and regulatory reform and requirements.

Group compliance management functions are monitored to ensure that they operate effectively on an ongoing basis in order to provide adequate assurance to the Board regarding the achievement of Group compliance objectives.

As resources are limited, in certain instances the second line of assurance utilises internal audit services, and the two lines collaborate to ensure that priority regulatory categories are incorporated into the internal audit plan.

Compliance monitoring occurs in various forms, from substantive monitoring to management self-assessments. The business is assessed to verify its compliance and to measure the effectiveness and adequacy of the implemented controls, thereby mitigating the risk of regulatory non-compliance. Significant findings are reported to the Audit Committee. The Audit Committee is enabled to form its own opinion on the effectiveness and adequacy of compliance management control measures in the business through reports received from various lines of assurance on compliance monitoring, regulatory updates, material consumer complaints and regulatory inspections, fines and breaches (if relevant).

Through effective performance of the combined internal and external assurance factors, the Board obtains reasonable assurance about the integrity of the information provided to the Board and executive management team by the business to support internal decision-making and external reporting.

Training and awareness of key legislation is important for the business. Specific training initiatives are prioritised to ensure that management and employees are aware of regulatory requirements that affect their business units.

The following regulatory areas were identified as key for the 2019 financial year:

- Consumer protection;
- Food safety;
- Occupational health and safety;
- Labour laws and employment equity;
- Broad-Based Black Economic Empowerment;
- Protection of Personal Information;
- Competition law;
- Environmental; and
- Taxation.

These regulatory compliance risks are closely managed and monitored by various internal and external assurance providers to ensure effective controls are in place and maintained.

The planned future focus areas for compliance governance oversight are health and safety, food safety, anti-bribery and anti-corruption, competition, environmental, Protection of Personal Information and taxation.

No material or repeated regulatory penalties, sanctions or fines were imposed on the Group or on Board members for contraventions of, or non-compliance with, statutory obligations.

In addition, there were no material monitoring or compliance inspections by environmental regulators, findings of non-compliance with environmental laws, or criminal sanctions or prosecutions for non-compliance.

Governance of information and of technology

The Board's Terms of Reference and the Audit Committee charter define their respective responsibilities for governing information and technology, as well as reporting lines and reporting requirements. The Board's responsibilities include ensuring the responsible use of information and technology (IT), including overseeing effective risk and opportunity management for the Group's information assets and its technology environment, that supports the business model. Within the charter:

- The Board accepts its accountability for the overall governance of information and technology.
- The Board delegates authority to the Audit Committee to oversee Group-wide management of information and technology (including setting Group-wide minimum standards) and to establish mandates for management's use for decision-making relating to information or technology.
- The Board endorses specific frameworks for establishing controls to mitigate the risks associated with information and technology. These control frameworks (including minimum standards, policies, procedures and rules) are adopted to assist effective governance for specific information and technology risk areas.

Governance of information and of technology is implemented through various control processes, gates, bodies and reporting. These include the Project Approval Committee, Project Steering Committees, Architecture Committee, Change Approval Board, supplier selection process, contracting processes, procurement processes, disaster recovery tests and IT financial analysis reports.

Information and technology risks are identified and managed through the IT Risk Register and related Action Tracker, in line with the Group's risk governance policy and framework.

The Group Risk Forum, the Audit Committee and the Board all receive IT reporting.

During the 2019 financial year, the Audit Committee received and considered feedback on the implementation of relevant information and technology governance mandates, policies, processes and control frameworks. Furthermore, the Audit Committee oversees all IT-related matters on behalf of the Board, including significant information and technology investments, by engaging both internal and external assurance providers. This assurance forms part of the Group's combined assurance framework.

In addition, the Audit Committee focused on the following key areas during the 2019 financial year:

- **Enterprise-wide system implementation**
The major IT system change during the reporting period was completing the implementation of the enterprise-wide integrated system. Implementation began in August 2017 and was completed during the 2019 financial year. The Audit Committee was kept informed continuously about the project's progress, as well as the associated risks and how these were managed. The Audit Committee also monitored the cost of the project against the original budget.

- **Information security**
The Group recognises the significant threats associated with inadequate management of cybersecurity risks. Successful cybersecurity attacks could cause significant damage to the Group's business and reputation. As part of ensuring proper governance oversight of the risk category, an independent expert reviewed the effectiveness of the Group's current IT security measures during the previous year.

Following this review, management began developing an Information Security Management System. This was part of a process to improve the management of identified cyber and other security risks and to ensure the confidentiality, integrity and availability of information to the Group.

- **Business recovery**
The Audit Committee received and reviewed regular reports on the status of the Group's business recovery plans.

Assessment and management of fraud risk

Assessing and managing fraud risk is integral to the Group's Enterprise Risk Management functions. The Audit Committee consider reports from management during the year on identified actual or suspected fraud and consider management's responses.

Ethics

The Social and Ethics Committee is primarily responsible for oversight over the Group's management of achieving objectives related to social and ethics matters. The Audit Committee considered regular reports on these matters from management and the Social and Ethics Committee to ensure integrated governance oversight of the Group's key environmental, social and governance risks.

Combined assurance

Combined assurance model

The Group has adopted a combined assurance approach that is closely aligned with the recommended practices set out in King IV™. The Board has delegated responsibility for governance oversight of the Group's combined assurance framework to the Audit Committee, which is required to ensure that implementation of the combined assurance model results in fully integrated (combining, co-ordinating and aligning) internal and external assurance activities across the business. The Group's assurance activities include:

- Line functions that own and manage risks at that level;
- Specialist functions that facilitate and oversee enterprise risk management and compliance;
- Various internal assurance providers including the internal audit functions, internal forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries; and
- Independent external assurance service providers including the external auditors, and other providers such as food safety auditors and external actuaries.

The Audit Committee maintains ongoing oversight over the effectiveness of the Group's combined assurance framework, in conjunction with the Group Risk and Compliance Manager and the Group Internal Audit Executive, to achieve the objectives of an effective combined assurance framework for the Group.

Internal audit

The Audit Committee is responsible for ensuring that the Group's internal audit function is established to function independently from management and ensuring that the function has the necessary resources, standing and authority within the Group to be able to fulfil the internal audit function effectively. Furthermore, the Audit Committee monitors cooperation between the internal audit function and the external auditors, and links the Board and these functions.

Internal audit activities, all of which are risk based, are performed by a team of qualified and experienced employees led by the Group Internal Audit Executive. The Internal Audit Department reviews and provides internal assurance on the adequacy of the internal control environment across all significant areas of the Group's operations. Internal audit's activities are measured against an approved internal audit plan and the Internal Audit Executive provides regular progress reports to the Audit Committee.

The Group Internal Audit Executive has direct access to the Audit Committee, primarily through the Audit Committee Chairman and through attendance at all Audit Committee meetings.

Audit and Risk Committee report (continued)

During the 2018 financial year, a formal, independent quality review of the Internal Audit function was undertaken. The review highlighted some areas where the effectiveness of the Internal Audit function could be improved. The Group Internal Audit Executive is implementing plans to address those areas and also to align the internal audit plan with the Group's combined assurance framework.

External audit

The Audit Committee evaluates the performance of the external auditor, PwC, against specified criteria and also assesses the effectiveness of the external audit process by:

- Considering the external audit plan, in particular to confirm that it addresses changes since the prior year;
- Reviewing the terms of engagement of the external auditor;
- Monitoring the completion of the audit;
- Meeting with the audit partners;
- Overseeing (and approving where relevant) non-audit services; and
- Considering the quality and the independence of the external auditor.

The Audit Committee has requested from and consulted with PwC, as necessary, to obtain on an annual basis:

- All necessary decision letters, findings, reports and proposed remedial action on the audit firm and/or individual auditor;
- Summaries and descriptions of monitoring procedures and conclusions drawn; and
- Outcomes and summaries of any legal and disciplinary proceedings instituted in the past seven years by any legislation or professional body, in terms of paragraph 22.15(h) of the JSE Listings Requirements.

In consultation with the Group's executive management, the Audit Committee agreed to the terms of the PwC audit engagement letter, audit plan and budgeted audit fees for the 2019 financial year.

The Audit Committee is satisfied with the effectiveness of the external audit and the quality of the external auditor. A formal framework governs the process through which PwC renders non-assurance services to ensure that audit independence is not compromised. The Audit Committee approved the terms of a master service agreement for the provision of such services by PwC as well as a pre-approval policy stating the nature and extent of non-assurance services that may be provided.

A breakdown of audit, audit-related and non-audit fees paid to PwC in the 2019 financial year is summarised as follows:

Description	Amount
Audit services	R36 408 459
Audit-related assurance services	R2 890 750
Total audit and audit-related services	R39 299 209
Tax advisory and compliance services	R2 851 000
Other non-audit services	R2 535 000
Total non-audit services	R5 386 000
Total	R44 685 209

The Audit Committee annually assesses the independence and quality of the external audit firm. The following aspects were considered when assessing PwC's independence:

- PwC does not receive any remuneration or benefits from the Group other than the fees for services as external auditors and permitted non-audit services;
- The quantum and nature of non-audit services performed;
- The existence of an existing audit partner rotation process that is in line with legal and regulatory requirements. Thinus Hamman was the designated audit partner for the 2019 financial year;
- The nature of the aspects that were reported to the Audit Committee by PwC;
- The quality of the discussions with PwC regarding audit, accounting and reporting matters at Audit Committee meetings;
- The direct line of communication between the Chairman of the Audit Committee and the designated external audit partner; and
- PwC's confirmation that they:
 - (i) are not precluded from re-appointment due to any impediment as listed in section 90(2)(b) of the Companies Act;
 - (ii) comply with section 91(5) of the Companies Act (more than half of the firm members employed at the time of its 2018 reappointment remain in 2019);
 - (iii) remain independent as required by section 94(8) of the Companies Act and the relevant provision in the JSE Listings Requirements; and
 - (iv) comply with the criteria specified by the Independent Regulatory Board for Auditors and internal regulatory bodies.

Based on this assessment, the Audit Committee is satisfied that PwC is independent of the Group.

The Independent Regulatory Board for Auditors has issued a rule prescribing that auditors of public interest entities in South Africa must comply with mandatory audit firm rotation with effect from 1 April 2023.

On the basis of PwC's independence and considering the need for audit firm rotation from 1 April 2023, the Audit Committee re-nominates PwC as the Group's independent external auditor for the 2020 financial year with Thinus Hamman as the designated external audit partner until the 2020 Annual General Meeting of Shoprite Holdings. Shareholders are therefore requested to approve PwC's reappointment as the Group's independent external auditor for the 2020 financial year at the Annual General Meeting on 4 November 2019 with Thinus Hamman as the designated audit partner.

Reporting

Financial statements and accounting practices

During the reporting period, the Audit Committee reviewed the interim and annual financial reports of the Group, including the review of significant accounting policies, key accounting items and areas of significant judgement, together with any material assumptions and estimates adopted by management. The Audit Committee confirmed that these were appropriate and recommended their acceptance and approval to the Board.

The Audit Committee considered the following significant matters in relation to the 2019 annual financial statements:

- **Risk of investment in Angola**
The Audit Committee discussed the investment in Angola and the associated risk. The Audit Committee is satisfied that the associated risks are adequately addressed within the current regulatory framework.
- **Hyperinflation in Angola**
IAS 29 (Financial Reporting in Hyperinflationary Economies) requires that financial statements of entities operating in a hyperinflationary economy fully account for the effects of inflation using a "current purchasing power" approach. The Audit Committee considered the applicability of this standard for the Group's investment in Angola and the impact of applying IAS 29 and the disclosures required in the annual financial statements.



■ **Classification of cash and bank balances in Angola**

Local currency cash and short-term deposits held in Angola are subject to onerous local exchange control regulations. Management assessed the restrictions on using the assets imposed by the regulations and the appropriate classification of those assets given these restrictions. The Audit Committee challenged management's assessment and agreed with management on the classification of those assets.

■ **Valuation of inventory**

The Audit Committee considered the valuation of inventory and the provisions made for shrinkage and obsolescence.

■ **Measurement of financial assets**

The Audit Committee considered the application of IFRS 9 in respect of the measurement of trade receivables and other financial assets and the assumptions used to determine the expected credit losses.

■ **Provisions**

The Audit Committee discussed the major provisions made or required for the annual financial statements with management and the external auditors and evaluated these provisions. The Audit Committee is satisfied that sufficient provisions have been made and that these are not excessive.

■ **Impairments**

The Audit Committee considered the policy for impairing assets and the requirements of IAS 36 (Impairment of Assets) and is satisfied that the policy is appropriate and has been applied consistently in line with these requirements. The key assumptions for the impairment tests were discussed.

■ **Taxes**

The Audit Committee reviewed management's reports on the status of tax compliance in the Group and the status of disputes with, and investigations by, the relevant tax authorities to ensure that there is sufficient provision for any potential income and other tax liabilities.

■ **Rebates from suppliers**

The Audit Committee discussed the accounting treatment of rebates from suppliers.

■ **Revenue recognition**

The Audit Committee discussed the impact of the implementation of IFRS 15 (Revenue from contracts with customers) on the annual financial statements of the Group.

■ **Leases and financial instruments**

The Audit Committee discussed the potential impact of implementing IFRS 16 (Leases) on the annual financial statements of the Group.

Integrated and sustainability reporting

In the context of assisting the Board with its governance oversight responsibilities in relation to ensuring the integrity of the Group's external reports, the Audit Committee has reviewed the non-financial information disclosures contained in the 2019 Sustainability Report and the 2019 Integrated Annual Report, including assessing the consistency of the content of these reports with operational and other information known to the Audit Committee members, and with the Group's 2019 annual financial statements.

In addition, on behalf of the Board in relation to the 2019 Integrated Annual Report, the Audit Committee is satisfied that it has applied its collective mind to the preparation and presentation of the report and that the report is presented in accordance with the <IR> Framework.

Going concern status

The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by financial management on the Group's going concern status. The Board's statement on this going concern status, as supported by the Audit Committee, is contained in the directors' report.

Future focus areas

For the 2020 financial year, the Audit Committee plans to focus on further enhancing the Group's risk and compliance management, information and technology management and the combined assurance framework. The Audit Committee also plans to request an independent review of its effectiveness, the Chairman of the Audit Committee and the individual members of the Audit Committee. The Audit Committee will also consider obtaining independent assurance over the integrity of the Integrated Annual Report, and in particular its non-financial information.

Recommendation to the Board

The Audit Committee has reviewed and considered the 2019 Integrated Annual Report and the annual financial statements as set out above, and has recommended their approval by the Board.

Johan Basson
Chairman

19 August 2019

Independent auditor's report

To the shareholders of Shoprite Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Shoprite Holding Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Shoprite Holdings Limited's consolidated and separate financial statements set out on pages 16 to 96 comprise:

- the consolidated and separate statements of financial position as at 30 June 2019;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

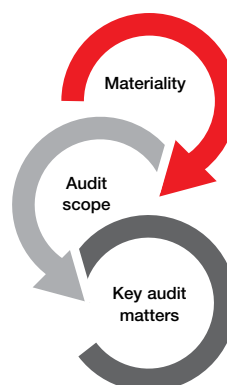
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

Our audit approach

Overview



Overall Group materiality

- R316 950 000 which represents 5% of Group profit before tax.

Group audit scope

- The Group audit scope has been tailored based on indicators such as the contribution to consolidated revenue and consolidated profit before tax from each component. A combination of audits, reviews and specified audit procedures were performed.

Key audit matters

- Impairment of property, plant and equipment relating to non-RSA operations
- Hyperinflation accounting
- Recognition of supplier rebates
- IFRS 9 Expected credit losses ("ECL") on financial assets
- IFRS 16 Presentation and disclosure
- Investment in subsidiaries and loans to subsidiaries

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality R316 950 000

How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.



How we tailored our Group audit scope

We tailored the scope of our audit to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our scoping assessment included consideration of the financial significance of the Group's components as well as the sufficiency of work planned to be performed over material financial statement line items. We identified only one financially significant component in the Group, namely Shoprite Checkers Proprietary Limited. We also included a number of other components in the scope of our Group audit, based on indicators such as their contribution to consolidated revenue and consolidated profit before tax. These in scope components included the most significant components with operations outside of South Africa. The remainder of the components were considered to be individually insignificant to the Group.

For the financially significant component we performed a full scope audit and for the in scope components we performed a combination of full scope audits, reviews and specified audit procedures. This, together with additional

procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

In establishing the overall approach to the Group audit, we determined the extent of the work that needed to be performed by us, as the Group engagement team and by component auditors from other PwC network firms operating under our instruction, in order to issue our audit opinion on the consolidated financial statements of the Group. Where the work was performed by component auditors, we determined the level of involvement necessary in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole.

Detailed Group audit instructions were communicated to all components in scope and the Group engagement team has been involved in determining the component team audit approach. Throughout the audit, various planning, execution and completion calls and discussions were held with the teams of the components.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Impairment of property, plant and equipment relating to non-RSA operations

This key audit matter relates to the consolidated financial statements. Refer to the accounting policies note 1.1.1.2(b) (Assumptions and estimates – Impairment of assets), accounting policies note 1.9 (Impairment of non-financial assets) and note 3 (Property, plant and equipment).

We regarded the impairment of property, plant and equipment relating to the Group's non-RSA operations to be a matter of most significance to our audit because of the judgement applied by management in determining the impairment charge and the magnitude of the property, plant and equipment balances relating to the non-RSA operations.

A weakening in the general economic conditions in some of the non-RSA countries in which the Group operates resulted in a significant reduction in the future expected sales of merchandise and an impairment of property, plant and equipment of R144 million in the current year, relating mainly to machinery, equipment and vehicles.

The Group considers each store to be a cash generating unit ("CGU") and has calculated the recoverable amount of each CGU as the higher of value-in-use and fair value less costs of disposal.

Value-in-use is based on discounted future cash flow forecasts, requiring management to make judgements on certain key inputs including, for example, discount rates, long-term growth rates and the company-specific risk premium applied to the discount rate to address the forecasting risk identified in the CGUs.

Fair value less costs to sell is estimated by management based on market knowledge of individual properties. The key judgements made by management in this fair value calculation relate to the estimated rental values and the market capitalisation rate of the properties.

With regard to the impairment of property, plant and equipment, we obtained management's impairment assessments which included a list of loss-making stores and approved budgets per store, which formed the basis of our audit work. Our audit procedures included an assessment of the reasonableness of management's discounted cash flow models, discount rates and long-term growth rates.

- We tested the mathematical accuracy of management's calculations;
- We assessed the completeness of the stores included in management's assessment with reference to CGU performance;
- We evaluated the appropriateness and completeness of information included in the impairment models based on our cumulative knowledge of the business driven by our review of trading plans together with our wider retail industry knowledge;
- We assessed the reasonableness of management's cash flow models by agreeing prior year forecasts to actual results; and
- We utilised our valuation expertise in order to test the reasonability of the discount and long-term growth rates with reference to industry reports.

We concluded that the assumptions in the impairment models, specifically in the value-in-use calculations, were within an acceptable range, and that the overall level of impairment was reasonable.

We compared the market capitalisation rate used by management to an estimated range of expected market capitalisation rates, determined via reference to published benchmarks. We found the market capitalisation rates used by management to be within a reasonable range.

Independent auditor's report (continued)

Key audit matter

How our audit addressed the key audit matter

Hyperinflation accounting

This key audit matter relates to the consolidated financial statements. Refer to the accounting policies note 1.1 (Basis of preparation), note 1.1.1.1(e) (Judgements – Hyperinflation) and note 1.5 (Hyperinflation). The impact on the financial statement line items affected has been included in each of the relevant notes to the financial statements.

Management evaluated and determined the economy of Angola to be hyperinflationary.

For the purpose of the consolidated financial statements, the Group's subsidiaries in Angola applied the requirements of IAS 29 – Financial reporting in Hyperinflationary Economies ("IAS 29"). The hyperinflation impact increased profit with R777 million, including net monetary gains of R920 million, which arose from the net monetary liability position.

Hyperinflation accounting adjustments was determined to be a matter of most significance to our audit due to the significance of the balances and transactions and the complexity and subjectivity of the application of IAS 29.

We obtained an understanding of the Group's process for identifying hyperinflationary economies and evaluated the Group's accounting policy in relation to hyperinflation in accordance with IAS 29.

Our audit procedures included, among others:

- We assessed and tested the indicators of hyperinflation in the Angolan economy by corroborating these with industry reports;
- We tested the hyperinflation computations prepared by management by evaluating the rationale for the economic indicators included (such as the inflation rate, cumulative inflation rate, consumer price indices from various sources);
- We tested the source data used by agreeing it to supporting schedules;
- We assessed the reasonability of the assumptions used by comparing these to externally available industry, financial and economic data; and
- We assessed whether disclosures in the financial statements appropriately reflected the effects of the adoption of IAS 29.

No material differences were noted in performing the procedures above.

Recognition of supplier rebates

This key audit matter relates to the consolidated financial statements. Refer to the accounting policies note 1.1.1.2(a) (Assumptions and estimates – Rebates from suppliers) and note 1.20 (Rebates from suppliers).

The Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group reduces cost of sales as a result of amounts receivable from suppliers.

We regarded this to be a matter of most significance to the audit as there is a risk that rebates may be materially misstated due to the magnitude thereof, the varying terms with the suppliers and judgements made relating to the level of fulfilment of the Group's obligation under the supplier agreements.

The systems used to calculate rebates as well as the controls implemented to ensure the accurate calculation of rebates were assessed with the assistance of our information technology specialists.

We tested a sample of the inputs used in calculating the supplier rebates by performing, among other, the following procedures for a sample of rebates:

- We obtained the supplier contracts and agreed key terms such as discounts, allowances and fulfilment levels per the contracts to management's rebate schedules;
- We agreed the monetary values of the purchases made and allowances per management's calculation to underlying supporting schedules and documentation, including obtaining supplier confirmations for a sample of purchase values; and
- We also independently recalculated the rebate for the year and compared this to the accounting records of the Group.

No material differences were noted in the testing performed.

IFRS 9 – Expected credit losses ("ECL") on financial assets

This key audit matter relates to the consolidated financial statements. Refer to the accounting policies note 1.10.5 (Impairment) and note 37.4.1 (Credit risk).

We determined the ECL on the financial assets referred to below to be a matter of most significance to our current year audit due to the following:

- the first time adoption of IFRS 9 by the Group;
- the magnitude of the ECL; and
- the degree of judgement and estimation applied by management in determining the ECL.

The ECL was calculated by applying the requirements of International Financial Reporting Standards 9 – Financial Instruments ("IFRS 9"). The Group adopted IFRS 9 retrospectively with an adjustment for ECL to opening retained earnings. The comparative financial statements were not restated as permitted by IFRS 9.

Our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on financial assets and the first time adoption of IFRS 9 as follows:

i) Instalment sale receivables

- We have utilised our actuarial expertise and accounting specialists to assess that the model methodology and application of the methodology are in line with the requirements of IFRS 9. We are comfortable that the principles and methodology applied in the model are consistent with the requirements of IFRS 9; and
- We utilised our actuarial expertise to assess the reasonability of the key assumptions, i.e. effective interest rate, probability weighted cash flows and forward-looking information (economic overlay) applied in the ECL calculation; and to test the appropriateness and accuracy of the methodology applied by management's experts in their calculation of the ECL. No material differences were noted.

Key audit matter

How our audit addressed the key audit matter

IFRS 9 – Expected credit losses (“ECL”) on financial assets (continued)

This key audit matter relates to the consolidated financial statements. (continued)

The Group assesses on a forward-looking basis the ECL associated with all financial assets measured at amortised cost and recognises an allowance for ECL for these financial assets. Refer to note 1.10.5 of the financial statements where the types of financial assets and the ECL impairment models have been disclosed.

This key audit matter relates to the following financial assets which were considered to be of most significance to our audit of the consolidated financial statements:

- Loans receivable,
- Government bonds and bills,
- Instalment sale receivables,
- Trade receivables, and
- Other receivables.

The Group recognised a net impairment reversal on these financial assets of R23 million for the period under review.

ECL on these financial assets are measured using either the general impairment approach, the simplified approach or the provision matrix.

General approach

The general approach was applied to determine the ECL on loans receivable, government bonds and bills and other receivables.

Under this approach the Group assesses at the end of each reporting period whether there has been a significant increase in credit risk (“SICR”) since initial recognition. Where there has been a SICR, the Group recognised an allowance for ECL resulting from all possible default events over the expected life of the financial asset.

The assessment of SICR happens on a bi-annual basis at a portfolio level. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the credit risk team based on quantitative, qualitative or backstop criteria being met.

The measurement of ECL under this approach reflects a probability-weighted outcome, the time value of money and the best forward looking information available to the Group. This incorporates the probability of default (“PD”), exposure at default (“EAD”), timing of when default is likely to occur and the loss given default (“LGD”).

Simplified approach

This approach was applied to instalment sale receivables where there is a significant financing component. The Group has elected to measure the impairment allowance on instalment sale receivables at an amount equal to the lifetime ECL.

The measurement of ECL under this approach reflects a probability-weighted outcome, time value of money and forward looking information.

Provision matrix

This approach was applied to trade receivables without a significant financing component which recognises a lifetime ECL. The provision matrix is based on historical credit loss experience, adjusted for forward looking factors specific to trade receivables and the economic environment.

- ii) Government bonds and bills, loans receivable and other receivables
 - We utilised our actuarial expertise to assess the reasonability of the key assumptions, i.e. probability of default, staging assumption, country rating, credit ratings and loss given default. No material differences were noted.
- iii) Trade receivables
 - Verified whether the ECL provisions matrix model developed by management is consistent with the requirements of IFRS 9 and found the model to be in line with a provision matrix required in IFRS 9;
 - Tested the key assumptions and judgements, such as those used to calculate the likelihood of default and loss given default by comparing these to historical data; and
 - No material differences were noted.

Independent auditor's report (continued)

Key audit matter

How our audit addressed the key audit matter

IFRS 16 Presentation and disclosure

This key audit matter relates to the consolidated financial statements.

As described in note 1.29 (Standards, interpretations and amendments that are not yet effective at 30 June 2019), IFRS 16 – Leases, will be effective for the accounting period commencing 1 July 2019. The Group intends to adopt the standard retrospectively.

The expected impact of IFRS 16 as at 30 June 2019 and on the results for the year ended 30 June 2019 is disclosed in note 1.29 to the 2019 financial statements.

The expected impact of the IFRS 16 transition is reliant upon a number of key estimates and judgements, primarily determining the appropriate discount rates (incremental borrowing rates) and the lease period for each lease. The lease period may include future lease periods for which the Group has extension options which the Group is reasonably certain to exercise.

Further, the Group has a high volume of leases, some of which have been in place for a number of years.

We considered the IFRS 16 presentation and disclosure requirements to be a matter of most significance to the audit due to estimation and judgement applied in the transition, the high volume of leases and the risk of the lease data used in the transition calculation being incomplete or inaccurate.

Our audit procedures included, among others:

- We challenged the key judgements and assumptions used by management, including those made in relation to the property portfolio;
- Assessing the discount rates used to calculate the lease obligation with support from our valuation experts. This included independently sourcing base rates for each currency and lease origination date, usually linked to inter-bank or sovereign bond rates, and adding a historically adjusted credit spread specific to the Group. Additional adjustments were made to cater for lease term, as well as the requirement for a collateralised incremental borrowing rate in IFRS 16;
- Verified the accuracy of the underlying lease data by agreeing a representative sample of leases to the original contract or other supporting information, and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment;
- Testing the completeness of the lease data by reconciling a sample of the Group's existing lease commitments to the lease data underpinning the IFRS 16 model;
- For a sample of leases we recomputed independently and compared the results to that of management;
- Evaluated the lease terms, including the renewal periods, where appropriate, by inspecting the underlying contracts and assessing management's judgements for the lease periods applied in the lease calculation, to ensure they are accurate and complete; and
- We assessed management's impairment calculation in relation to the right of use asset by considering the value-in-use calculations for loss-making stores.

The key estimates and judgements underpinning the Group's IFRS 16 impact assessment are appropriate.

We are satisfied that the disclosure of the expected impact of IFRS 16 is in accordance with the Group's stated accounting policy and the related disclosure of these items per note 1.29 to the financial statements is appropriate.

Investment in subsidiaries and loans to subsidiaries

This key audit matter relates to the separate financial statements.

Refer to the accounting policies note 1.11 (Investments in subsidiaries) and note 6 (Interest in subsidiaries).

Interest in subsidiaries, which includes investment in subsidiaries and loans to subsidiaries, comprises 97% of the total assets in the statement of financial position of Shoprite Holdings Limited.

The carrying amounts of the Company's investment in subsidiaries are measured at cost, less allowances for impairment. Management performs an annual impairment test on the recoverability of the carrying amounts of investments where impairment indicators exist as required by IAS 36 – Impairment of Assets, which is subjective in nature due to judgements having to be made of future performance.

IFRS 9 requires entities to recognise expected credit losses ("ECL") for all financial assets held at amortised cost, including intercompany loans from the perspective of the lender.

We do not consider the measurement of these investments and loans to represent a high risk of material misstatement, or to be subject to a significant level of judgement.

However, due to the magnitude in the context of the parent company financial statements, we considered the measurement of interests in subsidiaries to be a matter of most significance to our audit of the separate financial statements of the Company.

Our audit procedures included, among others:

- Comparing the investment carrying values to the net assets of the underlying subsidiaries to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and no impairment indicators were noted.
- We assessed the accounting policies relating to the impairment of financial assets and found these to be in accordance with the requirements of IFRS 9.
- We assessed the reasonability of the ECL on loans made to subsidiaries by assessing whether the borrower has highly liquid assets to repay the outstanding loan if repayment was demanded at reporting date. We found that the borrower has highly liquid assets to repay the outstanding loan if the loan was demanded at the reporting date and the probability of default would be close to 0%. This is consistent with management's assessment.



Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Shoprite Holdings Limited Annual financial statements for the year ended 30 June 2019", which includes the Directors' report, the Audit and Risk Committee report and the Certificate of the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the document titled "Shoprite Holdings Limited 2019 Integrated Annual Report", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Shoprite Holdings Limited for 37 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: MC Hamman
Registered Auditor

Cape Town
19 August 2019

Statements of financial position

Shoprite Holdings Ltd and its subsidiaries as at 30 June 2019

Company				Group	
2018 Rm	2019 Rm		Notes	2019 Rm	Restated* 2018 Rm
Assets					
8 881	9 377	Non-current assets		30 212	29 353
—	—	Property, plant and equipment	3	21 444	21 218
—	—	Intangible assets	5	3 077	2 994
8 874	9 369	Investments in subsidiaries	6	—	—
6	6	Equity accounted investments	7	—	—
—	—	Government bonds and bills	8	2 516	—
—	—	Loans receivable	9	1 664	—
—	—	Held-to-maturity investments	8	—	2 090
—	—	Loans and receivables	9	—	1 318
1	2	Deferred income tax assets	10	629	877
—	—	Trade and other receivables	12	882	856
4 110	3 002	Current assets		33 969	32 310
—	—	Inventories	11	20 889	17 959
—	4	Trade and other receivables	12	4 197	4 935
—	—	Current income tax assets		480	120
4 098	2 625	Amounts receivable from subsidiaries	6	—	—
—	—	Government bonds and bills	8	500	—
—	—	Loans receivable	9	196	—
—	—	Held-to-maturity investments	8	—	1 600
—	—	Loans and receivables	9	—	231
12	373	Cash and cash equivalents		7 707	7 465
—	—	Assets held for sale	4	814	184
12 991	12 379	Total assets		64 995	61 847
Equity					
Capital and reserves attributable to owners of the parent					
7 516	7 516	Stated capital	13	7 516	7 516
—	—	Treasury shares	13	(605)	(554)
5 461	4 843	Reserves	15	19 152	20 424
12 977	12 359			26 063	27 386
—	—	Non-controlling interest		114	91
12 977	12 359	Total equity		26 177	27 477
Liabilities					
—	—	Non-current liabilities		11 204	3 567
—	—	Borrowings	16	9 044	1 371
—	—	Deferred income tax liabilities	10	568	697
—	—	Provisions	17	289	264
—	—	Fixed escalation operating lease accruals		1 303	1 235
14	20	Current liabilities		27 614	30 803
13	14	Trade and other payables	18	19 495	20 048
—	—	Contract liabilities	19	791	578
—	—	Borrowings	16	2 662	5 606
1	6	Current income tax liabilities		423	481
—	—	Provisions	17	119	95
—	—	Bank overdrafts		4 124	3 995
14	20	Total liabilities		38 818	34 370
12 991	12 379	Total equity and liabilities		64 995	61 847

* Restated for the change in accounting policy. Refer to note 39 for more detail.



Statements of comprehensive income

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company				Group	
52 weeks 2018 Rm	52 weeks 2019 Rm		Notes	52 weeks 2019 Rm	Restated* 52 weeks 2018 Rm
—	—	Sale of merchandise	20	150 395	145 104
—	—	Cost of sales		(115 074)	(110 415)
—	—	Gross profit		35 321	34 689
3 876	2 009	Other operating income	20	3 218	2 926
—	—	Depreciation and amortisation	21	(2 640)	(2 530)
—	—	Operating leases	22	(4 643)	(4 272)
—	—	Employee benefits	23	(11 997)	(10 851)
(15)	(29)	Other operating expenses	25	(13 303)	(12 591)
—	—	Net monetary gain		920	653
3 861	1 980	Trading profit		6 876	8 024
—	—	Exchange rate gains/(losses)		115	(251)
—	—	Items of a capital nature	26	(80)	(246)
3 861	1 980	Operating profit	27	6 911	7 527
14	13	Interest received from bank account balances	20	273	215
—	—	Finance costs	28	(845)	(422)
—	—	Share of profit of equity accounted investments	7	—	27
3 875	1 993	Profit before income tax		6 339	7 347
(39)	(39)	Income tax expense	29	(2 068)	(2 124)
3 836	1 954	Profit for the year		4 271	5 223
—	—	Other comprehensive income, net of income tax		(2 773)	(689)
—	—	Items that will not be reclassified to profit or loss			
—	—	Re-measurements of post-employment medical benefit obligations		3	2
—	—	Items that may subsequently be reclassified to profit or loss			
—	—	Foreign currency translation differences including hyperinflation effect	15	(2 776)	(678)
—	—	Share of foreign currency translation differences of equity accounted investments	15	—	(2)
—	—	Gains on effective cash flow hedge	15	—	(11)
—	—	For the year		—	3
—	—	Reclassified to profit for the year		—	(14)
3 836	1 954	Total comprehensive income for the year		1 498	4 534
3 836	1 954	Profit attributable to:			
—	—	Owners of the parent		4 260	5 211
3 836	1 954	Non-controlling interest		11	12
3 836	1 954			4 271	5 223
3 836	1 954	Total comprehensive income attributable to:			
—	—	Owners of the parent		1 487	4 522
3 836	1 954	Non-controlling interest		11	12
3 836	1 954			1 498	4 534
		Basic earnings per share (cents)	30	768.2	936.0
		Diluted earnings per share (cents)	30	767.3	935.2

* Restated for the change in accounting policy. Refer to note 39 for more detail.

Statements of changes in equity

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

				Attributable to owners of the parent						
Rm	Notes	Total equity	Non-controlling interest	Total	Share capital	Share premium	Stated capital	Treasury shares	Other reserves	Retained earnings
Group										
Balance at 2 July 2017 as previously reported		27 749	91	27 658	681	8 585	—	(446)	(969)	19 807
Effect of adopting IFRS 15: Revenue from Contracts with Customers (note 39)		(10)		(10)						(10)
Restated balance at 2 July 2017		27 739	91	27 648	681	8 585	—	(446)	(969)	19 797
Total comprehensive income		4 534	12	4 522	—	—	—	—	(691)	5 213
Profit for the year*		5 223	12	5 211						5 211
Recognised in other comprehensive income										
Re-measurements of post-employment medical benefit obligations		3		3						3
Income tax effect of re-measurements of post-employment medical benefit obligations		(1)		(1)						(1)
Foreign currency translation differences including hyperinflation effect		15		177					177	
Income tax on foreign currency translation differences including hyperinflation effect		15		(857)					(857)	
Gains on effective cash flow hedge		15		(15)					(15)	
Income tax effect of gains on effective cash flow hedge		15		4					4	
Cash flow hedging reserve transferred to receivables		(3)		(3)					(3)	
Income tax effect of cash flow hedging reserve transferred to receivables		1		1					1	
Share-based payments – value of employee services		15		64					64	
Modification of cash bonus arrangement transferred from provisions		17		9					9	
Buy-back and cancellation of ordinary shares		(1 750)		(1 750)	(10)	(1 740)				
Purchase of treasury shares		13		(142)				(142)		
Treasury shares disposed		13		6				5		1
Realisation of share-based payment reserve		15		—				29	(29)	
Conversion to stated capital		—		—	(671)	(6 845)	7 516			
Transfer from capital redemption reserve		—		—					(2)	2
Dividends distributed to shareholders		(2 981)	(12)	(2 969)						(2 969)
Restated balance at 1 July 2018		27 477	91	27 386	—	—	7 516	(554)	(1 620)	22 044
Effect of adopting IFRS 9: Financial Instruments (note 39)		(383)	(2)	(381)						(381)
Restated balance at 2 July 2018		27 094	89	27 005	—	—	7 516	(554)	(1 620)	21 663

* Restated for the change in accounting policy. Refer to note 39 for more detail.



Rm	Notes	Total equity	Non-controlling interest	Attributable to owners of the parent						
				Total	Share capital	Share premium	Stated capital	Treasury shares	Other reserves	Retained earnings
Total comprehensive income		1 498	11	1 487	—	—	—	—	(2 776)	4 263
Profit for the year		4 271	11	4 260						4 260
Recognised in other comprehensive income										
Re-measurements of post-employment medical benefit obligations		4		4						4
Income tax effect of re-measurements of post-employment medical benefit obligations		(1)		(1)						(1)
Foreign currency translation differences including hyperinflation effect	15	(2 776)		(2 776)					(2 776)	
Share-based payments – value of employee services	15	75		75					75	
Modification of cash bonus arrangement transferred from provisions	17	16		16					16	
Purchase of treasury shares	13	(115)		(115)				(115)		
Treasury shares disposed	13	13		13				14		(1)
Realisation of share-based payment reserve	15	—		—				50	(50)	
Non-controlling interest on acquisition of subsidiary		25	25	—						
Dividends distributed to shareholders		(2 429)	(11)	(2 418)						(2 418)
Balance at 30 June 2019		26 177	114	26 063	—	—	7 516	(605)	(4 355)	23 507

Company

Balance at 2 July 2017		14 047		14 047	681	8 585	—	—	2	4 779
Total comprehensive income										
Profit for the year		3 836		3 836						3 836
Buy-back and cancellation of ordinary shares		(1 750)		(1 750)	(10)	(1 740)				
Conversion to stated capital		—		—	(671)	(6 845)	7 516			
Transfer from capital redemption reserve		—		—					(2)	2
Dividends distributed to shareholders		(3 156)		(3 156)						(3 156)
Balance at 1 July 2018		12 977		12 977	—	—	7 516	—	—	5 461
Total comprehensive income										
Profit for the year		1 954		1 954						1 954
Dividends distributed to shareholders		(2 572)		(2 572)						(2 572)
Balance at 30 June 2019		12 359		12 359	—	—	7 516	—	—	4 843

Statements of cash flows

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company				Group	
2018 Rm	2019 Rm		Notes	2019 Rm	Restated* 2018 Rm
682	(617)	Cash flows from/(utilised by) operating activities		635	7 418
3 861	1 980	Operating profit		6 911	7 527
(3 814)	(1 915)	Less: investment income and finance income earned		(764)	(699)
—	—	Non-cash items	32.1	2 362	2 919
5	(2)	Changes in working capital	32.2	(3 520)	2 673
52	63	Cash generated from operations		4 989	12 420
97	65	Interest received		1 020	848
—	—	Interest paid	28	(874)	(555)
3 731	1 863	Dividends received		22	49
(3 155)	(2 573)	Dividends paid	32.3	(2 430)	(2 980)
(43)	(35)	Income tax paid	32.4	(2 092)	(2 364)
513	978	Cash flows from/(utilised by) investing activities		(4 693)	(7 355)
—	—	Investment in property, plant and equipment and intangible assets to expand operations		(3 709)	(3 720)
—	—	Investment in property, plant and equipment and intangible assets to maintain operations		(1 571)	(1 616)
—	—	Proceeds on disposal of property, plant and equipment and intangible assets		265	132
—	—	Proceeds on disposal of assets held for sale		184	121
—	—	Payments for government bonds and bills (2018: held-to-maturity investments)		(1 017)	(2 401)
—	—	Proceeds from government bonds and bills (2018: held-to-maturity investments)		1 444	490
—	—	Amounts paid to Resilient Africa (Pty) Ltd		(51)	(7)
—	—	Amounts repaid by employees		—	102
—	—	Other loans receivable (2018: loans and receivables) advanced		(437)	(430)
—	—	Cash inflows from other loans receivable (2018: loans and receivables)		204	149
(3 784)	(1 567)	Amounts paid to subsidiaries		—	—
5 262	3 040	Amounts received from subsidiaries		—	—
(965)	(495)	Investment in subsidiaries		—	—
—	—	Investment in joint venture		—	(150)
—	—	Acquisition of subsidiaries and operations		(5)	(25)
(1 750)	—	Cash flows from/(utilised by) financing activities		4 397	1 426
—	—	Purchase of treasury shares		(115)	(142)
—	—	Proceeds from treasury shares disposed		13	6
(1 750)	—	Buy-back and cancellation of ordinary shares		—	(1 750)
—	—	Repayment of borrowings		(4 271)	(7 895)
—	—	Increase in borrowings		8 770	11 207
(555)	361	Net movement in cash and cash equivalents		339	1 489
567	12	Cash and cash equivalents at the beginning of the year		3 470	2 709
—	—	Effect of exchange rate movements and hyperinflation on cash and cash equivalents		(226)	(728)
12	373	Cash and cash equivalents at the end of the year		3 583	3 470
12	373	Consisting of:			
—	—	Cash and cash equivalents	37.4.1(d)	7 707	7 465
12	373	Bank overdrafts		(4 124)	(3 995)
12	373			3 583	3 470

* Restated for the change in accounting policy. Refer to note 39 for more detail.

Notes to the annual financial statements

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below and are consistent with those applied in the previous year, except as stated in note 39.

The Group's consolidated and Company's separate financial statements were authorised for issue by the board of directors on 19 August 2019. Other than the facts in the Integrated Annual Report, there have been no material changes in the affairs or financial position of the Group and its subsidiaries from 30 June 2019 that have an impact on the financial results or disclosures in these annual financial statements.

1.1 Basis of preparation

The Group reports on the retail calendar of trading weeks which treats each financial year as an exact 52-week period, incorporating trade from Monday to Sunday each week. This treatment effectively results in the loss of a day (or two in a leap year) per calendar year. These days are brought to account approximately every six years by including a 53rd week. Accordingly the results for the financial year under review are for a 52-week period, ended 30 June 2019, compared to 52 weeks in the previous financial year.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC), and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the requirements of the South African Companies Act, 71 of 2008. The financial statements are prepared under the historical cost convention adjusted for the effects of inflation where entities operate in hyperinflationary economies and for the revaluation of certain financial instruments to fair value. The financial statements are prepared on a going concern basis.

The Angolan economy has been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position of the Group's subsidiaries in Angola have been expressed in terms of the measuring unit current at the reporting date.

1.1.1 Use of judgements, assumptions and estimates

1.1.1.1 Judgements

The preparation of the financial statements in accordance with IFRS requires management to exercise its judgement in the process of applying the Group's accounting policies. The most significant judgements in applying the Group's accounting policies relate to the following:

- a) **Classification of cash and bank balances:** Local currency cash and short-term deposits held in Angola (2018: Angola) are subject to onerous local exchange control regulations, which provide restrictions on exporting capital from the country, other than through normal dividends. In order to determine how restricted funds should be classified in the cash flow statement, it should be considered whether the restricted funds meet the definition of cash and cash equivalents or whether the funds are restricted in a manner such that the definition is not met. Significant judgement is required in this assessment. Management assessed the economic substance of the restrictions in each case by taking into consideration the facts and circumstances of the specific restrictions and how management intends to use the deposits. It was concluded that restricted funds that are available for use in the short term in Angola (2018: Angola), albeit with some restrictions over their use, still qualify to be classified as cash and cash equivalents.
- b) **Segment reporting:** IFRS 8 requires an entity to identify its operating segments. Once an entity has done that, it is required to determine its reportable segments. Reportable segments may comprise single operating segments or an aggregation of operating segments. Aggregation of one or more operating segments into a single reportable segment is permitted where certain conditions are met; the principle conditions being that the operating segments should have similar economic characteristics and the operating segments are similar in respect of the products and services offered, nature of production processes, type or class of customers, distribution methods, and regulatory environment.

The Group's management has assessed the above mentioned aggregation criteria in respect of its identified retail operating segments and believe that it has been satisfied; therefore it has elected to aggregate the segments as disclosed in note 2.

- c) **Determination of cash-generating units:** The Group has determined each store as a separate cash generating unit for impairment testing.
- d) **Use of exchange rates:** All foreign currency translations and foreign currency transactions are translated using the official exchange rate in line with the requirements of International Financial Reporting Standards and foreign exchange regulations in individual countries.
- e) **Hyperinflation:** The Group exercises judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its subsidiaries, joint arrangements and associates is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account to assess whether an economy is hyperinflationary or not. These characteristics include, but are not limited to, the following:

- The general population prefer to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- Prices are quoted in a relatively stable foreign currency;
- Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- Interest rates, wages and prices are linked to a price index; and
- The cumulative inflation rate over three years is approaching, or exceeds, 100%.

Management exercises judgement as to when a restatement of the financial statements of a Group entity becomes necessary.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.1 Use of judgements, assumptions and estimates (continued)

1.1.1.1 Judgements (continued)

e) Hyperinflation (continued)

The economy of Angola was again assessed to be hyperinflationary and hyperinflation accounting was applied for the year ended 30 June 2019. Accordingly, the results and financial positions of the Group's Angolan subsidiaries have been expressed in terms of the measuring units current at the reporting date. As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level in the current year. Differences between these comparative amounts and the current year hyperinflation adjusted equity balances are recognised in other comprehensive income.

The hyperinflation impact increased the Group's profit after tax with R777 million during the year under review.

The general price indices, as published by the National Institute of Statistics of Angola, were used in adjusting the historic cost local currency results and financial positions of the Group's Angolan subsidiaries. The general price index as at the end of the reporting period was 247.50. An average adjustment factor for the current reporting period of 1.2 (2018: 1.2) was applied to restate the results of the Angolan subsidiaries of the Group. As at 30 June 2019, the cumulative three-year inflation rate was 82.41% (2018: 102.34%).

- f) **Agent versus principal assessment of drop-shipments:** The IFRS 15 principles dictate that revenue is recognised as and when the control over goods and services is transferred to customers. The Group has assessed its drop-shipment sales which is recorded on a gross basis in terms of principal accounting and has concluded that this will continue to be recognised on a gross basis having satisfied the requirements of principal accounting under IFRS 15.

1.1.1.2 Assumptions and estimates

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. The most significant assumptions and estimates used in applying the Group's accounting policies relate to the following:

- a) **Rebates from suppliers:** Management is required to make estimates in determining the amount and timing of recognition of rebates for some transactions with suppliers. In determining the amount of volume-related allowances recognised in any period, management estimates the probability that the Group will meet contractual target volumes, based on historical and forecast performance. There is limited estimation involved in recognising income for promotional and other allowances.

Management assesses its performance against the obligations conditional on earning the income, with the income recognised either over time as the obligations are met, or at the point when all obligations are met, dependent on the contractual requirements. Rebates are recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories. Management views that the cost of inventories sold (which is inclusive of rebates) provides a consistent and complete measure of the income statement impact of the overall supplier relationships.

- b) **Impairment of assets:** The Group performs a review of loss-making stores and considers the need for the impairment of assets under these circumstances. This determination requires significant judgement. The Group evaluates amongst other things, the duration and extent of the losses, the near-term business outlook for the store, and the possible redeployment of the assets between stores. Refer to notes 3, 5 and 26.
- c) **Useful lives of assets:** In determining the depreciation and amortisation charge for property, plant and equipment and intangible assets, management applies judgement in estimating the useful lives and residual values of these different asset classes. Refer to notes 3, 5 and 21.
- d) **Income taxes:** The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide accrual for income taxes. The Group recognises liabilities for anticipated uncertain income tax positions based on estimates of potential additional taxes due. With regards to deferred income tax assets for unutilised income tax losses, judgement is also required to determine whether sufficient future taxable income will be available against which these losses can be utilised. Refer to notes 1.22 and 10.
- e) **Allowance for expected credit losses (ECL) on financial assets:** From 2 July 2018, the Group assesses on a forward-looking basis the ECL associated for all debt instruments not held at fair value through profit or loss and the Group recognises an allowance for ECL for these financial assets. The measurement of the ECL allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. The ECL allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 37.4.1.
- f) **Employee benefit accruals and provisions:** Various assumptions are applied in determining the valuations of post-employment medical benefits, share-based payment accruals and long-term employee benefits as set out in notes 1.15, 1.16, 14 and 17.

Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in a subsequent year relate to the following: income taxes; allowances for doubtful debts and employee benefit allowances.

All estimates and underlying assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances. The results of these estimates form the basis of judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any affected future periods.

1 Accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.2 Use of adjusted measures

The measures listed below are presented as management believes it to be relevant to the understanding of the Group's financial performance. These measures are used for internal performance analysis and provide additional useful information on underlying trends to equity holders. These measures are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other entities. It is not intended to be a substitute for, or superior to, measures as required by IFRS.

- a) Trading profit on the face of the statement of comprehensive income, being the Group's operating results excluding foreign exchange rate differences and income or expenditure of a capital nature.
- b) Income or expenditure of a capital nature on the face of the statement of comprehensive income, being all re-measurements excluded from the calculation of headline earnings per share in accordance with the guidance contained in SAICA Circular 4/2018: Headline Earnings. The principal items that will be included under this measure are: gains and losses on disposal and scrapping of property, plant and equipment, intangible assets and assets held for sale; impairments or reversal of impairments; any non-trading items such as gains and losses on disposal of investments, operations and subsidiaries.
- c) Interest received on the face of the statement of comprehensive income, being only interest received on call and operating bank account balances.

1.2 Consolidation and equity accounting

1.2.1 Subsidiaries

Subsidiaries are entities (including structured entities) which are, directly or indirectly, controlled by the Group. Control is established where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The nature and effect of existing rights that give the Group the current ability to direct the relevant activities of the entity are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The acquisition method is used to account for business combinations. The consideration transferred is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Acquisition-related costs are expensed as incurred. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the consideration transferred is less than the Group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

All intergroup transactions, balances and unrealised gains and losses on transactions between entities of the Group have been eliminated. When necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

1.2.2 Joint arrangements

Joint arrangements are those arrangements over which the Group exercises joint control in terms of a contractual agreement. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the rights and obligations of the parties to the arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's investments in joint ventures are accounted for using the equity method and are initially recognised at cost.

The Group's share of post-acquisition profit or loss and its share of post-acquisition movements in other comprehensive income are recognised in the statement of comprehensive income and in other comprehensive income respectively, with a corresponding adjustment to the carrying amount of the investment, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. When necessary, accounting policies applied by joint ventures have been changed to ensure consistency with the policies adopted by the Group.

1.2.3 Associates

Associates are those entities over which the Group exercises significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights of another entity. The Group's investments in associates are accounted for using the equity method and are initially recognised at cost. Investments in associates include goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of post-acquisition profit or loss and its share of post-acquisition movements in other comprehensive income are recognised in the statement of comprehensive income and in other comprehensive income respectively, with a corresponding adjustment to the carrying amount of the investment, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When necessary, accounting policies applied by associates have been changed to ensure consistency with the policies adopted by the Group.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies (continued)

1.3 Cell captive insurance contracts

The Group has entered into an insurance cell arrangement with Old Mutual, a licensed insurance company. The Group purchased shares in insurance cells within Namibia. These “cells” issue contracts that transfer significant insurance risk. The risks and rewards associated with these contracts are transferred to the company through a cell agreement.

The net profit or loss after tax is recognised in premiums earned and included in other operating income in the statement of comprehensive income. The net profit or loss after tax from insurance cell operations is the net insurance result of the investment in insurance contracts. The net result takes into account insurance premium revenue, insurance claims, salvage and recoveries, acquisition costs, reinsurance and taxes as accounted for by the insurance cell. The amounts are payable to the Group in terms of the contract subject to certain liquidity and solvency requirements of the insurance cell.

The net investment is not considered to be material and is therefore included in other receivables in the statement of financial position.

1.4 Foreign currency translation

1.4.1 Functional and presentation currency

All items in the financial statements of the Group’s subsidiaries, joint arrangements and associates are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group’s consolidated financial statements are presented in South African rand, which is Shoprite Holdings Ltd’s functional currency and the Group’s presentation currency.

1.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the average exchange rates for the relevant month. These average exchange rates approximate the spot rate at the date of the transaction. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at closing rates, are recognised in the statement of comprehensive income.

1.4.3 Foreign operations

The results and the financial position of Group subsidiaries, joint arrangements and associates which are not accounted for as entities which operate in hyperinflationary economies and that have a functional currency that is different from the presentation currency of the Group are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income presented are translated at the average exchange rates for the period presented; and
- All resulting translation differences are recognised in other comprehensive income and presented as a separate component of equity in the foreign currency translation reserve (FCTR).

The results and the financial position of Group entities which are accounted for as entities which operate in hyperinflationary economies and that have a functional currency that is different from the presentation currency of the Group are translated into the presentation currency of its immediate parent at the exchange rates ruling at the reporting date.

On consolidation, exchange rate differences arising from the translation of the net investment in foreign operations are also taken to the FCTR. The Group’s net investment in a foreign operation is equal to the equity investment plus all monetary items that are receivable from or payable to the foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future.

When a foreign operation is disposed of or sold and the Group loses control, joint control or significant influence over the foreign operation, all related exchange rate differences recognised in other comprehensive income and accumulated in equity in the FCTR are reclassified from equity to the statement of comprehensive income as part of the profit or loss on the sale of the operation. On partial disposal of a foreign subsidiary, where a change occurs in the absolute ownership percentage held by the Group and control is not lost, a proportionate share of all related exchange rate differences recognised in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. On partial disposal of a foreign joint arrangement or associate, where a change occurs in the absolute ownership percentage held by the Group and joint control or significant influence is not lost, a proportionate share of all related exchange rate differences recognised in other comprehensive income are reclassified from equity to the statement of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of the foreign subsidiary and are translated at the closing rate.



1 Accounting policies (continued)

1.5 Hyperinflation

The results and the financial position, including comparative amounts, of Group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit current at the end of the reporting period.

As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. Differences between these comparative amounts and the hyperinflation adjusted equity opening balances are recognised in other comprehensive income.

The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting period. An impairment loss is recognised in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount.

Gains or losses on the net monetary position are recognised in profit or loss and included in trading profit.

All items recognised in the statement of comprehensive income are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

At the beginning of the first period of application, the components of owners' equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised in other comprehensive income. Restated retained earnings are derived from all other amounts in the restated statement of financial position.

At the end of the first period and in the subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.

All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

1.6 Property, plant and equipment

Property, plant and equipment are tangible assets held by the Group for use in the supply of goods, rental to others or administrative purposes and are expected to be used during more than one period. All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. The historical cost includes all expenditure that is directly attributable to the acquisition of the buildings, machinery, equipment and vehicles and is depreciated on a straight-line basis, from the date it is available for use, at rates appropriate to the various classes of assets involved, taking into account the estimated useful life and residual values of the individual items. Land is not depreciated, as it has an unlimited useful life. Improvements to leasehold properties are shown at cost and written off over the shorter of the remaining period of the lease and the items' useful life.

Management determines the estimated useful lives, residual values and the related depreciation charges at acquisition and these are reviewed at each reporting date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate.

Useful lives:

Buildings	20 years
Machinery	5 to 10 years
Vehicles	5 to 10 years
Trolleys	3 years
Equipment	4 to 10 years
Computer equipment	3 to 5 years
Aircraft and its components	33 to 50 years

The cost of major refurbishments is capitalised as property, plant and equipment to the extent that it can be recovered from future use of the assets. The capitalised amounts are depreciated over the relevant write-off periods. All other repairs and maintenance are charged to the statement of comprehensive income during the period in which these are incurred.

As the functional currency of the Group's subsidiaries in Angola is a currency of a hyperinflationary economy, property, plant and equipment relating to these subsidiaries are restated by applying the change in the general price indices from the date of acquisition to the current reporting date (refer to note 1.5).

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal or scrapping of property, plant and equipment, being the difference between the net proceeds on disposal or scrapping and the carrying amount, are recognised in the statement of comprehensive income.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies (continued)

1.7 Intangible assets

1.7.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or operation at the date of acquisition. Goodwill denominated in a foreign currency is translated at closing rates. Goodwill is tested for impairment annually and whenever there is indication of impairment. Goodwill is carried at cost less accumulated impairment losses. It is not amortised, as it has an indefinite useful life. Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Each of those CGUs represents the Group's investment in a trading unit or a group of trading units. Gains and losses on the disposal of an entity that has related goodwill include the carrying amount of the related goodwill. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

1.7.2 Software, trademarks and customer relationships

Intangible assets are held by the Group for use in the supply of goods or administrative purposes and are expected to be used during more than one period. Acquired intangible assets are initially recognised at cost and intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets, other than goodwill, are subsequently measured at cost less accumulated amortisation and accumulated impairment. The cost of intangible assets includes all costs incurred to acquire the intangible assets and bring it into use and is amortised on a straight-line basis, from the date it is available for use, at rates appropriate to the various classes of intangible assets involved, taking into account the estimated useful life and residual values of the individual items.

Costs associated with implementing or maintaining intangible assets are recognised as an expense when incurred. Costs that are directly associated with the purchase and customisation of identifiable and unique intangible assets controlled by the Group, and that will probably generate future economic benefits beyond one year, are recognised as intangible assets. Direct costs include the intangible asset development employee costs and an appropriate portion of relevant overheads.

Management determines the estimated useful lives, residual values and the related amortisation charges at acquisition and these are reviewed at each reporting date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate.

Useful lives:

Software	3 to 10 years
Trademarks	16 to 20 years
Customer relationships	10 years

An intangible asset's carrying amount is written down immediately to its recoverable amount if the intangible asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal or scrapping of intangible assets, being the difference between the net proceeds on disposal or scrapping and the carrying amount, are recognised in the statement of comprehensive income.

1.8 Non-current assets held for sale

Non-current assets and/or disposal groups are classified as assets held for sale and are stated at the lower of the carrying amount and fair value less cost to sell if their carrying amount will be recovered principally through a sale transaction rather than through continued use and this sale is considered highly probable.

1.9 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to depreciation and amortisation and are tested for impairment at each reporting date. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the full carrying amount may not be recoverable. The determination of whether an asset is impaired requires significant management judgement and, amongst others, the following factors will be considered: duration and extent to which the fair value of the assets is less than its cost; industry, geographical and sector performance; changes in regional economies and operational and financing cash flows.

Where the carrying value of an asset exceeds its estimated recoverable amount, the carrying value is impaired and the asset is written down to its recoverable amount. The recoverable amount is calculated as the higher of the asset's fair value less cost to sell and the value in use. These calculations are prepared based on management's assumptions and estimates such as forecasted cash flows; management budgets and industry, regional and geographical operational and financial outlooks. For the purpose of impairment testing the assets are allocated to CGUs or a group of CGUs. CGUs are the lowest levels for which separately identifiable cash flows can be determined. The related impairment expense is charged to the statement of comprehensive income as expenditure of a capital nature.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset, other than goodwill, may no longer exist or may have decreased. If any such indication exists the Group will immediately recognise the reversal as income of a capital nature in the statement of comprehensive income. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

1 Accounting policies (continued)

1.10 Financial instruments

1.10.1 Initial recognition and measurement

Financial instruments recognised on the statement of financial position include government bonds and bills, loans receivable, trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and bank overdrafts.

Financial instruments are recognised on trade date when the Group becomes a party to the contractual provisions of the instrument. Initial recognition is measured at fair value including directly attributable transaction costs for financial instruments not measured at fair value through profit and loss. Transaction costs of financial instruments carried at fair value through profit and loss are expensed in profit or loss.

1.10.2 Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the contractual obligation is discharged, cancelled, expires or when a substantial modification of the terms occurs.

1.10.3 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.10.4 Classification and subsequent measurement

Financial assets

From 2 July 2018, the Group classifies its debt investments as subsequently measured at amortised cost.

The classification and subsequent measurement of debt investments depend on the Group's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost, using the effective interest rate method, less allowance made for impairment of these assets.

Interest income from these financial assets is calculated by applying the effective interest rate to the gross carrying amount, except for:

- purchased or originated credit-impaired financial assets. For these financial assets the Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition; and
- financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For these financial assets, the Group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

Initiation fees which are considered to be an integral part of the effective interest rate are accounted for over the shorter of the original contractual term and the actual term of the loan or credit sale using the effective interest rate.

Any gain or loss arising on derecognition, modification or impairment is recognised directly in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those financial assets changes.

The following debt investments are measured at amortised cost in terms of the Group's business model of holding these financial assets to collect solely payments of principal and interest:

- a) **Government bonds and bills:** These financial assets are non-derivative financial assets with fixed or determinable principal and interest payments and fixed maturities for which the Group intends to, hold them to maturity to collect contractual cash flows. Government bonds and bills are included under non-current assets unless it matures within 12 months after the reporting date. Interest on government bonds and bills is recognised in the statement of comprehensive income as part of other operating income.
- b) **Loans receivable:** Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. The Group holds the loans receivable with the objective to collect contractual cash flows and the contractual terms of the loans receivable are solely payments of principal and interest. These financial assets are included under current assets unless it matures later than 12 months after the reporting date. Interest on loans receivable is recognised in the statement of comprehensive income as part of other operating income.
- c) **Trade and other receivables:** Trade receivables consist mainly of amounts receivable for the sale of merchandise to franchisees, medical aid schemes, pharmacies, doctors and buying aid societies. Furthermore, the Group has entered into various instalment sale agreements for household furniture. Other receivables consist of various operational debtors such as rental and municipal deposits refundable and insurance claims receivable. Trade and other receivables are held to collect contractual cash flows and the contractual terms of the trade and other receivables are solely payments of principal and interest. Interest on trade and other receivables is recognised in the statement of comprehensive income as part of other operating income.
- d) **Cash and cash equivalents and bank overdrafts:** Cash comprises cash on hand and cash at banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Interest on cash and cash equivalents is recognised in the statement of comprehensive income as interest received from bank account balances. Bank overdrafts are disclosed separately on the face of the statement of financial position.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies (continued)

1.10 Financial instruments (continued)

1.10.4 Classification and subsequent measurement (continued)

Financial liabilities

In both the current and prior periods, financial liabilities are classified as subsequently measured at amortised cost, using the effective interest rate method. The effective interest rate amortisation is recognised in the statement of comprehensive income as finance costs.

Financial liabilities measured at amortised cost on the statement of financial position include trade and other payables, borrowings and bank overdrafts:

- e) **Borrowings:** Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Refer to note 1.19 for the Group's accounting policy with regards to the capitalisation of borrowing costs.
- f) **Trade and other payables:** Trade and other payables mainly comprise trade payables for purchase of merchandise for resale and are short-term in nature.

Non-convertible, non-participating, non-transferable no par value deferred shares, which are mandatorily acquirable on a specific date, are classified as other payables.

1.10.5 Impairment

From 2 July 2018, the Group assesses on a forward-looking basis the ECL associated for all debt instruments not held at fair value through profit or loss and the Group recognises an allowance for ECL. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group has the following types of financial assets measured at amortised cost that are subject to impairment under the ECL models:

Financial asset	ECL model applied for impairment
Loans receivable	General impairment approach
Government bonds and bills	General impairment approach
Instalment sale receivables	Simplified approach
Trade receivables	Provision matrix
Other receivables	General impairment approach
Cash and cash equivalents	General impairment approach

a) General impairment approach

The Group applies the general impairment approach to measure ECL for loans receivable and government bonds and bills. The Group assesses at the end of each reporting period whether the credit risk on a financial instrument has increased significantly since initial recognition.

In the event of a significant increase in credit risk since initial recognition, the Group recognises an allowance (or provision) for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default, or otherwise credit-impaired, are in 'stage 3'.

The measurement of ECL under the general impairment approach reflects a probability-weighted outcome, the time value of money and the best forward-looking information available to the Group. The probability-weighted outcome incorporates the probability of default, exposure at default, timing of when default is likely to occur and loss given default.

b) Simplified approach

For instalment sale receivables with a significant financing component, the Group has elected to measure the impairment allowance at an amount equal to the lifetime ECL. This policy will be applied to all instalment sale receivables.

The measurement of ECL under the simplified impairment approach reflects a probability-weighted outcome, the time value of money and the best forward-looking information available to the Group.

1 Accounting policies (continued)

1.10 Financial instruments (continued)

1.10.5 Impairment (continued)

c) Provision matrix

For trade and other receivables without a significant financing component, the Group applies the simplified approach which recognises lifetime ECL. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to such trade and other receivables and the economic environment.

The Group recognises in profit or loss, as an impairment loss or reversal, the amount of ECL (or reversal) that is required to adjust the loss allowance at the end of the reporting period. When a receivable is uncollectible, it is written off against the allowance for impairment for that receivable. Subsequent recoveries of amounts previously written off are recognised in the statement of comprehensive income.

Note 37.4.1 provides more detail on how the Group determines a significant increase in credit risk and how the expected credit loss allowance is measured.

1.11 Investments in subsidiaries and associates

The Company's investments in the ordinary shares of its subsidiaries and associates are carried at cost less impairment losses and, if denominated in foreign currencies, are translated at historical rates. Purchases and sales of these investments are recognised on the trade date at cost, including transaction costs.

1.12 Inventories

Trading inventories are stated at the lower of cost, using the weighted average cost formula, and net realisable value. The cost of merchandise is the net of: invoice price of merchandise; insurance; freight; customs duties; an appropriate allocation of distribution costs between distribution centres and stores; trade discounts; advertising and other rebates and settlement discounts. Net realisable value is the estimated selling price in the ordinary course of business.

As the functional currency of the Group's subsidiaries in Angola is the currency of a hyperinflationary economy, inventories relating to these subsidiaries is measured at the lower of the restated cost and net realisable value (refer to note 1.5).

1.13 Leases

1.13.1 Where the Group is the lessee

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Certain premises and other assets are leased. Payments made in respect of operating leases with a fixed escalation clause are charged to the statement of comprehensive income on a straight-line basis over the lease term. All other lease payments are expensed as they become due. Incentives paid to enter into a lease agreement are expensed in the statement of comprehensive income as operating lease expense over the lease term. Minimum rentals due after year-end are reflected under commitments.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense and any unamortised portion of the fixed escalation lease accrual is recognised in the statement of comprehensive income in the period in which termination takes place.

1.13.2 Where the Group is the lessor

Portions of owner-occupied properties and leased properties are leased or subleased out under operating leases. The owner-occupied properties are included in property, plant and equipment in the statement of financial position. Rental income in respect of operating leases with a fixed escalation clause is recognised on a straight-line basis over the lease term. Incentives received to enter into a lease agreement are released to the statement of comprehensive income as operating lease income over the lease term. All other rental income is recognised as it becomes due.

When an operating lease is terminated before the lease period has expired, any payment received from the lessee by way of penalty is recognised as income and any unamortised portion of the fixed escalation lease accrual is recognised in the statement of comprehensive income in the period in which termination takes place.

1.14 Stated capital

Ordinary shares, including incremental costs directly attributable to the issue of new shares, are both classified as equity.

Where entities controlled by the Group purchase the Company's shares, the consideration paid, including attributable transaction costs net of income taxes, is deducted from capital and reserves attributable to owners of the parent as treasury shares until they are sold. Where such shares are subsequently sold, any consideration received is included in capital and reserves attributable to owners of the parent. Dividends received on treasury shares are eliminated on consolidation.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies (continued)

1.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. The Group has discounted provisions to their present value where the effect of the time value of money is material. The notional interest charge representing the unwinding of the provision discounting is included in the statement of comprehensive income.

1.15.1 Onerous lease contracts

The Group recognises a provision for onerous lease contracts when the expected benefits, including subleasing income, to be derived from non-cancellable operating lease contracts are lower than the unavoidable costs of meeting the contract obligations. The unavoidable contracted costs are applied over the remaining periods of the relevant lease agreements. The notional interest charge relating to the unwinding of the provisions discounting is included in the statement of comprehensive income as finance costs.

1.15.2 Provision for outstanding insurance claims

The Group recognises a provision for the estimated direct cost of settling all outstanding claims at year-end, which includes a provision for cost of claims incurred but not yet reported (IBNR) at year-end as well as for the cost of claims reported but not yet settled at year-end. The IBNR provision is determined by using established claims patterns. Full provision is made for the cost of claims reported but not yet settled at year-end by using the best information available.

1.15.3 Long-term employee benefits

Long-term employee benefits are provided to employees who achieve certain predetermined milestones of service within the Group. The Group's obligation under these plans is valued by independent qualified actuaries at year-end and the corresponding liability is raised. Payments are set off against the liability. Movements in the liability, including notional interest, resulting from the valuation by the actuaries are charged against the statement of comprehensive income as employee benefits.

1.15.4 Reinstatement provision

Where it has a contractual obligation in respect of certain operating lease agreements, the Group provides for expected reinstatement costs to be incurred at the expiry of the lease.

1.16 Employee benefits

1.16.1 Pension obligations

The Group operates various pension schemes. The schemes are funded through payments to trustee-administered funds in accordance with the plan terms.

Provident fund

A defined-contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contributions to defined contribution plans, in respect of services rendered in a particular period, are recognised as an expense in that period. Additional contributions are recognised as an expense in the period during which the associated services are rendered by employees.

1.16.2 Post-employment medical benefits

The Group provides for post-employment medical benefits, where they exist. The expected costs of these benefits are accrued over the period of employment based on past services and charged to the statement of comprehensive income as employee benefits. This post-employment medical benefit obligation is measured at present value by discounting the estimated future cash outflows. Valuations of this obligation are carried out annually by independent qualified actuaries using the projected unit credit method. Actuarial gains or losses are recognised immediately in equity as other comprehensive income. Settlement premiums, when incurred, are recognised immediately in the statement of comprehensive income as employee benefits.

1.16.3 Cash-settled share-based payments

The Group recognises a liability for cash-settled share-based payments calculated at current fair value determined at each reporting date. The fair value is calculated using relevant pricing models. This amount is expensed through the statement of comprehensive income over the vesting periods.

1 Accounting policies (continued)

1.16 Employee benefits (continued)

1.16.4 Equity-settled share-based payments

The Group operates an equity-settled share-based compensation plan under which it receives services from employees as consideration for equity instruments of the Company. The beneficiaries under the scheme are executive directors and management. The fair value of the employee services received in exchange for the grant of shares is recognised as an expense on a straight-line basis over the vesting period, with a corresponding adjustment to the share-based payment reserve.

The total amount to be expensed is determined by reference to the fair value of the shares granted, including any market performance conditions and excluding the impact of any non-market performance vesting conditions. Non-market performance vesting conditions are included in assumptions regarding the number of shares granted that are expected to vest. At the end of each reporting period, the Group revises its estimates of the number of shares granted that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

Full share grants awarded may be settled by way of a purchase of shares in the market, use of treasury shares or issue of new shares. If new shares are issued to equity-settle full share grants, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Where shares are held or acquired by subsidiary companies for equity compensation plans, they are treated as treasury shares. Any gains or losses on vesting of such shares are recognised directly in equity.

The effect of all full share grants issued under the share-based compensation plan is taken into account when calculating diluted earnings and diluted headline earnings per share.

1.16.5 Bonus plans

The Group recognises a liability and an expense for bonuses, based on formulas that take into consideration the Group's trading profit after certain adjustments. The accrual for this liability is made where a contractual or constructive obligation exists.

1.17 Revenue from contracts with customers

Revenue from contracts with customers is recognised either over time or at a point in time, as or when the Group satisfies performance obligations and transfers control of goods or services to its customers at an amount that reflects the consideration the Group expects to be entitled to in exchange for these goods or services, allocated to each specific performance obligation. Revenue is measured at the fair value of the consideration received or receivable.

1.17.1 Sale of merchandise

The Group operates a chain of retail stores and, to a small degree, franchise stores selling products such as food, clothing, general merchandise, cosmetics, pharmaceuticals and liquor. It also sells products to franchisees under drop-shipment arrangements and operates furniture stores retailing products such as furniture, household appliances and home entertainment systems.

Revenue for the sale of merchandise from ordinary Group-operating activities, net of value added tax, rebates and discounts and after eliminating sales within the Group are recognised at a point in time, upon delivery of products and customer acceptance. Payment is usually received via cash, debit card or credit card. Related card transaction costs are recognised in the statement of comprehensive income as other expenses. When merchandise is sold under instalment sale agreements, the present value of the instalment sale payments is recognised as a receivable.

It is the Group's policy to sell goods with a right of return in terms of current consumer legislation. Such sales are cancelled where the right of return is exercised. A refund liability for the expected refunds to customers is recognised as an adjustment to revenue in trade and other payables. The accumulated experience of the Group's returns has been utilised to estimate such refund liability at the time of sale. Based on past experience it is estimated that goods returned in a saleable condition will be insignificant and therefore, the Group does not recognise an asset and a corresponding adjustment to cost of sales for its right to recover the product from the customer where the customer exercises his right of return. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

1.17.2 Layaway sales

Proceeds from layaway sales are initially recognised as contract liabilities, deferring the revenue. Revenues are recognised when the customer takes possession or forfeits the merchandise.

1.17.3 Gift vouchers and savings stamps

Proceeds from the sale of gift vouchers and saving stamps are initially recognised as contract liabilities, deferring the revenue. Revenues are recognised as sale of merchandise when the gift vouchers or savings stamps are redeemed.

Proceeds from the sale of gift vouchers and saving stamps give customers a right to receive goods or services in the future. However, customers occasionally do not exercise all of their contractual rights. The Group recognises the expected breakage amount in such contract liabilities as revenue, in proportion to the pattern of rights exercised by its customers. The accumulated experience of the Group's breakage history is utilised to estimate when it expects to be entitled to a breakage amount. The validity of this assumption and the estimated amount of breakage are reassessed at each reporting date.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies (continued)

1.17 Revenue from contracts with customers (continued)

1.17.4 Commission received

The Group acts as a payment office for the services and products provided by a variety of third parties to the Group's customers. The agent's commissions received by the Group from the third parties for the payment office service are recognised as other income. Commissions relating to third-party products are recognised when the underlying third-party payments take place. Commissions relating to third-party services are recognised based on the stage of completion by reference to services performed to date as a percentage of the total services to be performed.

1.17.5 Franchise fees received

Franchise fees received comprise fees received from franchisees and are recognised when the underlying sales, which give rise to the income, occur.

1.17.6 Financing components

Except when merchandise is sold under instalment sale agreements, the Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

1.18 Other operating income

Other operating income is recognised as follows:

1.18.1 Effective interest income

Interest income is calculated by applying the effective interest rate to the gross carrying value of financial assets except for financial assets that have subsequently become credit-impaired (or "stage 3") for which interest revenue is calculated by applying the effective interest rate to their net carrying value (i.e. gross carrying value less impairment provision). The effective interest rate calculation does not consider expected credit losses but include initiation fees as they are integral to the effective interest rate.

1.18.2 Rental income

Rental income in respect of operating leases with a fixed escalation clause is recognised on a straight-line basis over the lease term. All other rental income is recognised as it becomes due. Refer note 1.13.2.

1.18.3 Premium income

Premium income is recognised in the period it is earned. Net premiums earned are all written premiums relating to policies inception during the period less amounts that are unearned at reporting date. Refer note 1.26.2.

1.18.4 Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

1.19 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for its intended use or sale, are capitalised to the cost of that qualifying asset. The Group considers a period longer than 12 months to be a substantial period of time.

General borrowing costs are capitalised by calculating the weighted average expenditure on the qualifying asset and applying a weighted average borrowing rate to the expenditure. Specific borrowing costs are capitalised according to the borrowing costs incurred on the specific borrowing, provided the borrowing facility is utilised specifically for the qualifying asset. All other borrowing costs incurred are recognised as an expense in the statement of comprehensive income and are accrued on a time basis by reference to the principal amounts outstanding and at the interest rate applicable.

1.20 Rebates from suppliers

Consistent with standard industry practice, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. Most of the income received from suppliers relates to adjustments to a core cost price of a product, and as such is considered part of the purchase price for that product. Sometimes receipt of the income is conditional on the Group performing specified actions or satisfying certain performance conditions associated with the purchase of the product. These include achieving agreed purchases or sales volume targets and providing promotional or marketing materials and activities or promotional product positioning.

Rebates from suppliers is recognised when earned by the Group, which occurs when all obligations conditional for earning income have been discharged, and the income can be measured reliably based on the terms of the contract. The income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories.

Amounts due relating to rebates from suppliers are recognised within trade and other receivables, except in cases where the Group currently has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers, in which case only the net amount receivable or payable is recognised. Accrued rebates are recognised within accrued income when rebates earned have not been invoiced at the reporting date.

1 Accounting policies (continued)

1.21 Cost of sales

Cost of sales primarily comprises the cost of goods sold and services provided, including an allocation of direct overhead expenses, net of supplier rebates, and costs incurred that are necessary to acquire and store goods. Cost of sales also includes: the cost to distribute goods to customers where delivery is invoiced; inbound freight costs; internal transfer costs between distribution centres and stores; warehousing costs and the cost of other shipping and handling activities; and any write-downs and reversals of write-downs to inventory.

1.22 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity, in which case it will also be recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Deferred income tax is recognised, using the liability method, for calculated income tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. Management applies judgement to determine whether sufficient future taxable profit will be available after considering, amongst others, factors such as profit histories, forecasted cash flows and budgets.

Deferred income tax liabilities are recognised on taxable temporary differences arising from investments in subsidiaries, joint arrangements and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group is subject to taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide accrual for income taxes. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated uncertain income tax positions based on best informed estimates of whether additional income taxes will be due. Where the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax assets and liabilities in the period in which such determination is made.

As the functional currency of subsidiaries in Angola is a currency of a hyperinflationary economy, deferred income tax relating to these subsidiaries is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their restated carrying amounts (refer to note 1.5).

1.23 Earnings per share

Earnings and headline earnings per share are calculated by dividing the net profit attributable to owners of the parent and headline earnings respectively, by the weighted average number of ordinary shares in issue during the year, excluding the ordinary shares held by the Group as treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all ordinary shares with dilutive potential. Full share grants have dilutive potential. The full share grants are assumed to have been converted into ordinary shares. It has no effect on net profit and therefore no adjustment is made to net profit for full share grants.

Headline earnings are calculated in accordance with Circular 4/2018 issued by the South African Institute of Chartered Accountants as required by the JSE Listings Requirements.

1.24 Government grants

Government grants, being assistance by government in the form of allowances and refunds for certain expenditure, are recognised at fair value when the Group complies with the conditions attached to the grants and the grants have been received. The grants are recognised, on a systematic basis, in the statement of comprehensive income as a deduction of the related expense over the periods necessary to match them with the related costs.

1.25 Dividends distributed to shareholders

Dividends are accounted for on the date they have been declared by the Company.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies (continued)

1.26 Basis of accounting for underwriting activities

1.26.1 Classification of contracts

Insurance risk is risk other than financial risk, transferred from the holder of a contract to the issuer. The accounting policies of the Group are in accordance with the policies for recognition and measurement of short-term insurance contracts as outlined in SAICA Circular 2/2007 and IFRS 4: Insurance Contracts.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts.

An insurance risk is deemed significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. If significant additional benefits would be payable in scenarios that have commercial substance, the condition in the previous sentence may be met even if the insured event is extremely unlikely or even if the expected (i.e. probability weighted) present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.

1.26.2 Recognition and measurement of contracts

a) Premiums arising from general insurance business

Gross written premiums comprise the premiums on insurance contracts entered into during the year. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. Premiums are accounted for as income when the risk related to the insurance policy incepts.

b) Unearned premium allowance

The allowance for unearned premiums comprises the proportion of gross premiums written which relate to the unexpired period at the reporting date and is estimated to be earned in the following or subsequent financial years. The unearned premium allowance is computed separately for each insurance contract on a basis appropriate to the Group's release from insured risk, using the 365th method.

c) Claims arising from insurance business

Claims incurred in respect of insurance contracts consist of claims and claims-handling expenses paid during the financial year together with the movement in the provision for incurred but not reported claims. Provisions for incurred but not reported claims comprise provisions for claims arising from insured events that occurred before the reporting date, but which had not been reported to the Group by that date.

d) Provision for outstanding claims

Provision is made for the estimated final cost of all claims that had not been settled by the reporting date, less amounts already paid. Liabilities for unpaid claims are estimated, using the input of assessments for individual cases reported to the Group and statistical analyses, to estimate the expected cost of more complex claims that may be affected by external factors. The Group does not discount its liabilities for unpaid claims.

e) Reinsurance

The Group has evaluated its exposure to risk and determined that significant reinsurance protection is not required.

f) Liabilities and related assets under liability adequacy test

At each reporting date, liability adequacy tests are performed on the Group's insurance entities to ensure the adequacy of the contract liabilities net of related deferred acquisition cost (DAC) and any related assets (i.e. the value of business acquired assets (VOBA)). In performing these tests, current best estimates of future contractual cash flows and claims-handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC or VOBA and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

1.27 Related parties

Individuals, as well as their close family members, or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions or if the parties are jointly controlled in a joint venture. Key management personnel are defined as all directors of Shoprite Holdings Ltd and the prescribed officers of the main trading subsidiary (Shoprite Checkers (Pty) Ltd) of the Group.



1 Accounting policies (continued)

1.28 Operating segment information

An operating segment is a component of the Group that engages in business activities which may earn revenues and incur expenses and whose operating results are regularly reviewed by the Group's chief operating decision maker (this being the executive members of the Shoprite Holdings Ltd board of directors), in order to allocate resources and assess performance and for which discrete financial information is available.

Operating segments, which display similar economic characteristics and have similar products, services, customers, methods of distribution and regulatory environments are aggregated for reporting purposes.

The Group has the following four reportable segments:

1. **Supermarkets RSA** – all retail operations under the Shoprite, Checkers, Checkers Hyper and Usave brands in South Africa, retailing products such as food, clothing, general merchandise, cosmetics and liquor.
2. **Supermarkets Non-RSA** – all retail operations under the Shoprite, Checkers, Checkers Hyper, Usave and certain Hungry Lion brands outside of South Africa, retailing products such as food, clothing, general merchandise, cosmetics and liquor.
3. **Furniture** – all retail operations under the OK Furniture, OK Power Express and House & Home brands trading in RSA and Non-RSA, retailing products such as furniture, household appliances and home entertainment systems for cash or credit.
4. **Other operating segments** – all other operations not included in the above segments, trading in RSA and Non-RSA, including franchise operations and retail and wholesale of pharmaceutical products.

These segments were identified and grouped together using a combination of the products and services offered by the segments and the geographical areas in which they operate.

The amounts reported to the chief operating decision maker excludes the impact of hyperinflation (refer to note 1.5) but are measured, in all other aspects, in a manner consistent with that in the statement of comprehensive income and statement of financial position.

The Group transacts with a wide spread of customers with no single customer exceeding 10% of the Group's revenue.

1.29 Standards, interpretations and amendments that are not yet effective at 30 June 2019

The Group has considered the following new standards, interpretations and amendments to existing standards, which are relevant to the Group's operations and had been issued by the reporting date, but are not yet effective as at 30 June 2019:

Number	Title	Effective for year ending
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures	2020
Amendments to IFRS 9	Financial Instruments (Prepayment Features with Negative Compensation)	2020
IFRS 16	Leases	2020
IFRIC 23	Uncertainty Over Income Tax Treatments	2020
Various	Annual improvements to IFRS 2015 – 2017 Cycle	2020
Amendments to IAS 1 and IAS 8	Disclosure Initiative (Definition of Material)	2021
Amendments to IFRS 3	Business Combinations (Definition of a Business)	2021
IFRS 17	Insurance Contracts	2022

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

1 Accounting policies (continued)

1.29 Standards, interpretations and amendments that are not yet effective at 30 June 2019 (continued)

The Group has not early adopted any of the above. The application thereof in future financial periods is not expected to have a significant impact on the Group's reported results, financial position and cash flows, except for the standards set out hereafter.

Title of standard	IFRS 16: Leases
Nature of change	<p data-bbox="504 573 1497 674">IFRS 16 will affect primarily the accounting by lessees and will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, a right of use asset (the right to use the leased item) and a financial liability to pay rentals (lease liability) are recognised. An optional exemption exists for short-term and low-value leases.</p> <p data-bbox="504 703 1485 804">The statement of comprehensive income will also be affected because the total expense under IFRS 16 is typically higher in the earlier years of a lease and lower in later years. Additionally, the operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Where lease liabilities subject the Group to foreign currency exposure, it will result in foreign exchange rate differences.</p> <p data-bbox="504 831 1461 904">Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.</p> <p data-bbox="504 931 1477 1005">The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p>
Impact	<p data-bbox="504 1021 1485 1200">The Group has performed an extensive review of all its leasing arrangements in light of the new accounting standard. The expected impact of the IFRS 16 transition is reliant upon a number of key estimates and judgements, primarily determining the appropriate discount rates (incremental borrowing rates) and the lease period for each lease. The lease period may include future lease extension options which the Group is reasonably certain to exercise. The implementation is nearing completion and the Group estimates that, had IFRS 16 been applied in the 52 weeks ended 1 July 2018, the impact on the consolidated statement of financial position as at 1 July 2018 would have been:</p> <ul data-bbox="504 1200 1469 1352" style="list-style-type: none"> ■ Recognition of a right of use asset ranging between R15.8 billion and R16.8 billion. ■ Reclassification of R0.8 billion from non-current trade and other receivables to right of use asset. ■ Recognition of a lease liability ranging between R20.7 billion and R21.7 billion. ■ Derecognition of fixed escalation operating lease accruals and onerous lease provisions in the region of R1.4 billion. ■ Recognition of deferred income tax asset ranging between R0.8 billion and R1 billion. <p data-bbox="504 1379 1485 1503">Under IFRS 16, the straight line operating lease rental expense is replaced by depreciation of the right of use asset and interest on the lease liability. Profit after tax for the 52 weeks ended 30 June 2019 is expected to decrease between R530 million and R830 million. This includes exchange rate losses ranging between R460 million and R520 million where lease liabilities subject the Group to foreign currency exposure. Management intends to apply net investment hedge accounting to reduce this exposure.</p> <p data-bbox="504 1529 1485 1630">IFRS 16 has no impact on total cash flow for the year or cash and cash equivalents at the end of the year. It is expected that cash generated from operations will increase as operating lease rental expenses are no longer recognised as operating cash outflows. Cash outflows will instead be split between interest paid (included in operating activities) and repayments of obligations under leases (included in financing activities).</p>
Mandatory application date/ Date of adoption by Group	<p data-bbox="504 1648 1238 1671">IFRS 16 is mandatory for financial years commencing on or after 1 January 2019.</p> <p data-bbox="504 1697 1477 1800">The Group has chosen not to early adopt IFRS 16 and will apply this standard from 1 July 2019. The Group intends to apply the full retrospective transition approach to ensure year-on-year comparability of financial numbers. Comparative figures will therefore be restated as required by IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.</p>

1 Accounting policies (continued)

1.29 Standards, interpretations and amendments that are not yet effective at 30 June 2019 (continued)

Title of standard	IFRS 17: Insurance Contracts
Nature of change	<p>IFRS 17 was issued as replacement for IFRS 4: Insurance Contracts.</p> <p>IFRS 17 requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:</p> <ul style="list-style-type: none"> ■ discounted probability-weighted cash flows; ■ an explicit risk adjustment; and ■ a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. <p>The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.</p> <p>An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short-duration contracts.</p>
Impact	The Group is currently assessing the impact of IFRS 17.
Mandatory application date/ Date of adoption by Group	<p>IFRS 17 is mandatory for financial years commencing on or after 1 January 2022, subject to being adopted by the EU.</p> <p>At this stage, the Group does not intend to adopt the standard before its effective date.</p>

1.30 New standards, interpretations and amendments effective for the year ended 30 June 2019

The following new standards, interpretations and amendments to existing standards are effective for the year ended 30 June 2019:

Number	Title
Amendments to IFRS 2	Share-Based Payments
Amendments to IFRS 4	Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration

Following the adoption of IFRS 9 and IFRS 15 with effect from 2 July 2018, the Group had to change its accounting policies and make certain retrospective adjustments to the amounts recognised in the financial statements. These new standards also introduced expanded disclosure requirements and changes in presentation. The effect of the changes in accounting policies is disclosed in note 39.

The other interpretations and amendments listed above had no significant effect on the Group's operations.

1.31 Comparative figures

Where necessary, comparative figures have been restated for the change in accounting policies following the adoption of IFRS 15 and for the reclassification of certain indirect taxes receivable from financial assets to non-financial assets, with disclosure of the restatements detailed in notes 39 and 40. The Group has not disclosed the impact of the change in accounting policies on the period preceding the prior period, as the adoption of IFRS 15 had no material impact on the statement of financial position as previously reported.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

2 Operating segment information

2.1 Analysis per reportable segment

	2019						
	Supermarkets RSA Rm	Supermarkets Non-RSA Rm	Furniture Rm	Other operating segments Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
Sale of merchandise							
External	112 655	21 324	6 206	10 409	150 594	(199)	150 395
Inter-segment	4 623	34	—	—	4 657	—	4 657
	117 278	21 358	6 206	10 409	155 251	(199)	155 052
Trading profit	5 952	(265)	152	169	6 008	868	6 876
Interest income included in trading profit	39	357	320	43	759	(17)	742
Depreciation and amortisation	2 344	471	98	41	2 954	88	3 042
Total assets	39 846	15 523	4 066	3 177	62 612	2 383	64 995
	Restated* 2018						
	Supermarkets RSA Rm	Supermarkets Non-RSA Rm	Furniture Rm	Other operating segments Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
Sale of merchandise							
External	107 344	23 106	5 967	9 464	145 881	(777)	145 104
Inter-segment	4 836	57	—	1	4 894	—	4 894
	112 180	23 163	5 967	9 465	150 775	(777)	149 998
Trading profit	6 551	650	256	251	7 708	316	8 024
Interest income included in trading profit	59	245	355	34	693	(29)	664
Depreciation and amortisation	2 201	455	105	41	2 802	80	2 882
Total assets	35 008	17 260	4 199	3 077	59 544	2 303	61 847

* Restated for the change in accounting policy. Refer to note 39 for more detail.



2 Operating segment information (continued)

2.2 Geographical analysis

	2019				
	South Africa Rm	Outside South Africa Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
Sale of merchandise – external	126 371	24 223	150 594	(199)	150 395
Non-current assets ¹	18 001	4 724	22 725	2 678	25 403
	Restated* 2018				
	South Africa Rm	Outside South Africa Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
Sale of merchandise – external	120 014	25 867	145 881	(777)	145 104
Non-current assets ¹	17 567	4 889	22 456	2 612	25 068

* Restated for the change in accounting policy. Refer to note 39 for more detail.

¹ Non-current assets consist of property, plant and equipment, intangible assets and non-financial trade and other receivables.

3 Property, plant and equipment

3.1 Reconciliation of carrying values

Group Rm	Land	Buildings	Machinery, equipment and vehicles*	Leasehold improvements	Total
Carrying value at 2 July 2017	1 310	5 087	9 660	2 350	18 407
Cost	1 310	5 531	17 535	2 798	27 174
Accumulated depreciation and impairment	—	(444)	(7 875)	(448)	(8 767)
Additions	18	563	3 393	437	4 411
Transfer to assets held for sale (note 3.3)	(35)	(71)	—	(34)	(140)
Disposal	—	—	(193)	(19)	(212)
Proceeds on disposal	—	—	(110)	(22)	(132)
(Loss)/profit on disposal and scrapping	—	—	(83)	3	(80)
Depreciation	—	(80)	(2 353)	(85)	(2 518)
Impairment (note 3.4)	—	—	(32)	(23)	(55)
Reversal of impairment	—	—	6	—	6
Foreign currency translation differences including hyperinflation effect	82	256	193	788	1 319
Carrying value at 1 July 2018	1 375	5 755	10 674	3 414	21 218
Cost	1 375	6 258	19 739	4 032	31 404
Accumulated depreciation and impairment	—	(503)	(9 065)	(618)	(10 186)
Additions	319	494	3 358	655	4 826
Transfer to assets held for sale (note 3.3)	(138)	(576)	—	—	(714)
Disposal	(3)	(9)	(309)	(30)	(351)
Proceeds on disposal	(4)	(18)	(211)	(32)	(265)
Profit/(loss) on disposal and scrapping	1	9	(98)	2	(86)
Depreciation	—	(88)	(2 484)	(85)	(2 657)
Impairment (note 3.4)	—	—	(137)	(7)	(144)
Foreign currency translation differences including hyperinflation effect	(17)	(107)	(277)	(333)	(734)
Carrying value at 30 June 2019	1 536	5 469	10 825	3 614	21 444
Cost	1 536	5 978	20 730	4 241	32 485
Accumulated depreciation and impairment	—	(509)	(9 905)	(627)	(11 041)

*Includes aircraft with a carrying value of R163 million (2018: R141 million) and vehicles with a carrying value of R1.7 billion (2018: R1.4 billion).

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

3 Property, plant and equipment (continued)

3.2 Property, plant and equipment not yet in use

Included in the gross amounts of land, buildings and leasehold improvements is R1.2 billion (2018: R202.5 million) that relates to cost capitalised for assets not yet available for use. This relates mainly to buildings and leasehold properties under construction. The gross amount of property, plant and equipment not yet in use was evaluated for impairment by the directors at the reporting date.

Reconciliation of carrying values Rm	Land	Buildings	Leasehold improvements	Total
Carrying value at 2 July 2017	—	984	113	1 097
Additions	—	7	130	137
Transfer to property, plant and equipment	—	(978)	(76)	(1 054)
Foreign currency translation differences including hyperinflation effect	—	(4)	26	22
Carrying value at 1 July 2018	—	9	193	202
Additions	233	323	384	940
Transfer to property, plant and equipment	—	(3)	(57)	(60)
Foreign currency translation differences including hyperinflation effect	—	—	140	140
Carrying value at 30 June 2019	233	329	660	1 222

3.3 Transfer to assets held for sale

It is the Group's policy to invest in fixed property only when appropriate rental space is not available. Certain land and buildings in the Supermarkets RSA operating segment have been reclassified as assets held for sale as the Group periodically re-evaluates its fixed property holdings in line with this policy. The Group is currently in the process of actively seeking buyers for these properties. (Refer to note 4.)

3.4 Impairment of property, plant and equipment

The recoverable amount of all property, plant and equipment is determined based on the higher of value-in-use and fair value less cost to sell.

For impairment testing purposes, the Group has determined that each store is a separate CGU. Each CGU is tested for impairment at the reporting date to determine if any indicators of impairment have been identified. Impairment indicators include loss-making stores and stores performing below budget.

The key assumptions in the value-in-use calculations are the expected trading profit growth rates, long-term growth rates and the risk-adjusted post-tax discount rate. The post-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each country. At the reporting date, a post-tax discount rate of 11.8% was used for South Africa and for most of the countries outside South Africa it ranged from 13.0% to 16.6%, except for Mozambique and Nigeria where the discount rates ranged from 19.0% to 21.2%. At the end of the previous year, a post-tax discount rate of 11.8% was used for South Africa and for most of the countries outside South Africa it ranged from 11.9% to 15.2%, except for Angola, Mozambique and Nigeria where the discount rates ranged from 18.5% to 21.3%.

The value-in-use of each CGU is calculated based on the Group's latest budget and forecast cash flows, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives, the results of which are reviewed by management. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on long-term average growth rates, which are derived from inflation forecasts by recognised bodies. At the reporting date, a long-term average growth rate of 4.9% was used for South Africa and for most of the countries outside South Africa it ranged from 13.6% to 16.4%, except for Mozambique where a long-term average growth rate of 19.8% was used. At the end of the previous year, a long-term average growth rate of 4.9% was used for South Africa and for most of the countries outside South Africa it ranged from 11.0% to 14.0%, except for Mozambique where a long-term average growth rate of 17.0% was used.

In determining the fair value less cost to sell of affected land and buildings, cash flow projections based on projected net market-related rentals covering the next planning period were used. An average pre-tax market capitalisation rate of 7.9% (2018: 8.1%) was used for South Africa and 10.0% (2018: 8.0%) was used for countries outside South Africa.

The impairment charge in the current financial year arose in the Supermarkets RSA (R46 million), Supermarkets Non-RSA (R75 million) and Other (R3 million) (2018: Supermarkets RSA and Supermarkets Non-RSA) operating segments. This impairment was the result of a significant reduction in the future expected sales of merchandise in certain subsidiaries that own the assets, due to a weakening in the general economic conditions in which these subsidiaries operate.

Management has performed a sensitivity analysis on the key assumptions in the impairment model using reasonable possible changes in these key assumptions based on recent market movements including discount rates, sales growth, long-term growth rates and gross profit margin:

- An increase of one percentage point in the discount rates for each geographical region would increase the impairment by R108.3 million.
- A decrease of one percentage point in the long-term growth rate would increase the impairment by R16.5 million.



Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
4 Assets held for sale			
		792	161
		22	23
—	—	814	184
4.1 Reconciliation of carrying value			
		184	119
		714	140
		—	23
		(83)	(101)
		(184)	(121)
		101	20
		(1)	3
—	—	814	184

5 Intangible assets

5.1 Reconciliation of carrying values

Group Rm	Goodwill	Software	Trademarks	Customer relationships	Total
Carrying value at 2 July 2017	267	2 045	29	14	2 355
Gross amount	422	3 138	194	54	3 808
Accumulated amortisation and impairment losses	(155)	(1 093)	(165)	(40)	(1 453)
Acquisition of subsidiaries	21	—	—	—	21
Acquisition of operations	5	—	—	—	5
Additions	—	43	—	—	43
Internally generated	—	882	—	—	882
Borrowing costs capitalised (note 5.2)	—	133	—	—	133
Loss on disposal and scrapping	—	(28)	—	—	(28)
Amortisation	—	(354)	(4)	(6)	(364)
Impairment (note 5.4)	(11)	(40)	—	—	(51)
Foreign currency translation differences including hyperinflation effect	(1)	(1)	—	—	(2)
Carrying value at 1 July 2018	281	2 680	25	8	2 994
Gross amount	450	4 111	194	54	4 809
Accumulated amortisation and impairment losses	(169)	(1 431)	(169)	(46)	(1 815)
Acquisition of operations	30	—	—	—	30
Additions	—	82	—	—	82
Internally generated	—	372	—	—	372
Borrowing costs capitalised (note 5.2)	—	29	—	—	29
Loss on disposal and scrapping	—	(7)	—	—	(7)
Amortisation	—	(377)	(3)	(5)	(385)
Impairment (note 5.4)	(40)	—	—	—	(40)
Foreign currency translation differences including hyperinflation effect	—	2	—	—	2
Carrying value at 30 June 2019	271	2 781	22	3	3 077
Gross amount	425	3 462	194	54	4 135
Accumulated amortisation and impairment losses	(154)	(681)	(172)	(51)	(1 058)

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

5 Intangible assets (continued)

5.2 Borrowing costs capitalised

Borrowing costs were capitalised against qualifying items of software during the year under review. The weighted average borrowings rate was 8.48% (2018: 8.42%).

5.3 Software not yet in use

Included in the gross amount of software is R373.7 million (2018: R1.6 billion) that relates to cost capitalised for software not yet available for use. This relates mainly to the development and implementation of SAP merchandising software. The gross amount of software not yet in use was evaluated for impairment by the directors at the reporting date.

5.4 Impairment of intangible assets

5.4.1 Impairment of software

The recoverable amount of all software is determined based on the higher of value-in-use and fair value less cost to sell.

The impairment charge in the previous financial year arose in the Supermarkets RSA and Supermarkets Non-RSA operating segments. This impairment was the result of components of SAP merchandising software becoming obsolete.

5.4.2 Impairment of goodwill

Goodwill is allocated to the Group's CGUs. The recoverable amount of a CGU is determined based on the higher of value-in-use and fair value less cost to sell. These calculations use cash flow projections based on financial budgets approved by management covering five-year planning periods. Cash flows beyond these planning periods are extrapolated using an estimated growth rate of 5.0% (2018: 5.0%). This does not exceed the long term average growth rate for the business in which the CGUs operate. The following represent significant assumptions on which management based cash flow projections.

	2019 %	2018 %
Supermarket operations		
Operating margin*	4.6	5.3
Growth rate**	5.0	5.0
Pre-tax discount rate***	11.8	11.8
Other operations		
Operating margin*	2.1	2.8
Growth rate**	5.0	5.0
Pre-tax discount rate***	11.8	11.8

* Forecasted operating margin, based on budgets, relating to the specific CGUs to which goodwill is allocated. This rate does not apply to the Group as a whole.

** Weighted average sales growth rate.

*** Pre-tax discount rate applied to the cash flow projections.

These key assumptions are used for the analysis of each CGU within the geographical segment. Management determines budgeted sales growth rates and gross profit margins based on past performance and its expectations of the retail market within the relevant country or area.

The impairment charge in the current financial year arose in CGUs in the Supermarkets RSA (2018: Supermarkets Non-RSA) operating segment. This impairment was the result of a significant reduction in the future expected sales of merchandise due to a weakening in the general economic conditions in which these CGUs operate.



Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
6 Interests in subsidiaries			
8 874	9 369		
4 098	2 625		
12 972	11 994	—	—
Analysis of total interests in subsidiaries:			
8 874	9 369		
4 098	2 625		
12 972	11 994	—	—

Detail analysis of the Company's interests in subsidiaries are given in annexure A.

6.1 Amounts receivable from subsidiaries

Amounts receivable from subsidiaries of the Company are unsecured and payable on demand. Amounts owing by Shoprite Investments Ltd earn interest at an average rate of 6.50% (2018: 6.50%) during the year under review. All other amounts owing by subsidiaries are interest-free.

Amounts receivable from subsidiaries of the Company are considered to have low credit risk where they have a low risk of default and the subsidiary has a strong capacity to meet its contractual cash flow obligations in the near term. The majority of amounts receivable from subsidiaries is receivable from the Group's main trading subsidiary, Shoprite Checkers (Pty) Ltd, and Shoprite Investments Ltd which are both in good financial standing.

The maximum exposure to credit risk at the reporting date is the carrying value. None of the amounts receivable from subsidiaries are either past due or impaired.

6	6	7 Equity accounted investments		
		Associates (note 7.1)	—	—

7.1 Associates

The associates listed below have share capital consisting solely of ordinary shares, which are held directly by the Company. These are private companies and no quoted market prices are available for its shares.

		% Owned by the Group			
		2019	2018		
6	6	Resilient Africa (Pty) Ltd	39%	39%	—
—	—	Resilient Africa Managers (Pty) Ltd	39%	39%	—
6	6				—

There are no contingent liabilities relating to the Group's interests in associates.

The directors consider Resilient Africa (Pty) Ltd to be a material associate to the Group's consolidated financial statements. Resilient Africa (Pty) Ltd is incorporated in South Africa and is involved in the investment and letting of properties in Nigeria. The Group's investment in Resilient Africa (Pty) Ltd is measured using the equity method.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

		Group	
		2019 Rm	2018 Rm
7	Equity accounted investments (continued)		
7.1	Associates (continued)		
	Summary financial information of Resilient Africa (Pty) Ltd		
	Statement of financial position		
	Total assets	1 958	1 922
	Current assets	64	67
	Non-current assets	1 894	1 855
	Total liabilities	1 925	1 836
	Current liabilities	45	28
	Non-current liabilities	1 880	1 808
	Net assets	33	86
	Attributable to other owners of Resilient Africa (Pty) Ltd	(60)	(25)
	Attributable to the Shoprite Holdings Ltd Group	(38)	(16)
	Non-controlling interest	131	127
	Statement of comprehensive income		
	Revenue	149	126
	Loss for the year	(74)	(73)
	Attributable to other owners of Resilient Africa (Pty) Ltd	(46)	(44)
	Attributable to the Shoprite Holdings Ltd Group	(29)	(28)
	Non-controlling interest	1	(1)
	Other comprehensive income for the year	21	37
	Attributable to other owners of Resilient Africa (Pty) Ltd	11	18
	Attributable to the Shoprite Holdings Ltd Group	7	11
	Non-controlling interest	3	8
	Total comprehensive loss for the year	(53)	(36)
	Attributable to other owners of Resilient Africa (Pty) Ltd	(35)	(26)
	Attributable to the Shoprite Holdings Ltd Group	(22)	(17)
	Non-controlling interest	4	7
The information disclosed reflects the amounts presented in the consolidated management accounts of Resilient Africa (Pty) Ltd and not the Group's share of those amounts. The information has been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments made at the time of acquisition and modifications for differences in accounting policies.			
Reconciliation to carrying amount:			
	Net liabilities attributable to the Group at the beginning of the year	(43)	(26)
	Loss for the year attributable to the Group	(29)	(28)
	Other comprehensive income for the year attributable to the Group	7	11
	Net liabilities attributable to the Group at the end of the year	(65)	(43)
	Unrecognised share of losses at the end of the year	57	28
	Unrecognised share of other comprehensive loss at the end of the year	8	15
	Carrying amount at the end of the year	—	—
Unrecognised share of losses:			
	Unrecognised share of losses at the beginning of the year	28	—
	Unrecognised share of losses for the year	29	28
	Unrecognised share of losses at the end of the year	57	28
Unrecognised share of other comprehensive loss:			
	Unrecognised share of other comprehensive loss at the beginning of the year	15	26
	Unrecognised share of other comprehensive loss for the year	(7)	(11)
	Unrecognised share of other comprehensive loss at the end of the year	8	15

Resilient Africa Managers (Pty) Ltd is not material to the Group's consolidated financial statements and therefore no summary financial information is presented for this associate.



Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
7 Equity accounted investments (continued)			
7.2 Joint ventures			
		—	(57)
		—	150
		—	25
		—	27
		—	(2)
		—	(14)
		—	(23)
		—	(80)
		—	(1)
—	—	—	—

The joint ventures listed below have share capital consisting solely of ordinary shares, which were held directly by the Group. These are private companies and no quoted market prices are available for its shares.

% Owned by the Group		
	2019	2018
Hungry Lion Fast Foods (Pty) Ltd	0%	0%
Hungry Lion (Mauritius) Ltd	0%	50%

The Group disposed of its interest in Hungry Lion Fast Foods (Pty) Ltd on 1 July 2018. Its investment in Hungry Lion (Mauritius) Ltd has been transferred to assets held for sale during the previous year since the Group had started negotiations to dispose of this investment. The parties concluded negotiations and disposal is now subject to fulfillment of certain suspensive conditions.

8 Government bonds and bills (2018: held-to-maturity investments)			
		2 567	3 008
		433	—
		16	682
—	—	3 016	3 690
Analysis of total government bonds and bills:			
		2 516	2 090
		500	1 600
—	—	3 016	3 690
Reconciliation of movement in government bonds and bills:			
		3 690	1 311
		(133)	—
		1 017	2 401
		(1 444)	(490)
		316	191
		(321)	(160)
		804	901
		(913)	(464)
—	—	3 016	3 690

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
8 Government bonds and bills (2018: held-to-maturity investments) (continued)			
8.1 AOA, USD Index Linked, Angola Government Bonds		2 567	3 008
Gross amount		2 658	3 008
Accumulated impairment		(91)	—
<p>The AOA, USD Index Linked, Angola Government Bonds are denominated in Angola kwanza, earn interest at an average rate of 7.0% (2018: 7.0%) p.a. and mature after a period of two to three years. Accrued interest is payable bi-annually.</p>			
8.2 AOA, Angola Government Bonds		433	—
Gross amount		433	—
Accumulated impairment		—	—
<p>The AOA, Angola Government Bonds are denominated in Angola kwanza, earn interest at an average rate of 13.7% (2018: N/A) p.a. and mature after a period of two to three years. Accrued interest is payable bi-annually.</p>			
8.3 Angola Treasury Bills		16	682
Gross amount		26	682
Accumulated impairment		(10)	—
<p>The Angola Treasury Bills are denominated in Angola kwanza, earn interest at an average rate of 19.0% (2018: 22.8%) p.a. and mature within 12 months. Accrued interest is payable at maturity.</p>			
9 Loans receivable (2018: loans and receivables)			
Amounts receivable from associate (note 9.1)		1 041	990
Amounts receivable from franchisees (note 9.2)		429	334
Amounts receivable from RMB Westport Osapa (note 9.3)		201	195
Amounts receivable from Kin-Oasis Investments Ltd (note 9.4)		143	—
Other		46	30
—	—	1 860	1 549
Analysis of total loans receivable:			
Non-current		1 664	1 318
Current		196	231
—	—	1 860	1 549



Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
9 Loans receivable (2018: loans and receivables) (continued)			
9.1 Amounts receivable from associate			
Shareholder loan receivable from Resilient Africa (Pty) Ltd (note 9.1.1)		402	373
Other amounts receivable from Resilient Africa (Pty) Ltd (note 9.1.2)		639	617
		1 041	990
The Group is committed to provide a shareholder loan to Resilient Africa (Pty) Ltd to a maximum of R449 million (2018: R1.457 billion).			
9.1.1 Shareholder loan receivable from Resilient Africa (Pty) Ltd			
Gross amount		402	373
Accumulated impairment		462	433
		(60)	(60)
The shareholder loan is denominated in ZAR, earns interest at an average rate of 6.6% (2018: 6.6%) p.a. and is repayable on demand, subject to certain conditions.			
9.1.2 Other amounts receivable from Resilient Africa (Pty) Ltd			
Gross amount		639	617
Accumulated impairment		639	617
		—	—
The other loan is denominated in US dollar, earns interest at an average rate of 3.1% (2018: 3.0%) p.a. and is repayable after seven years, subject to certain conditions.			
9.2 Amounts receivable from franchisees			
Gross amount		429	334
Accumulated impairment		461	363
		(32)	(29)
The amounts are mainly denominated in ZAR, earn interest at a weighted average variable interest rate (linked to the South African prime rate) of 8.3% (2018: 10.4%) p.a. and are repayable between one and five years.			
9.3 Amounts receivable from RMB Westport Osapa			
Gross amount		201	195
Accumulated impairment		202	195
		(1)	—
The amount owing by RMB Westport Osapa is denominated in US dollar, earns interest at an average rate of 3.0% (2018: 3.0%) p.a. and is repayable after five years, subject to certain conditions.			
9.4 Amounts receivable from Kin-Oasis Investments Ltd			
Gross amount		143	—
Accumulated impairment		143	—
		—	—
The amount owing by Kin-Oasis Investments Ltd is denominated in US dollar, earns interest at an average rate of 3.0% (2018: N/A) p.a. and is repayable after seven years, subject to certain conditions.			

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company			Group	
2018 Rm	2019 Rm		2019 Rm	Restated* 2018 Rm
10 Deferred income tax				
1	2	Deferred income tax assets (note 10.1)	629	877
—	—	Deferred income tax liabilities (note 10.2)	(568)	(697)
1	2	Net deferred income tax assets	61	180
1	1	The movement in the net deferred income tax assets is as follows:	180	767
—	—	Carrying value at the beginning of the year	148	—
—	1	Amounts restated through opening retained earnings on adoption of IFRS 9	(329)	252
—	1	Charge to profit for the year	(34)	(122)
—	—	Provisions and accruals	(128)	(148)
—	—	Allowances on property, plant and equipment	19	17
—	—	Fixed escalation operating lease accruals	(124)	(4)
—	—	Allowances on intangible assets	(183)	334
—	—	Unrealised exchange rate differences	121	175
—	—	Tax losses	(1)	(858)
—	—	Charged to other comprehensive income	63	19
—	—	Foreign currency translation differences including hyperinflation effect	61	180
1	2	Carrying value at the end of the year	61	180
10.1 Deferred income tax assets				
1	2	Provisions and accruals*	1 064	930
—	—	Allowances on property, plant and equipment	(791)	(653)
—	—	Fixed escalation operating lease accruals	399	382
—	—	Allowances on intangible assets	(259)	(103)
—	—	Unrealised exchange rate differences	20	94
—	—	Tax losses	196	227
1	2		629	877
* Restated for the change in accounting policy. Refer to note 39 for more detail.				
—	—	Net taxable temporary differences to be settled after more than 12 months	(908)	(622)
1	2	Net deductible temporary differences to be recovered within 12 months	1 537	1 499
1	2		629	877
10.2 Deferred income tax liabilities				
—	—	Provisions and accruals	71	102
—	—	Allowances on property, plant and equipment	698	876
—	—	Allowances on intangible assets	3	3
—	—	Unrealised exchange rate differences	(200)	(281)
—	—	Tax losses	(4)	(3)
—	—		568	697
—	—	Net taxable temporary differences to be settled after more than 12 months	575	739
—	—	Net deductible temporary differences to be recovered within 12 months	(7)	(42)
—	—		568	697

** Certain trade and other receivables, previously classified as financial other receivables, were reclassified as non-financial prepayments and indirect taxes receivable in the current year. This mainly comprises employment tax incentives. The relevant comparative figures were restated to conform to changes in presentations made in the current year (note 40).

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company		Group	
2018 Rm	2019 Rm	2019 Rm	Restated* 2018 Rm
12 Trade and other receivables (continued)			
12.1 Trade receivables from contracts with customers			
		2 169	2 112
	Gross amount	2 288	2 251
	Accumulated impairment	(119)	(139)
	Analysis of total trade receivables:		
	Receivables from franchisees	1 440	1 029
	Gross amount	1 459	1 048
	Accumulated impairment	(19)	(19)
	Receivables from medical aid schemes, pharmacies and doctors	276	241
	Gross amount	304	267
	Accumulated impairment	(28)	(26)
	Buying aid societies and other receivables	453	842
	Gross amount*	525	936
	Accumulated impairment	(72)	(94)
* Restated for the change in accounting policy. Refer to note 39 for more detail.			
Trade receivables from contracts with customers consist mainly of amounts receivable for the sale of merchandise to franchisees, medical aid schemes, pharmacies, doctors and buying aid societies. The amounts are mainly denominated in ZAR.			
12.2 Instalment sale receivables from contracts with customers			
		1 028	1 228
	Gross amount	1 600	1 535
	Accumulated impairment (note 37.4.1(c))	(572)	(307)
The Group has entered into various instalment sale agreements for household furniture. The periods of these contracts range between one and two years and the weighted average interest rate on these receivables is 21.0% (2018: 23.2%) p.a. The amounts are mainly denominated in ZAR.			
	Instalment sale receivables expected to be recovered		
	Not later than 1 year	493	1 043
	Later than 1 year	535	185
		1 028	1 228
These amounts are reflected as current as they form part of the normal operating cycle.			
12.3 Other receivables			
		666	1 043
	Gross amount	883	1 232
	Accumulated impairment	(217)	(189)
Other receivables consist of various operational debtors such as municipal deposits refundable, insurance claims receivable and staff debtors and bursaries. The amounts are mainly denominated in ZAR.			
12.4 Amounts receivable from joint ventures			
These amounts receivable are mainly denominated in ZAR, payable on demand and earn interest at an average rate of 6.4% (2018: 5.1%) p.a.			
The maximum exposure to credit risk at the reporting date is the carrying value. No allowance for impairment has been made.			



Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
7 516	7 516	7 516	7 516

13 Stated capital and treasury shares

13.1 Stated capital

The Company converted its par value ordinary shares of 113.4 cents each to no par value ordinary shares and increased the number of authorised no par value ordinary shares from 650 000 000 to 1 300 000 000 during the previous financial year.

Authorised:
1 300 000 000 (2018: 1 300 000 000) no par value ordinary shares

Issued:
591 338 502 (2018: 591 338 502) no par value ordinary shares

Reconciliation of movement in number of ordinary shares issued:

	Number of shares	
	2019	2018
Balance at the beginning of the year	591 338 502	600 021 829
Buy-back and cancellation of ordinary shares (note 38)	—	(8 683 327)
Balance at the end of the year	591 338 502	591 338 502

Details of the beneficial shareholders holding 5% or more of the total issued shares are disclosed in Annexure B.

Treasury shares held by Shoprite Checkers (Pty) Ltd are netted off against share capital on consolidation. The net number of ordinary shares in issue for the Group are:

	Number of shares	
	2019	2018
Issued ordinary share capital	591 338 502	591 338 502
Treasury shares (note 13.2)	(36 941 101)	(36 659 642)
	554 397 401	554 678 860

The unissued ordinary shares are under the control of the directors who may issue them on such terms and conditions as they deem fit until the Company's next annual general meeting.

All shares are fully paid up.

Details of special resolutions passed by the Company and its subsidiaries during the reporting period are provided in the directors' report. Full details are provided in the notice to shareholders contained in the Integrated Annual Report.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
—	—		
13 Stated capital and treasury shares (continued)			
13.2 Treasury shares			
		36 941 101 (2018: 36 659 642) ordinary shares	605 554

Reconciliation of movement in number of treasury shares for the Group:

	Number of shares	
	2019	2018
Balance at the beginning of the year	36 659 642	36 166 544
Shares purchased during the year	630 341	689 219
Shares disposed during the year	(70 073)	(25 342)
Shares utilised for settlement of equity-settled share-based payment arrangements	(278 809)	(170 779)
Balance at the end of the year	36 941 101	36 659 642
Consisting of:		
Shares owned by Shoprite Checkers (Pty) Ltd	35 436 572	35 436 572
Shares held by Shoprite Checkers (Pty) Ltd for the benefit of participants to equity-settled share-based payment arrangements (refer to note 14.2)	1 504 529	1 223 070
	36 941 101	36 659 642

14 Share-based compensation plans

14.1 Cash-settled share-based payments

The Group has granted cash-settled share-based payments to non-executive director, CH Wiese, via a management company. The rights to cash-settled share-based payments entitle the participant to receive cash payments based on the difference between the share price at the date of the exercise of the rights and the strike price which relates to the share price at the date of the grant. The Group has recognised the liability in respect of the cash-settled share-based payments and included it in payables (refer to note 18).

Refer to note 23.1 for the expense recognised in the statement of comprehensive income as employee benefits.

There was no movement in rights to cash-settled share-based payments during the current and previous year. The rights to cash-settled share-based payments are based on 1 000 000 shares granted at a strike price of R6.50 per share. Rights to cash-settled share-based payments outstanding at year-end are currently exercisable and has an expiry date of 5 September 2022.

14.2 Equity-settled share-based payments: Incentive bonus share allocation scheme

The Group offers long-term incentives through participation in the virtual option bonus plan and a long-term incentive bonus plan. The terms and conditions of these plans are set out in the Remuneration Report contained in the Integrated Annual Report. Employees were provided with a choice to settle their unvested virtual option bonus plan and long-term incentive bonus plan benefits earned in respect of the previous year in restricted shares. As a result, the Group has granted shares to management in the form of forfeitable retention share awards. This led to a modification of a cash bonus arrangement to a share-based payment arrangement as a portion of incentive bonuses previously allocated to management in terms of the virtual option bonus and long-term incentive bonus plans has been converted to shares in Shoprite Holdings Ltd. The rights to the shares granted entitle the participants to receive Shoprite Holdings Ltd ordinary shares at a grant price determined at the fair value of a full share grant as set out below. The vesting conditions were not affected by the modification and these full share grants will therefore vest on the same dates as determined under the virtual option bonus and long-term incentive bonus plans, being in equal thirds over a three, four and five year period. Full share grants awarded under the incentive bonus share allocation scheme can be forfeited prior to vesting in the event of the participant terminating employment (apart from death and disability).

Shares granted in terms of the incentive bonus share allocation scheme meet the definition of an equity-settled share-based payment. The Group has recognised a modification of a cash bonus arrangement in respect of these long-term incentives and transferred the liability as at the modification date from provisions to the share-based payment reserve within equity (refer to note 17).



14 Share-based compensation plans (continued)

14.2 Equity-settled share-based payments: Incentive bonus share allocation scheme (continued)

The Company's main trading subsidiary, Shoprite Checkers (Pty) Ltd, purchased 630 341 (2018: 689 219) Shoprite Holdings Ltd shares in the market for the benefit of the participants in the incentive bonus share allocation scheme. The ownership of these shares vests with Shoprite Checkers (Pty) Ltd until vesting conditions are met by the participants. The participants will be entitled to the dividends and voting rights on the shares from the grant date. The vesting dates range between 30 September 2021 and 30 September 2023 and are set out below.

Refer to note 23.1 for the expense recognised in the statement of comprehensive income as employee benefits.

The fair value of full share grants awarded in terms of the incentive bonus share allocation scheme during the year was based on the closing share price of a Shoprite Holdings Ltd share as quoted on the Johannesburg Securities Exchange on the date of the grant and determined at R176.72 per share. The following assumptions were used in calculating the fair value:

	2019
Total number of full share grants awarded	630 341
Grant date	30 October 2018
Vesting date	30 September 2021 – 2023
Share price on grant date	R176.72
Exercise price	R0.00
Forfeiture rate	4.0%

Movements in the number of full share grants awarded in terms of the incentive bonus share allocation scheme:

	Weighted average price per share on date of the grant		Number of shares	
	2019	2018	2019	2018
Balance at the beginning of the year	R192.20	R171.51	1 223 070	729 972
Shares granted during the year	R176.72	R208.08	630 341	689 219
Shares vested during the year	R180.04	R169.14	(278 809)	(170 779)
Shares forfeited during the year	R191.25	R183.39	(70 073)	(25 342)
Balance at the end of the year	R188.01	R192.20	1 504 529	1 223 070

The market price of full share grants vested during the year was R188.83 (2018: R213.48) per share.

Rights to full share grants awarded to participants in terms of the incentive bonus share allocation scheme outstanding at year-end are unconditional on the following dates or immediately in the case of a deceased estate:

30 September 2018	R0.00	R179.50	—	251 735
30 September 2019	R186.76	R186.93	286 682	308 437
30 September 2020	R195.35	R195.44	344 207	369 221
30 September 2021	R189.12	R202.72	380 195	192 568
30 September 2022	R186.87	R208.08	293 966	101 109
30 September 2023	R176.72	R0.00	199 479	—
	R188.01	R192.20	1 504 529	1 223 070

Share grants held by executive directors and prescribed officers in terms of the incentive bonus share allocation scheme:

Director/ prescribed officer	Grant date	Award grant price	Vesting date	Number of shares			2019
				2018	Granted during the year	Vested during the year	
PC Engelbrecht	24/10/2017	R0.00	30/9/2018	16 955	—	(16 955)	—
PC Engelbrecht	24/10/2017	R0.00	30/9/2019	16 955	—	—	16 955
PC Engelbrecht	24/10/2017	R0.00	30/9/2020	16 963	—	—	16 963
A de Bruyn	24/10/2017	R0.00	30/9/2018	2 327	—	(2 327)	—
A de Bruyn	24/10/2017	R0.00	30/9/2019	2 327	—	—	2 327
A de Bruyn	24/10/2017	R0.00	30/9/2020	2 329	—	—	2 329
A de Bruyn	30/10/2018	R0.00	30/9/2021	—	2 290	—	2 290
A de Bruyn	30/10/2018	R0.00	30/9/2022	—	2 290	—	2 290
A de Bruyn	30/10/2018	R0.00	30/9/2023	—	2 291	—	2 291

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
15 Reserves			
5 461	4 843	23 507	22 044
—	—	(4 355)	(1 620)
5 461	4 843	19 152	20 424
15.1 Other reserves			
		149	108
		(4 504)	(1 728)
—	—	(4 355)	(1 620)

Reconciliation of carrying values of other reserves

Group Rm	Share-based payments reserve	Foreign currency translation reserve	Cash flow hedging reserve	Other
Balance at 2 July 2017	64	(1 048)	13	2
Share-based payments – value of employee services	64			
Modification of cash bonus arrangement transferred from provisions	9			
Realisation of share-based payment reserve	(29)			
Foreign currency translation differences including hyperinflation effect, net of income tax		(680)		
Group		(678)		
Equity accounted investments		(2)		
Transfer to distributable reserves				(2)
Gains on effective cash flow hedge, net of income tax			(11)	
For the year				
Gains on effective cash flow hedge			4	
Related income tax			(1)	
Reclassified to profit for the year			(19)	
Gains on effective cash flow hedge reclassified to exchange rate gains			5	
Related income tax			(2)	
Cash flow hedging reserve transferred to trade and other receivables			(3)	
Gains on effective cash flow hedge			1	
Related income tax				
Balance at 1 July 2018	108	(1 728)	—	—
Share-based payments – value of employee services	75			
Modification of cash bonus arrangement transferred from provisions	16			
Realisation of share-based payment reserve	(50)			
Foreign currency translation differences including hyperinflation effect, net of income tax		(2 776)		
Balance at 30 June 2019	149	(4 504)	—	—



Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
16 Borrowings			
Consisting of:			
		2 043	—
	ABSA Bank Ltd (note 16.2)		
	Firststrand Bank Ltd (note 16.3)	2 008	—
	Barclays Bank Mauritius Ltd (note 16.4)	991	1 359
	Standard Chartered Bank (Mauritius) Ltd (note 16.5)	1 472	1 371
	Standard Finance (Isle of Man) Ltd (note 16.6)	4 968	4 113
	Stanbic Bank Kenya Ltd (note 16.7)	84	—
	First National Bank of Namibia Ltd (note 16.8)	140	134
—	—	11 706	6 977
Analysis of total borrowings:			
	Non-current	9 044	1 371
	Current	2 662	5 606
—	—	11 706	6 977
16.1 Reconciliation of movement in liabilities arising from financing activities:			
	Carrying value at the beginning of the year	6 977	3 274
	Cash inflows	8 770	11 207
	Cash outflows	(4 271)	(7 895)
	Foreign currency translation differences including hyperinflation effect	230	391
—	—	11 706	6 977
16.2 ABSA Bank Ltd			
This loan is denominated in ZAR and unsecured. R1.00 billion is payable after 36 months and bears interest at an average rate of 8.46% p.a. The remaining balance is payable after 60 months and bears interest at an average of 8.76% p.a.			
16.3 Firststrand Bank Ltd			
This loan is denominated in ZAR and unsecured. R1.00 billion is payable after 36 months and bears interest at an average rate of 8.41% p.a. The remaining balance is payable after 60 months and bears interest at an average of 8.46% p.a.			
16.4 Barclays Bank Mauritius Ltd			
This loan is denominated in US dollar, unsecured, payable within 12 months and bears interest at an average of 3.71% (2018: 2.51%) p.a.			
16.5 Standard Chartered Bank (Mauritius) Ltd			
This loan is denominated in US dollar, unsecured, payable within 12 months and bears interest at an average of 2.92% (2018: 2.69%) p.a.			
16.6 Standard Finance (Isle of Man) Ltd			
This loan is denominated in US dollar, unsecured and payable after 36 months. R1.42 billion (2018: R1.37 billion) bears interest at a fixed rate of 3.49% p.a. and the remaining balance bears interest at a fixed rate of 4.31% (2018: an average rate of 2.76%) p.a.			
16.7 Stanbic Bank Kenya Ltd			
This loan is denominated in Kenya shilling, unsecured, payable within 36 months and bears interest at an average of 9.19% p.a.			
16.8 First National Bank of Namibia Ltd			
This loan is denominated in ZAR, unsecured, payable on demand and bears interest at an average of 9.50% (2018: 9.50%) p.a.			

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
17 Provisions			
		28	31
		18	9
		23	7
		275	248
		64	64
—	—	408	359

Reconciliation of carrying values Group Rm	Post- employment medical benefits	Onerous lease contracts	Outstanding claims	Long-term employee benefits	Reinstatement provision	Total
Balance at 2 July 2017	33	39	9	202	103	386
Additional provisions	—	2	—	122	3	127
Unused amounts reversed	—	(8)	—	(2)	(1)	(11)
Re-measurements recognised directly in other comprehensive income	(3)	—	—	—	—	(3)
Utilised during the year	(2)	(26)	(2)	(70)	(41)	(141)
Accretion of discount	3	2	—	5	—	10
Modification of cash bonus arrangement transferred to share-based payments reserve	—	—	—	(9)	—	(9)
Balance at 1 July 2018	31	9	7	248	64	359
Additional provisions	—	14	16	92	5	127
Unused amounts reversed	—	(2)	—	(6)	(4)	(12)
Re-measurements recognised directly in other comprehensive income	(4)	—	—	—	—	(4)
Utilised during the year	(2)	(3)	—	(63)	(1)	(69)
Accretion of discount	3	—	—	22	—	25
Modification of cash bonus arrangement transferred to share-based payments reserve	—	—	—	(16)	—	(16)
Foreign currency translation differences including hyperinflation effect	—	—	—	(2)	—	(2)
Balance at 30 June 2019	28	18	23	275	64	408
Analysis of total provisions:						
2018						
Non-current	31	2	—	191	40	264
Current	—	7	7	57	24	95
	31	9	7	248	64	359
2019						
Non-current	28	10	—	212	39	289
Current	—	8	23	63	25	119
	28	18	23	275	64	408
Discount rates used						
2018	10%	15%	N/A	8%	15%	
2019	10%	14%	N/A	8%	14%	



Company		Group	
2018 Rm	2019 Rm	2019 Rm	Restated* 2018 Rm
18 Trade and other payables			
—	—	13 082	12 986
13	14	3 539	3 842
—	—	512	908
—	—	1 408	1 288
—	—	393	403
—	—	—	—
—	—	193	214
—	—	8	1
—	—	170	145
—	—	39	47
—	—	151	214
13	14	19 495	20 048

* Restated for the change in accounting policy. Refer to note 39 for more detail.

18.1 Deferred shares

Authorised:

720 000 000 (2018: 720 000 000) non-convertible, non-participating, non-transferable no par value deferred shares

The Company increased the number of authorised non-convertible, non-participating, non-transferable no par value deferred shares from 360 000 000 to 720 000 000 during the previous financial year.

Issued:

305 621 601 (2018: 305 621 601) non-convertible, non-participating, non-transferable no par value deferred shares

The deferred share liability of R0.3 million (2018: R0.3 million) is included in other payables at the reporting date.

All shares are fully paid up.

In terms of the transaction agreement concluded between the Company, Thibault Square Financial Services (Pty) Ltd and Titan Premier Investments on 18 April 2019, the voting rights attached to 40 652 489 deferred shares held by Thibault Square will remain restricted whilst all the required approvals are obtained to enable the acquisition of these deferred shares as required in the Memorandum of Incorporation (MOI) of the Company. All other deferred shares carry the same voting rights as the ordinary shares.

The deferred shares are not convertible into shares of any other class, are not entitled to participate in any profits of the Company and no dividends may be declared or paid in respect of these shares. The holder of these shares is entitled to be present at any meeting of the Company and is entitled on a poll to one vote in respect of every share held.

The Company shall proportionally acquire deferred shares in relation to the extent which the shareholder disposes of his interest in ordinary shares in the Company. The Company shall acquire all issued deferred shares, should the shareholder's interest in ordinary shares become less than 10%. These shares are not listed on any stock exchange.

Subject to certain limitations, the unissued deferred share capital is under the control of the directors, who may issue it under predetermined circumstances as set out in the MOI of Shoprite Holdings Ltd. Full particulars are available for inspection at the registered office of the Company.

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

* Restated for the change in accounting policy. Refer to note 39 for more detail.



Company		Group	
2018 Rm	2019 Rm	2019 Rm	Restated* 2018 Rm
20 Revenue (continued)			
20.1 Sale of merchandise has been disaggregated as follows:			
		112 655	107 344
	Supermarkets RSA		
	Shoprite and Usave	62 602	60 665
	Checkers and Checkers Hyper	42 731	40 852
	Other	7 322	5 827
	Supermarkets Non-RSA	21 324	23 106
	Shoprite and Usave	20 138	21 970
	Checkers and Checkers Hyper	972	902
	Other	214	234
	Furniture	6 206	5 967
	RSA	4 825	4 541
	Non-RSA	1 381	1 426
	Other operating segments	10 409	9 464
	Drop-shipment sales to franchisees	5 839	5 373
	Other sales	4 570	4 091
	Total operating segments	150 594	145 881
	Hyperinflation effect	(199)	(777)
	Consolidated sale of merchandise	150 395	145 104
20.2 Commissions received			
	Commission on Computicket ticket sales	209	216
	Commission on money transfers	216	236
	Commission on third party account and insurance payments	158	133
	Other commissions received*	299	271
—	—	882	856
* Restated for the change in accounting policy. Refer to note 39 for more detail.			
20.3 Finance income			
—	—	320	355
14	13	273	215
—	—	316	191
82	52	—	—
—	—	—	15
—	—	48	44
1	—	58	59
97	65	1 015	879
20.4 Operating lease income			
The Group has entered into various operating lease agreements as the lessor of property.			
Leases on properties are contracted for periods of between 1 and 10 years (2018: 1 and 10 years). Rental comprises mainly minimum monthly payments. Rental escalations vary, but average at a rate of 7.6% (2018: 7.7%) p.a.			
20.5 Dividends received			
3 731	1 863	—	—
—	—	22	35
3 731	1 863	22	35

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
21 Depreciation and amortisation			
Property, plant and equipment		2 657	2 518
Intangible assets		385	364
		3 042	2 882
Disclosed as cost of sales		(402)	(352)
—	—	2 640	2 530
22 Operating leases			
The Group has entered into various operating lease agreements on property, plant and equipment.			
Leases on properties are contracted for periods of between 5 and 10 years (2018: 5 and 10 years) with renewal options averaging a further 2 to 20 (2018: 3 to 20) years. Rental comprises minimum monthly payments and contingent payments based on turnover levels. Turnover rentals, where applicable, average 2.06% (2018: 1.92%) of turnover. Rental escalations vary, but average at a rate of 5.99% (2018: 6.41%) p.a.			
Operating lease payments – property		4 747	4 352
Operating lease payments – equipment		202	189
		4 949	4 541
Disclosed as cost of sales		(306)	(269)
—	—	4 643	4 272
Consisting of:			
Minimum lease payments		4 536	4 175
Contingent lease payments		413	366
—	—	4 949	4 541
23 Employee benefits			
Wages, salaries and other staff benefits		12 726	11 428
Share-based payment arrangements (note 23.1)		12	85
Post-employment medical benefits		3	3
Retirement benefit contributions (note 36)		504	458
		13 245	11 974
Disclosed as cost of sales		(1 248)	(1 123)
—	—	11 997	10 851
23.1 Share-based payment arrangements			
Cash-settled share-based payments (note 14.1)		(63)	21
Equity-settled share-based payments (note 14.2)		75	64
—	—	12	85
23.2 Learnership allowances			
The Group has, during the year under review, received certain learnership allowances.			
Sector Educational Training Authorities (SETA) grants			
In terms of the SETA grant in South Africa the Group can recoup Skills Development Levies (SDLs) to the extent that training, as prescribed by SETA, is provided to its employees. The resulting reduction in SDLs is set out below. The net amount is taxed at 28% (2018: 28%).			
Mandatory grants received		19	18
Discretionary grants received		24	16
—	—	43	34



Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm

23 Employee benefits (continued)

23.3 Employment tax incentive (ETI)

The Group has, during the year under review, received an ETI allowance.

Employment tax incentive rebates

In terms of the Employment Tax Incentive Act of 2013 the Group can recoup rebates for hiring young work seekers in South Africa. The ETI rebate allowance promulgation has been extended for a further 10 years ending in 2029 and the levels of rebates was increased by an estimated 25%. The resulting reduction in employee benefit expenses is set out below.

Employment tax incentive	299	227
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24 Directors' remuneration

91	34	Executive directors		
4	6	Non-executive directors		
95	40		—	—
(91)	(34)	Less: paid by subsidiaries and joint ventures		
4	6		—	—

The only prescribed officers of the Group are listed below.

For details of equity and cash-settled share-based payment instruments issued to directors refer to note 14.

R'000	2019						2018					
	Remu- neration	Short- term perfor- mance bonus	Long- term incentive bonus ¹	Retire- ment and medical benefits	Other benefits	Total	Remu- neration	Short- term perfor- mance bonus	Long- term incentive bonus ¹	Retire- ment and medical benefits	Other benefits	Total
Executive directors and alternates												
JW Basson (retired 25/10/2017) ²	—	—	—	—	—	—	12 414	—	—	17	7 029	19 460
JAL Basson (resigned 29/6/2018)	—	—	—	—	—	—	2 468	1 679	—	153	245	4 545
M Bosman (retired 2/7/2018)	95	—	—	—	—	95	3 791	2 380	5 809	341	618	12 939
A de Bruyn (appointed 2/7/2018)	3 123	1 161	1 960	207	287	6 738	—	—	—	—	—	—
PC Engelbrecht	16 130	4 436	—	214	491	21 271	15 007	4 524	10 586	330	503	30 950
CG Goosen ³	—	—	—	—	—	—	38	—	—	12	2	52
B Harisunker	3 794	1 402	—	—	528	5 724	3 553	1 615	—	—	790	5 958
EL Nel (retired 29/6/2018) ⁴	—	—	—	—	—	—	3 708	2 035	—	—	11 271	17 014
	23 142	6 999	1 960	421	1 306	33 828	40 979	12 233	16 395	853	20 458	90 918
Prescribed officer												
A de Bruyn	—	—	—	—	—	—	2 445	1 023	2 702	173	255	6 598

¹ Long-term incentive bonuses include the grant date fair value of shares granted in terms of the incentive bonus share allocation scheme (refer to note 14.2).

The vesting of Mr M Bosman's long-term incentives in the previous year accelerated due to retirement.

² Dr Basson gave notice of his retirement as CEO on 30 September 2016. He had an agreed notice period with the Group of 12 months and therefore received a guaranteed pay until 30 September 2017. Other benefits in the previous year mainly comprised of leave day payments. He retired as vice chairman and non-executive director with effect from 25 October 2017.

³ Mr CG Goosen's role as an executive director has changed during the previous year. He has assumed the role of non-executive director with effect from 21 August 2017 and thereafter retired as non-executive director with effect from 30 October 2018.

⁴ A cash retention award of R11 million was included in Mr EL Nel's other benefits in the previous year. This award vested at retirement date.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

24 Directors' remuneration (continued)

	2019		2018	
R'000	Fees	Total	Fees	Total
Non-executive directors				
JF Basson	749	749	654	654
JJ Fouché (retired 27/2/2019)	394	394	509	509
CG Goosen (retired 30/10/2018) ^s	141	141	283	283
EC Kieswetter (resigned 6/5/2019)	653	653	484	484
AM le Roux (appointed 30/11/2018)	353	353	—	—
JA Louw (retired 30/10/2018)	262	262	731	731
ATM Mokgokong	623	623	447	447
JA Rock	603	603	509	509
CH Wiese*	1 211	1 211	751	751
SA Zinn (appointed 31/8/2018)	538	538	—	—
	5 527	5 527	4 368	4 368

³ Mr CG Goosen's role as an executive director has changed during the previous year. He has assumed the role of non-executive director with effect from 21 August 2017 and thereafter retired as non-executive director with effect from 30 October 2018.

* Paid to Grene Properties (Pty) Ltd, a company related to Dr Wiese.

Company			Group	
2018 Rm	2019 Rm		2019 Rm	2018 Rm
		25 Other operating expenses		
—	—	Advertising	2 525	2 385
—	—	Cleaning	828	740
—	—	Commission paid	809	721
—	—	Electricity and water	3 158	2 889
6	15	Fees for professional services	608	554
—	—	Motor vehicle expenses	1 139	987
—	—	Repairs and maintenance	1 761	1 647
—	—	Security services	1 596	1 581
9	14	Other expenses	2 560	2 450
15	29		14 984	13 954
—	—	Disclosed as cost of sales	(1 681)	(1 363)
15	29		13 303	12 591
		26 Items of a capital nature		
		Profit on disposal and scrapping of property (note 3)	10	—
		Profit on disposal of assets held for sale (note 4)	101	20
		Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 and note 5)	(103)	(108)
		Impairment of property, plant and equipment (note 3)	(144)	(49)
		Impairment of intangible assets (note 5)	(40)	(51)
		Insurance claims receivable	97	—
		Loss on disposal of investment in joint venture	—	(80)
		(Loss)/profit on other investing activities	(1)	22
—	—		(80)	(246)

** The majority of exempt income relates to interest and real estate income, which is ring-fenced from corporate income tax in certain countries, as well as employment tax incentives and unrealised foreign exchange gains.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

30 Earnings per share

Rm	2019		
	Gross	Income tax effect	Net
Profit attributable to owners of the parent			4 260
Profit on disposal and scrapping of property (note 3)	(10)	2	(8)
Profit on disposals of assets held for sale (note 4)	(101)	23	(78)
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 and note 5)	103	(29)	74
Impairment of property, plant and equipment (note 3)	144	(35)	109
Impairment of intangible assets (note 5)	40	—	40
Insurance claims receivable	(97)	29	(68)
Loss on other investing activities	1	—	1
Headline earnings	80	(10)	4 330

Rm	Restated* 2018		
	Gross	Income tax effect	Net
Profit attributable to owners of the parent			5 211
Profit on disposals of assets held for sale (note 4)	(20)	5	(15)
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 and note 5)	108	(29)	79
Impairment of property, plant and equipment (note 3)	49	1	50
Impairment of intangible assets (note 5)	51	(13)	38
Loss on disposal of investment in joint venture	80	(18)	62
Profit on other investing activities	(22)	5	(17)
Headline earnings	246	(49)	5 408

Number of ordinary shares	2019	Restated*
	'000	2018
– In issue	554 397	554 679
– Weighted average	554 498	556 643
– Weighted average adjusted for dilution	555 113	557 172

Reconciliation of weighted average number of ordinary shares in issue during the year:		
Weighted average number of ordinary shares	554 498	556 643
Adjustments for dilutive potential of full share grants	615	529
Weighted average number of ordinary shares for diluted earnings per share	555 113	557 172

Earnings per share*	Cents	Cents
– Basic earnings	768.2	936.0
– Diluted earnings	767.3	935.2
– Basic headline earnings	780.8	971.4
– Diluted headline earnings	779.9	970.5

* Restated for the change in accounting policy. Refer to note 39 for more detail.



Company		Group	
2018 Cents	2019 Cents	2019 Cents	Restated* 2018 Cents
31 Dividends per share			
31.1 Dividends per share paid			
324.0	279.0	279.0	324.0
205.0	156.0	156.0	205.0
529.0	435.0	435.0	529.0
31.2 Dividends per share declared			
279.0	163.0	163.0	279.0
Rm	Rm	Rm	Rm
32 Cash flow information			
32.1 Non-cash items			
		2 657	2 518
		385	364
		1	2
		(920)	(653)
		(115)	251
		(10)	—
		(101)	(20)
		103	108
		144	49
		40	51
		—	80
		71	(15)
		(63)	21
		75	64
		95	99
—	—	2 362	2 919
32.2 Changes in working capital			
—	—	(3 575)	(880)
4	(4)	180	(15)
1	2	(340)	3 551
—	—	215	17
5	(2)	(3 520)	2 673
* Restated for the change in accounting policy. Refer to note 39 for more detail.			
32.3 Dividends paid			
(7)	(8)	(11)	(10)
(3 156)	(2 572)	(2 418)	(2 969)
—	—	(11)	(12)
8	7	10	11
(3 155)	(2 573)	(2 430)	(2 980)
32.4 Income tax paid			
(5)	(1)	(361)	(428)
(39)	(40)	(1 739)	(2 376)
—	—	—	4
—	—	65	78
—	—	—	(3)
1	6	(57)	361
(43)	(35)	(2 092)	(2 364)

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
33 Contingent liabilities			
33.1 Amounts arising in the ordinary course of business relating to property transactions, uncertain tax positions and other transactions from which it is anticipated that no material liabilities will arise.			
		373	356
33.2 During 2015, the National Credit Regulator (NCR) initiated a complaint against Shoprite Investments Ltd in terms of section 136(2) of the National Credit Act, 2005 which was subsequently referred to the National Consumer Tribunal (NCT) for allegedly selling unnecessary insurance cover to pensioners and the reckless granting of credit. In its judgement dated September 2017, the NCT imposed an administrative fine on Shoprite Investments Ltd in the amount of R1 million to be paid within 30 days of their order. Shoprite Investments Ltd has lodged an appeal against the judgement and the matter is expected to be heard by the Tribunal in November 2019.			
33.3 In 2011, A.I.C Limited (the Claimant), a company registered in the Federal Republic of Nigeria issued a summons against Shoprite Checkers (Pty) Ltd and Retail Supermarkets Nigeria Ltd in the Federal High Court of Nigeria for breach of a joint venture agreement (the JV Agreement) allegedly concluded during 1998. In its judgement, on 30 November 2017, damages in the sum of US\$10 million plus interest at a rate of 10% per annum effective from the date of judgement until final liquidation of the entire sum were awarded. A notice of appeal of the judgement to the Supreme Court of Appeal was filed on 5 December 2017 and is expected to be heard in 2020.			
Based on legal advice, the Group considers it to be probable that the judgement will be in its favour and has therefore not recognised a provision in relation to this claim.			
34 Commitments			
34.1 Capital commitments			
		1 493	1 619
		—	2
		4 182	3 938
—	—	5 675	5 559
Funds to meet this expenditure will be provided from the Group's own resources and borrowings.			
34.2 Operating lease commitments			
Future minimum lease payments under non-cancellable operating leases:			
		3 727	3 443
		11 223	10 525
		4 526	4 585
		19 476	18 553
		(1 473)	(1 380)
—	—	18 003	17 173
34.3 Operating lease receivables			
Future minimum lease payments receivable under non-cancellable operating leases:			
		367	361
		532	687
		66	112
		965	1 160
		(55)	(51)
—	—	910	1 109



Company		Group	
2018 Rm	2019 Rm	2019 Rm	2018 Rm
<p>35 Borrowing powers In terms of the Memorandum of Incorporation of the Company the borrowing powers of Shoprite Holdings Ltd are unlimited.</p> <p>36 Post-employment benefits Group companies provide post-employment benefits in accordance with the local conditions and practices in the countries in which they operate.</p> <p>The Group provides retirement benefits to 68.2% (2018: 69.8%) of employees and 7.5% (2018: 8.0%) of the employees belong to national retirement plans. The monthly contributions are charged to the statement of comprehensive income.</p> <p>All company funds are defined contribution funds. All South African funds are subject to the Pension Fund Act of 1956.</p> <p>During the year under review contributions to retirement funding have been calculated as:</p>			
		504	458

37 Risk management and financial instrument disclosure

The Board is accountable for the process of risk management, establishing appropriate risk and control policies, and communicating these throughout the Group. The Group's risk management policies are designed to identify risks faced by the Group and establish appropriate controls and limits to mitigate the risk to acceptable levels. The audit and risk committee oversees how management monitors compliance with these risk and control policies.

The Group's risk management process is described in more detail in the governance section of the Integrated Annual Report. This note discloses information about the Group's capital risk management and exposure to risks from its use of financial instruments. It also discloses information about the Group's exposure to insurance risk and how it is mitigated.

37.1 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is considered to be equity as shown in the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The gearing ratio is calculated as interest-bearing borrowings divided by equity and was 44.72% (2018: 25.39%) on the reporting date.

The Group is currently maintaining a two times dividend cover based on dilutive headline earnings per share excluding the impact of hyperinflation accounting.

37.2 Fair value of financial instruments

All financial instruments measured at fair value are classified using a three-tiered fair value hierarchy that reflects the significance of the inputs used in determining the measurement. The hierarchy is as follows:

Level 1: Measurements in whole or in part are done by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Measurements are done by reference to inputs other than quoted prices that are included in level 1. These inputs are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. from derived prices).

Level 3: Measurements are done by reference to inputs that are not based on observable market data.

The table on the next page reflects the carrying amounts and fair values of financial instruments, including their levels in the fair value hierarchy, at the reporting date. It does not include inputs used to determine the fair value of financial assets and financial liabilities not measured at fair value of financial instruments classified at level 3.

All financial instruments held by the Group are measured at amortised cost. The fair value of these financial instruments is calculated using cash flows discounted at a rate based on the market related borrowings rate as indicated.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.2 Fair value of financial instruments (continued)

Group	Note	Carrying amount			Fair value				Borrowing rate used
		Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total	
Rm		2019							
Financial assets not measured at fair value									
Government bonds and bills		3 016	—	3 016	—	3 026	—	3 026	
AOA, USD Index Linked, Angola Government Bonds	8.1	2 567	—	2 567	—	2 585	—	2 585	8.2%
AOA, Angola Government Bonds	8.2	433	—	433	—	416	—	416	23.3%
Angola Treasury Bills	8.3	16	—	16	—	25	—	25	4.5%
Loans receivable		1 860	—	1 860	—	1 809	—	1 809	
Shareholder loan receivable from Resilient Africa (Pty) Ltd	9.1.1	402	—	402	—	373	—	373	7.6%
Other amounts receivable from Resilient Africa (Pty) Ltd	9.1.2	639	—	639	—	610	—	610	4.9%
Amounts receivable from franchisees	9.2	429	—	429	—	461	—	461	10.3%
Amounts receivable from RMB Westport Osapa	9.3	201	—	201	—	192	—	192	4.5%
Amounts receivable from Kin-Oasis Investments Ltd	9.4	143	—	143	—	127	—	127	5.0%
Other		46	—	46	—	46	—	46	7.6%
Instalment sale receivables*		1 028	—	1 028	—	—	1 028	1 028	
Trade receivables from contracts with customers*		2 169	—	2 169	—	—	2 169	2 169	
Other receivables excluding prepayments and taxes receivable*		666	—	666	—	—	666	666	
Amounts receivable from joint ventures*		31	—	31	—	—	31	31	
Cash and cash equivalents*		7 707	—	7 707	—	—	7 707	7 707	
Total financial assets		16 477	—	16 477	—	4 835	11 601	16 436	
* The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value due to the short-term nature of these current receivables.									
Financial liabilities not measured at fair value									
Borrowings		—	11 706	11 706	—	11 569	—	11 569	
ABSA Bank Ltd	16.2	—	2 043	2 043	—	2 022	—	2 022	8.8%
Barclays Bank Mauritius Ltd	16.4	—	991	991	—	991	—	991	4.8%
Standard Chartered Bank (Mauritius) Ltd	16.5	—	1 472	1 472	—	1 469	—	1 469	4.8%
Current borrowing from Standard Finance (Isle of Man) Ltd	16.6	—	3 550	3 550	—	3 480	—	3 480	5.4%
Non-current borrowing from Standard Finance (Isle of Man) Ltd	16.6	—	1 418	1 418	—	1 376	—	1 376	5.4%
Stanbic Bank Kenya Ltd	16.7	—	84	84	—	82	—	82	10.5%
Firststrand Bank Ltd	16.3	—	2 008	2 008	—	2 009	—	2 009	8.4%
First National Bank of Namibia Ltd	16.8	—	140	140	—	140	—	140	9.5%
Trade payables**		—	13 082	13 082	—	—	13 082	13 082	
Other payables and accruals excluding taxes payable and employee benefit accruals**		—	3 539	3 539	—	—	3 539	3 539	
Deposits and third party payments liability**		—	512	512	—	—	512	512	
Amounts owing to joint ventures**		—	8	8	—	—	8	8	
Refund liability**		—	39	39	—	—	39	39	
Contract liabilities**		—	791	791	—	—	791	791	
Bank overdrafts**		—	4 124	4 124	—	—	4 124	4 124	
Total financial liabilities		—	33 801	33 801	—	11 569	22 095	33 664	

** The carrying value approximates fair value due to the short-term nature of these current payables.



37 Risk management and financial instrument disclosure (continued)

37.2 Fair value of financial instruments (continued)

Group	Note	Carrying amount				Fair value				
		Held-to-maturity	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	Borrowing rate used
Rm		2018								
Financial assets not measured at fair value										
Held-to-maturity investments		3 690	—	—	3 690	—	3 681	—	3 681	
AOA, USD Index Linked, Angola										
Government Bonds	8.1	3 008	—	—	3 008	—	2 995	—	2 995	6.9%
Angola Treasury Bills	8.3	682	—	—	682	—	686	—	686	16.7%
Loans and receivables		—	1 549	—	1 549	—	1 418	—	1 418	
Shareholder loan receivable from Resilient Africa (Pty) Ltd	9.1.1	—	373	—	373	—	346	—	346	7.6%
Other amounts receivable from Resilient Africa (Pty) Ltd	9.1.2	—	617	—	617	—	534	—	534	6.0%
Amounts receivable from franchisees	9.2	—	334	—	334	—	334	—	334	10.4%
Amounts receivable from RMB Westport Osapa	9.3	—	195	—	195	—	174	—	174	6.0%
Other		—	30	—	30	—	30	—	30	7.6%
Instalment sale receivables*		—	1 228	—	1 228	—	—	1 228	1 228	
Trade receivables from contracts with customers*		—	2 112	—	2 112	—	—	2 112	2 112	
Other receivables excluding prepayments and taxes receivable*		—	1 043	—	1 043	—	—	1 043	1 043	
Amounts receivable from joint ventures*		—	25	—	25	—	—	25	25	
Cash and cash equivalents*		—	7 465	—	7 465	—	—	7 465	7 465	
Total financial assets		3 690	13 422	—	17 112	—	5 099	11 873	16 972	
* The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value due to the short-term nature of these current receivables.										
Financial liabilities not measured at fair value										
Borrowings		—	—	6 977	6 977	—	6 892	—	6 892	
Barclays Bank Mauritius Ltd	16.4	—	—	1 359	1 359	—	1 345	—	1 345	4.6%
Standard Chartered Bank (Mauritius) Ltd	16.5	—	—	1 371	1 371	—	1 367	—	1 367	4.6%
Current borrowing from Standard Finance (Isle of Man) Ltd	16.6	—	—	2 742	2 742	—	2 734	—	2 734	4.6%
Non-current borrowing from Standard Finance (Isle of Man) Ltd	16.6	—	—	1 371	1 371	—	1 312	—	1 312	5.3%
First National Bank of Namibia Ltd	16.8	—	—	134	134	—	134	—	134	9.5%
Trade payables**		—	—	12 986	12 986	—	—	12 986	12 986	
Other payables and accruals excluding taxes payable and employee benefit accruals**		—	—	3 842	3 842	—	—	3 842	3 842	
Deposits and third party payments liability**		—	—	908	908	—	—	908	908	
Amounts owing to joint ventures**		—	—	1	1	—	—	1	1	
Refund liability**		—	—	47	47	—	—	47	47	
Contract liabilities**		—	—	578	578	—	—	578	578	
Bank overdrafts**		—	—	3 995	3 995	—	—	3 995	3 995	
Total financial liabilities		—	—	29 334	29 334	—	6 892	22 357	29 249	

** The carrying value approximates fair value due to the short-term nature of these current payables.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.3 Offsetting of financial assets and liabilities

The table below reflects those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Group	Financial assets			Financial liabilities		
	Trade receivables	Cash and cash equivalents	Total assets	Trade payables	Bank overdrafts	Total liabilities
Rm	2019					
Gross amounts of recognised financial assets/(liabilities)	3 370	8 341	11 711	(14 283)	(4 758)	(19 041)
Gross amounts of recognised financial assets/(liabilities) offset in the statement of financial position	(1 201)	(634)	(1 835)	1 201	634	1 835
Net amounts of financial assets/(liabilities) presented in the statement of financial position	2 169	7 707	9 876	(13 082)	(4 124)	(17 206)
Related amounts not offset in the statement of financial position*						
Financial instruments	(110)	—	(110)	110	—	110
Net amounts	2 059	7 707	9 766	(12 972)	(4 124)	(17 096)
Rm	2018					
Gross amounts of recognised financial assets/(liabilities)	4 754	11 177	15 931	(15 628)	(7 707)	(23 335)
Gross amounts of recognised financial assets/(liabilities) offset in the statement of financial position	(2 642)	(3 712)	(6 354)	2 642	3 712	6 354
Net amounts of financial assets/(liabilities) presented in the statement of financial position	2 112	7 465	9 577	(12 986)	(3 995)	(16 981)
Related amounts not offset in the statement of financial position*						
Financial instruments	(112)	—	(112)	112	—	112
Net amounts	2 000	7 465	9 465	(12 874)	(3 995)	(16 869)

* For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when the counterparty fails to timeously comply with its obligations.

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange rate contracts as economic hedges, to hedge certain exposures.

Financial risk management is carried out by a central treasury department under policies approved by the Board of Directors. The treasury department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange rate risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

37.4.1 Credit risk

Credit risk is managed on a Group basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. Potential concentration of credit risk consists primarily of government bonds and bills, loans receivable, trade and other receivables, cash and cash equivalents and financial guarantee contracts.

	Group	
	2019	2018
	Rm	Rm
The following impairment losses, including reversals of impairment losses, in relation to financial assets are included in other operating expenses in the statement of comprehensive income.		
Instalment sale receivables from contracts with customers (note 12.2)	37	86
Trade receivables from contracts with customers (note 12.1)	(65)	—
Loans receivable (note 9)	3	55
Other receivables (note 12.3)	2	47
Net impairment (reversals)/losses on financial assets	(23)	188

Of the above impairment losses (including reversals) impairment reversals of R28 million (2018: R86 million impairment losses) relate to receivables arising from contracts with customers.

The Group's financial assets measured at amortised cost are subject to impairment under the ECL model. The inputs, assumptions and estimation techniques used in measuring ECL is explained below.

Measurement of ECL in terms of the general model for impairment

ECL are measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL are the discounted product of the probability of default (PD) and exposure at default (EAD).

- The PD represents the likelihood of a counterparty defaulting on its financial obligation, either over 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD).
- The Group calculates loss given default (LGD) as discounted EAD.

These three components are multiplied together. This effectively calculates the ECL which is then discounted back to the reporting date, using the original effective interest rate, and aggregated. ECL is a probability weighted outcome.

The 12-month and lifetime EADs are determined based on the probability of default, which varies by type of financial asset.

Significant increase in credit risk in terms of the general model for impairment

The Group considers financial assets subject to assessment for ECL in terms of the general model for impairment to have experienced a significant increase in credit risk (SICR) since the time of initial recognition when one or more of the following quantitative, qualitative or backstop criteria have been met. The SICR assessment happens on a bi-annual basis at a portfolio level. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the credit risk team.

Quantitative criteria

Where the counterparty has not met its minimum contractual obligations for at least one month.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

Significant increase in credit risk in terms of the general model for impairment (continued)

Qualitative criteria

The Group considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- Internal and external credit ratings;
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- Changes in general economic and/or market conditions;
- Changes in the amount of financial support available to the counterparty;
- Expected or potential breaches of covenants; and
- Expected delay in payment.

A backstop is applied if the borrower is more than 30 days past due on its contractual payments.

Measurement of ECL in terms of the simplified model

The Group has elected to apply the simplified model and measures the impairment allowance at an amount equal to lifetime ECL. This policy has been applied to all instalment sale receivables. Lifetime ECL are assessed by determining cash flows on a probability weighted basis and discounting these at the effective interest rate including initiation fees.

The probability weighted cash flows are calculated using the following:

- transition matrix and conditional probabilities; and
- payment performance for each payment state.

Measurement of ECL in terms of the provision matrix

For short-term trade receivables, e.g. trade receivables without a significant financing component, the determination of forward looking economic scenarios may be less significant given that over the credit risk exposure period a significant change in economic conditions may be unlikely, and historical loss rates might be an appropriate basis for the estimate of expected future losses. The Group has elected to apply the provision matrix for trade receivables without a significant financing component and measures the impairment allowance at an amount equal to lifetime ECL. Lifetime ECL are assessed by applying the relevant loss rates to the trade receivable balances outstanding (i.e. a trade receivable age analysis). Due to the diversity of the Group's customer base, the Group used appropriate groupings if the historical credit loss experience showed significantly different loss patterns for different customer segments.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default when the counterparty fails to make contractual payments within 90 days of when they fall due. This is fully aligned with the definition of credit-impaired assets.

The criteria for credit-impaired accounts (i.e. when the account moves to stage 3 as a result of loss events that have occurred after initial recognition) are as follows:

Receivables arising from contracts with customers:

- In duplum;
- Debt counselling accounts;
- Non-performing accounts; and
- As a backstop, accounts not included in the above categories, where no payment has been received over the last three consecutive months.

Government bonds and bills and loans receivable:

- Significant financial difficulty of the counterparty;
- Where a counterparty has not met their minimum contractual obligations; and
- The disappearance of an active market for that financial asset because of financial difficulties.

Other receivables:

Where a counterparty has not met their minimum contractual obligations for 3 consecutive months.

With regard to credit-impaired accounts, interest income is recognised by applying the effective interest rate to the amortised cost, i.e. gross carrying value less impairment provision, resulting in lower interest revenue.



37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

Curing

A credit-impaired account will cure when the customer does not meet the criteria for being a credit-impaired account. For a customer to cure a significant improvement in the customer's payment behaviour is required. Curing occurs in the following instances:

Government bonds and bills:

When the outlook on the Angolan economy, according to major rating agencies, improves from negative to being stable or positive. This typically happens when the external credit rating improves from initial recognition or the previous reporting period from a rating below BBB- to a rating between AAA and BBB-.

Loans receivable:

Where no payment has been received in the last three consecutive months, it will cure once in receipt of payment. If a loan receivable was determined to be credit-impaired, based on the significant difficulty of the counterparty, it will cure once there is clear evidence of financial stability from the counterparty.

Instalment sale receivables:

- Where no payment has been received in the last three consecutive months, it will cure once in receipt of payment.
- Accounts in debt counselling will cure when the customer is no longer in debt counselling in terms of the requirements of the National Credit Act.
- Non-performing accounts will only cure when their lifetime payment rating improves to the extent that the customer has paid 55% or more of the amounts due over the contract period. Generally, this will require a significant improvement in the customer's payment behaviour.

Trade receivables:

- In duplum accounts will cure when they no longer meet the requirements of the National Credit Act for being defined as an in duplum account.
- Where no payment has been received in the last three consecutive months, it will cure once in receipt of a payment.

Other receivables:

Where no payment has been received in the last three consecutive months, it will cure once in receipt of a payment.

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. This is usually the case when the Group's in-house collection department and external collection companies which supplement the Group's collection activities are unable to recover outstanding balances.

(a) Government bonds and bills (note 8)

The Group invests in Angola government bonds and treasury bills as part of its hedging strategy against a future foreign exchange devaluation in Angola. The majority of the government bonds are linked to the US dollar, which provides a natural hedge against US dollar short-term intergroup loans payable by the Group's subsidiaries in Angola, while the remaining government bonds and bills provide high returns.

None of the government bonds and bills are past due. The Group does not hold any collateral as security.

The table below reflects the Group's maximum exposure to credit risk on government bonds and bills at the reporting date.

Internal credit rating category	Category definition*	Basis for recognition of ECL allowance	Financial instrument class	ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm
Underperforming (stage 2)	Investments for which there is a SICR. External credit ratings deteriorated from being internally classified as performing to between A and BBB-.	Lifetime ECL	AOA, USD Index Linked, Angola Government Bonds	3.4%	2 658	(91)	2 567
			AOA, Angola Government Bonds	0.0%	433	—	433
			Angola Treasury Bills	38.5%	26	(10)	16
Total government bonds and bills					3 117	(101)	3 016

* External credit ratings published by Standard & Poor's for Angola.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(a) Government bonds and bills (note 8) (continued)

Reconciliation of loss allowance for government bonds and bills:

Group	Under-performing (stage 2) 2019 Rm
Balance at the beginning of the year as previously reported under IAS 39	—
Amounts restated through opening retained earnings on adoption of IFRS 9	133
Restated balance at the beginning of the year under IFRS 9	133
Foreign currency translation differences including hyperinflation effect	(32)
Balance at the end of the year	101

Specific assumptions and judgements applied in the calculation of ECL of government bonds and bills in terms of the general model for impairment are detailed below.

The PD represents the likelihood of the Angola Government defaulting on its financial obligation, either over 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. This calculation assumed a minimum marginal default rate of 0.01% p.a. and the cumulative PD where calibrated to achieve a smoothed monotonic increasing 15-year PD curve per risk modifier.

It is assumed that Angola will have a through the cycle (TTC) performance and therefore the Group made no macroeconomic adjustment to the ECL allowance for government bonds and bills. As all the treasury instruments are exposed to the Angola Central Bank and Government the Basel LGD of 45% was used. The PD curves are built on the credit ratings published by Standard & Poor's for Angola.

(b) Loans receivable (note 9)

The Group provides financing to trading partners, such as franchisees and certain landlords in countries outside South Africa to enable the Group to secure strategic sites as anchor tenant. Collateral held by the Group as security for these loans receivable is disclosed below.

The Group does not hold any collateral as security for the ZAR denominated shareholder loan receivable from Resilient Africa (Pty) Ltd (refer to note 9.1.1). The Group manages its credit risk by holding share pledges and cession agreements in the underlying subsidiaries of Resilient Africa (Pty) Ltd as collateral for the US dollar denominated loan receivable (refer to note 9.1.2).

RMB Westport Osapa's holding company provided a guarantee and indemnity for 50% of the loan amount which is in turn secured by a pledge of 100% of the shareholding in RMB Westport Osapa to the Group (refer to note 9.3).

Kin-Oasis Investments Ltd's holding company, Kinois Investments Ltd, provided a guarantee and indemnity for 100% of all present and future payment obligations and liabilities which is in turn secured by a pledge of 60% of the shareholding in Kin-Oasis Investments Ltd to the Group (refer to note 9.4).

Amounts receivable from franchisees relate to a wide-spread number of franchisees which are individually insignificant. The credit history of all franchisees are verified with an external credit bureau. Notarial and mortgage bonds and bank guarantees to the value of R525 million (2018: R384 million) are held as collateral for these amounts. Amounts are due within 30 days of statement date and the age analysis of these amounts are reviewed on a monthly basis.



37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(b) Loans receivable (note 9) (continued)

The table below reflects the Group's maximum exposure to credit risk on loans receivable at the reporting date.

Internal credit rating category	Category definition	Basis for recognition of ECL allowance	Financial instrument class	ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm
Performing (stage 1)	Counterparty has a low risk of default and a strong capacity to meet contractual cash flows.	12-month ECL	Shareholder loan receivable from Resilient Africa (Pty) Ltd	13.0%	462	(60)	402
			Other amounts receivable from Resilient Africa (Pty) Ltd	0.0%	639	—	639
			Amounts receivable from franchisees	0.0%	192	—	192
			Amounts receivable from RMB Westport Osapa	0.5%	202	(1)	201
			Amounts receivable from Kin-Oasis Investments Ltd	0.0%	143	—	143
			Other	0.0%	46	—	46
Underperforming (stage 2)	Loans for which there is a SICR. A SICR is presumed if interest and/or principal repayments are 30 days past due.	Lifetime ECL	Amounts receivable from franchisees	0.0%	23	—	23
Non-performing (stage 3)	Interest and/or principal repayments are 60 days past due.	Lifetime ECL	Amounts receivable from franchisees	13.0%	246	(32)	214
Total loans receivable					1 953	(93)	1 860

Reconciliation of loss allowance for loans receivable:

Group	Performing (stage 1)	Non-performing (stage 3)	Total loans receivable	Total loans receivable
Rm			2019	2018
Balance at the beginning of the year as previously reported under IAS 39	60	29	89	34
Amounts restated through opening retained earnings on adoption of IFRS 9	1	—	1	—
Restated balance at the beginning of the year under IFRS 9	61	29	90	—
New financial assets originated or purchased during the year	—	3	3	—
Increase in loss allowance recognised in profit or loss during the year	—	—	—	55
Balance at the end of the year	61	32	93	89

Specific assumptions and judgements applied in the calculation of ECL of loans receivable in terms of the general model for impairment are detailed below.

The PD represents the likelihood of the counterparty defaulting on its financial obligation, either over 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. Global Corporate Average Cumulative Default Rates With Rating Modifiers (1981 – 2016) (%) as published on 13 April 2017 by Standard and Poor's for corporate exposures are used as input to these calculations. The rating is then adjusted to represent the appropriate risk appetite for a specific instrument.

There was no significant increase in credit risk of the Group's loans receivable, and the loss allowance recognised during the year was therefore limited to 12-month expected losses.

The Group has performed historical analyses and identified certain macroeconomic variables correlating with credit losses. Macroeconomic variables used for financial assets at amortised cost include G7 real GDP growth, total unemployment rate (both formal and informal), prime overdraft rate, rand/dollar exchange rate and inflation rate.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(c) Trade and other receivables

Instalment sale receivables from contracts with customers (note 12.2)

Instalment sale receivables comprise a wide-spread client base and external credit checks are made to ensure that all instalment sale clients have an appropriate credit history.

The Group's instalment sale receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. These receivables contain a significant financing component with terms of business varying from 12 to 30 months. The Group has developed advanced credit-granting systems to properly assess the creditworthiness of its customers.

Credit granting:

The credit underwriting process flows through the following stages:

- (i) **Credit scoring:** This involves the gathering of appropriate information from the client, use of credit bureaus and third parties such as employers. These input variables are run through the various credit scorecards. In assessing applications for credit, strict affordability criteria are applied together with in-house developed scorecards based on credit bureau data. Industry-wide fraud detection tools are used to identify potentially fraudulent applications. The Group deals with its new customers and existing customers differently when credit scoring takes place.

Customer acquisition takes into account the risk level, repurchase propensity and profitability of new customers. Behaviour scorecards are used to determine credit extension to good-paying customers, to drive repurchase rates and repeat loans, and reduce average bad debt. These scorecards are regularly reviewed and upgraded to ensure the Group's credit policy remains in line with an acceptable level of risk for repeat business.

- (ii) **Assessing client affordability:** This process involves collecting information regarding the customer's income levels, expenses and current debt obligations. The Group has its own priority expense model based on surveys conducted with customers in addition to the National Credit Regulator's expense table. The following factors are then taken into consideration to conclude on the affordability of each customer:

- Assessing existing financial means and prospects
- Assessing existing financial obligations
- Assessing debt repayment history
- Ignoring credit agreements that will be substituted

The total cost of credit is disclosed to the consumer.

- (iii) **Determining the credit limit for the customer:** The customer's risk score determined by the scorecard together with the expense assessment and outstanding obligations are used to calculate a credit limit within the customer's affordability level.

The credit granting systems enable the Group to determine its appetite for risk. In determining the acceptable level of risk, the potential loss is weighed up against the revenue potential using the predictive behavioural models inherent in the credit-granting system. The Group monitors any variances from the level of risk that has been adopted and adjusts the credit-granting process on a regular basis.

The Group manages its risk effectively by assessing the customer's ability to service the proposed monthly instalment.

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Instalment sale receivables from contracts with customers (note 12.2) (continued)

Contractual arrears:

Contractual arrears are calculated by reference to the actual arrears in terms of the originally signed agreement. The key aspect of the arrear calculation is the Group's policy not to reschedule arrears nor to amend the terms of the original contract.

From the onset of the agreement, contractual arrears are calculated by comparing payments made life to date with the originally calculated instalments due life to date, causing a customer who is paying less than the required contracted instalment to immediately fall into arrears. Once the customer exceeds the term of the agreement by paying less than the required contracted instalments, the full balance owing will be in arrears. The Group does not consider arrears the leading indicator, but rather payment ratings for the reasons mentioned above.

The table below reflects the Group's maximum exposure to credit risk on instalment sale receivables as well as the ECL allowance and contractual arrears per customer grouping at the reporting date.

Analysis of instalment sale receivables at 30 June 2019	Total number of customers	Gross carrying value	ECL allowance	ECL allowance	Total arrears	Number of instalments in arrears		
						1	2	>2
Customer grouping		Rm	Rm	%	Rm	Rm	Rm	Rm
Satisfactory paid Customers who have paid 70% or more of amounts due over the contract period.	162 137 59.9%	791 49.4%	136 23.8%	17.2%	76	33	17	26
Slow payers Customers who have paid 55% to 69% of amounts due over the contract period.	36 935 13.6%	236 14.8%	72 12.6%	30.5%	95	14	13	68
Non-performing accounts Customers who have paid less than 55% of amounts due over the contract period.	71 876 26.5%	573 35.8%	364 63.6%	63.5%	360	16	14	330
Total instalment sale receivables	270 948	1 600	572	35.8%	531	63	44	424

Analysis of credit-impaired instalment sale receivables included in the table above	Non-performing accounts	In duplum		Debt counselling		No payment in 3 consecutive months		Total
		Satisfactory paid	Slow payers	Satisfactory paid	Slow payers	Satisfactory paid	Slow payers	
Credit-impaired categories	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Gross carrying value	573	9	69	21	18	15	35	740
ECL allowance	(364)	(3)	(31)	(4)	(9)	(2)	(19)	(432)
Amortised cost	209	6	38	17	9	13	16	308

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Instalment sale receivables from contracts with customers (note 12.2) (continued)

The table below reflects the Group's maximum exposure to credit risk on instalment sale receivables as well as the ECL allowance and contractual arrears per customer grouping at the date of initial application of IFRS 9.

Analysis of instalment sale receivables at 2 July 2018	Total number of customers	Gross carrying value	ECL allowance	ECL allowance	Total arrears	Number of instalments in arrears		
						1	2	>2
Customer grouping		Rm	Rm	%	Rm	Rm	Rm	Rm
Satisfactory paid	206 139	825	147	17.8%	84	38	19	27
Customers who have paid 70% or more of amounts due over the contract period.	65.4%	53.7%	23.6%					
Slow payers	39 044	247	118	47.8%	93	14	13	66
Customers who have paid 55% to 69% of amounts due over the contract period.	12.4%	16.1%	18.9%					
Non-performing accounts	70 146	463	358	77.3%	316	19	15	282
Customers who have paid less than 55% of amounts due over the contract period.	22.2%	30.2%	57.5%					
Total instalment sale receivables	315 329	1 535	623	40.6%	493	71	47	375

Analysis of credit-impaired instalment sale receivables included in the table above	Non-performing accounts	In duplum		Debt counselling		No payment in 3 consecutive months		Total
		Satisfactory paid	Slow payers	Satisfactory paid	Slow payers	Satisfactory paid	Slow payers	
Credit-impaired categories	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Gross carrying value	463	7	48	22	19	16	33	608
ECL allowance	(358)	(2)	(22)	(4)	(9)	(2)	(19)	(416)
Amortised cost	105	5	26	18	10	14	14	192

Reconciliation of loss allowance for instalment sale receivables:

Group	Accounts not credit-impaired	Credit-impaired accounts	Total instalment sale receivables	Total instalment sale receivables
Rm	2019		2018	
Balance at the beginning of the year as previously reported under IAS 39	182	125	307	336
Amounts restated through opening retained earnings on adoption of IFRS 9	25	291	316	—
Restated balance at the beginning of the year under IFRS 9	207	416	623	—
New financial assets originated or purchased during the year	128	210	338	—
Individual financial assets transferred to non-performing (credit-impaired financial assets)	(193)	193	—	—
Amounts recovered during the year	—	(301)	(301)	—
Increase in loss allowance recognised in profit or loss during the previous year	—	—	—	110
Amounts written off during the year as uncollectible	—	(83)	(83)	(115)
Unused amounts reversed	—	—	—	(24)
Foreign currency translation differences including hyperinflation effect	(2)	(3)	(5)	—
Balance at the end of the year	140	432	572	307



37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Instalment sale receivables from contracts with customers (note 12.2) (continued)

Specific assumptions and judgements applied in the calculation of ECL of instalment sale receivables in terms of the simplified approach for impairment are detailed below.

Probability weighted cash flows:

The expected credit loss is a probability weighted estimate and represents the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows the Group expects to receive, discounted at the original effective interest rate including initiation fees.

The probability weighted cash flows are calculated using the debtor book population's payment behaviour in combination with a transition matrix. The transition matrix and payment performance for each payment state has been developed utilising customer payment history. The transition matrix predicts the population's payment behaviour and probability of the account being in a particular payment state and transitioning into future payment states. The key states in the transitional matrix are the customer's lifetime payment rating, age of the account and contractual term. The lifetime payment rating measures the customer's actual payments received over the lifetime of the account relative to the contractual instalments due.

For modelling purposes, cash flows are forecast on an individual customer level and aggregated over all the customer's sub-accounts until the account is settled or written off. For each contractual term, lifetime payment rating and age, the transitional matrix maps the probability of an account transitioning into future lifetime payment ratings for the remaining months on book.

The payment performance for each payment state is calculated using the actual payment history for each payment rating over the last five years to ensure the recency of the impairment model as required by IFRS 9.

Economic overlay:

An economic overlay has been developed by performing a regression analysis between key economic variables with reference to the non-performing category over a five-year period (customers who have paid less than 55% of amounts due over the contract period). The following economic variables were identified as having statistical significance:

- Consumer Price Index
- Prime overdraft rate
- Unemployment rate

Middle, high and low scenarios using the economic variables above is determined and a weighted average scenario prepared. This is compared to the base position and an appropriate adjustment is made to the whole trade receivables book.

The three scenarios project the future impact of the economic variables on the impairment provision. Management has assigned a probability of 20% to the low scenario, 60% to the middle scenario and 20% to the high scenario for the 12-month forecast for South Africa.

	South Africa	
Impact of forward looking information on ECL:	Rm	% change
Probability weighted impact of all three scenarios	255	
100% low scenario	232	(2%)
100% middle scenario	290	22%
100% high scenario	251	6%

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Trade receivables from contracts with customers (note 12.1)

Sales to retail customers are settled in cash or using debit and credit cards. Except for the total exposure represented by the respective statement of financial position items, the Group has no other significant concentration of credit risk.

The Group has policies in place to ensure that all sales of goods and services on credit are made to customers with an appropriate credit history. Balances are due within 30 days of statement date and the age analysis of these amounts are reviewed on a monthly basis. Franchisees comprise a wide-spread client base and the credit history of all franchisees are verified with an external credit bureau. Notarial and mortgage bonds and bank guarantees to the value of R1.1 billion (2018: R1.2 billion) are held as collateral for these amounts. Long standing trading relationships exist with the buying aid societies and the Group reviews the credit history of these societies, based on its own records as well as information from an external credit bureau, on a cyclical basis. Based on this the Group considers the credit quality of all fully performing amounts as satisfactory.

The Group applies a simplified approach to measure the loss allowance for trade receivables classified at amortised cost, using the lifetime ECL. The ECL on trade receivables are estimated using a provision matrix. The behavioural matrix looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the contracts. The behavioural matrix is based on historically observed data and is assumed to be the same across all assets within a portfolio and credit band. This is supported by historical analysis. The following table details the risk profile of trade receivables at the reporting date and at 2 July 2018, on adoption of IFRS 9, based on the Group's provision matrix.

Rm		Trade receivables – days past due				
As at 30 June 2019	Current	31 – 60 days past due	61 – 90 days past due	91 – 120 days past due	More than 120 days past due	Total
Gross carrying amount	1 631	311	103	81	162	2 288
Lifetime ECL	(13)	(5)	(20)	(17)	(64)	(119)
Net carrying amount	1 618	306	83	64	98	2 169
Expected credit loss rate	0.8%	1.6%	19.4%	21.0%	39.5%	5.2%

Rm		Trade receivables – days past due				
As at 2 July 2018	Current	31 – 60 days past due	61 – 90 days past due	91 – 120 days past due	More than 120 days past due	Total
Gross carrying amount	1 596	265	78	53	259	2 251
Lifetime ECL	(15)	(4)	(6)	(11)	(103)	(139)
Net carrying amount	1 581	261	72	42	156	2 112
Expected credit loss rate	0.9%	1.5%	7.7%	20.8%	39.8%	6.2%



37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Trade receivables from contracts with customers (note 12.1) (continued)

Reconciliation of loss allowance for trade receivables:

Group	Accounts not credit-impaired		Credit-impaired accounts				Total trade receivables	Total trade receivables
	Buying aid societies and other receivables	Total trade receivables not credit-impaired	Receivables from franchisees	Receivables from medical aid schemes, pharmacies and doctors	Buying aid societies and other receivables	Total credit-impaired trade receivables		
Rm	2019						2018	
Balance at the beginning of the year as previously reported under IAS 39	73	73	19	26	21	66	139	149
Amounts restated through opening retained earnings on adoption of IFRS 9	—	—	—	—	53	53	53	—
Restated balance at the beginning of the year under IFRS 9	73	73	19	26	74	119	192	—
New financial assets originated or purchased during the year	31	31	9	3	7	19	50	—
Amounts recovered during the year	(59)	(59)	—	—	(54)	(54)	(113)	—
Amounts written off during the year as uncollectible	—	—	(8)	—	—	(8)	(8)	(10)
Unused amounts reversed	—	—	(1)	(1)	—	(2)	(2)	(19)
Increase in loss allowance recognised in profit or loss during the year	—	—	—	—	—	—	—	19
Balance at the end of the year	45	45	19	28	27	74	119	139

Assumptions and judgements applied in the calculation of ECL of trade receivables in terms of the simplified approach for measuring impairment are detailed below.

To measure ECL, trade receivables have been grouped by shared credit risk characteristics by considering the different revenue streams within each operating segment such as franchise, retail and wholesale of pharmaceutical products, furniture, travel packages and ticket sales through Computicket as well as by geographical location and days past due.

ECL are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. In instances where there was no evidence of historical write-offs, management used a proxy write-off. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations.

For receivables from franchisees, the expected loss ratios are based on the payment profiles of sales during the last 36 months before each reporting period. The expected loss ratios of other trade receivables are based on the payment profiles of sales during the last 12 months before each reporting period.

The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting date to the extent that there is a strong correlation between the forward looking information and the ECL. The Group has performed historical analyses and identified certain macroeconomic variables correlating with credit losses.

Macroeconomic variables used for financial assets at amortised cost include G7 real GDP growth, total unemployment rate (both formal and informal), prime overdraft rate, rand/dollar exchange rate and inflation rates. The selected macroeconomic variables are appropriate drivers of default rates.

Due to the relative short-term nature of the book and constantly evolving credit criteria being applied the impact of extrapolating the forward-looking information against credit variables was not material. It will however continue to be monitored and will be reassessed at each reporting date.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Other receivables (note 12.3)

Other receivables consist of various operational debtors such as municipal deposits refundable, insurance claims receivable and staff debtors and bursaries. The age analysis of these amounts are reviewed on a monthly basis and creditworthiness assessed. If the credit risk of any individual receivable is deemed to be material the credit history of the relevant client will be verified with an external credit bureau. No security is held for these balances.

The table below reflects the Group's maximum exposure to credit risk on other receivables at the reporting date.

Internal credit rating category	Category definition	Basis for recognition of ECL allowance	Financial instrument class	ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm
Performing (stage 1)	Counterparty has a low risk of default and a strong capacity to meet contractual cash flows.	12-month ECL	Insurance claims receivable Staff debtors and bursaries Various other receivables	0.0% 2.2% 20.4%	66 90 535	— (2) (109)	66 88 426
Non-performing (stage 3)	Interest and/or principal repayments are 60 days past due.	Lifetime ECL	Staff debtors and bursaries Various other receivables	100.0% 44.5%	37 155	(37) (69)	— 86
Total other receivables					883	(217)	666

Reconciliation of loss allowance for other receivables:

Group	Performing (stage 1)	Non-performing (stage 3)	Total other receivables	Total other receivables
Rm	2019		2018	
Balance at the beginning of the year as previously reported under IAS 39	20	169	189	142
Amounts restated through opening retained earnings on adoption of IFRS 9	—	26	26	—
Restated balance at the beginning of the year under IFRS 9	20	195	215	—
Amounts recovered during the year	—	(20)	(20)	—
Changes in risk parameters*	91	(69)	22	—
Increase in loss allowance recognised in profit or loss during the previous year	—	—	—	47
Balance at the end of the year	111	106	217	189

* The increase/(decrease) in the loss allowances is due to an increase/decrease in the PD used to calculate the lifetime ECL for certain performing and non-performing other receivables.

Specific assumptions and judgements applied in the calculation of ECL of other receivables in terms of the general model for impairment are detailed below.

To measure ECL, other receivables have been grouped by shared credit risk characteristics and days past due. Other receivables include significant amounts of insurance claims and staff debtors and bursaries. The remaining balance comprises of various other receivables which are individually insignificant.

The PD represents the likelihood of the counterparty defaulting on its financial obligation, either over 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. The rating is then adjusted to represent the appropriate risk appetite for a specific instrument.

Macroeconomic variables used for financial assets at amortised cost include G7 real GDP growth, total unemployment rate (both formal and informal), prime overdraft rate, rand/dollar exchange rate and inflation rates. The selected macroeconomic variables are appropriate drivers of default rates.

Due to the relative short-term nature of other receivables and constantly evolving credit criteria being applied the impact of extrapolating the forward-looking information against credit variables was not material. It will however continue to be monitored and will be reassessed at each reporting date.

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.1 Credit risk (continued)

(d) Cash and cash equivalents

Funds are only invested with South African financial institutions with a minimum Moody's National Scale short-term credit rating of P-2 and a long-term rating of Baa2. For financial institutions registered outside South Africa the required minimum Moody's credit rating is a Global Scale short-term rating of P-1 and a long-term rating of Aa3. Due to the Group's international operational requirements it is forced to transact with financial institutions in certain countries where independent internationally accredited credit ratings are not available. In these instances the Group's exposure to credit risk at each of these financial institutions are evaluated by management on a case by case basis. Cash balances deposited with these financial institutions are kept to an operational minimum and are transferred, subject to exchange control regulations and available suitable foreign currency, to financial institutions with acceptable credit ratings. The Group has policies that limit the amount of credit exposure to any one financial institution.

ECL of cash and cash equivalents are calculated in terms of the general model for impairment. All cash and cash equivalents were determined to be in stage 1 as the counterparties have low risk of default and a strong capacity to meet contractual cash flows. There was no SICR of the Group's cash and cash equivalents. ECL were therefore limited to 12-month expected losses and the identified impairment loss was immaterial.

The table below shows the cash invested at the reporting date at financial institutions grouped per Moody's short-term credit rating of the financial institutions.

Company						Group	
2018 Rm	2019 Rm		National Scale	Global Scale		2019 Rm	2018 Rm
—	—	Standard Chartered Bank		P-1		725	874
—	—	Citibank		P-1		53	77
6	373	Standard Bank	P-1	P-3		2 606	3 082
—	—	ABSA	P-1	P-3		1 133	866
6	—	Nedbank	P-1	P-3		1 234	895
—	—	First National Bank	P-1	P-3		430	393
—	—	Investec	P-1	P-3		161	150
—	—	Zenith		NP		157	201
—	—	Other banks				363	424
—	—	Cash on hand and in transit				845	503
12	373	Total cash and cash equivalents				7 707	7 465

Local currency cash and short-term deposits of R992.8 million (2018: R1.4 billion) are held in Angola and are subject to onerous local exchange control regulations. These local exchange control regulations impose restrictions on exporting capital from the country, other than through normal dividends. These restricted cash balances held by the respective subsidiaries are not available for general use by the holding company or other subsidiaries in the Group.

(e) Financial guarantee contracts

The Company has guaranteed various revolving credit facilities of R27.7 billion (2018: R20.8 billion). The fair value of these guarantees is estimated at R30.0 million (2018: R22.5 million) at the reporting date. The guarantees have also been disclosed as part of the Company's liquidity risk below. Financial guarantees are kept to an operational minimum and reassessed regularly. The maximum potential exposure to credit risk under financial guarantee contracts amounts to R27.7 billion (2018: R20.8 billion).

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.2 Market risk

(a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures. The treasury department hedges the Group's net position in each foreign currency by using call deposits in foreign currencies and derivative financial instruments in the form of forward foreign exchange rate contracts for all cumulative foreign commitments of three months or more. Forward foreign exchange rate contracts are not used for speculative purposes. These instruments are not designated as hedging instruments for purposes of accounting.

Currency exposure arising from the net monetary assets in individual countries, held in currencies other than the functional currency of the Group, are managed primarily through converting cash and cash equivalents not required for operational cash flows to US dollar, subject to exchange control regulations. The US dollar is the preferred currency due to its history of stability, liquidity and availability in most markets.

Short-term loans between subsidiaries of the Group expose the Group to currency risk resulting from fluctuations in local currency exchange rates to the US dollar (2019: R2.4 billion liability; 2018: R4.4 billion liability) and South Africa rand (2019: R882 million liability; 2018: R299 million liability). This US dollar currency risk is mitigated by the investment in AOA, USD Index Linked, Angola Government Bonds (2019: R2.7 billion asset; 2018: R3.0 billion asset) (refer to note 8.1) which serves as a natural hedge against the Group's currency risk on short-term US dollar loans between Group subsidiaries.

Material concentrations of currency risk also exist within the Group's net cash and cash equivalents as follows:

	Group	
	2019 Rm	2018 Rm
Foreign currency		
South Africa rand	141	58
US dollar	420	470
Euro	14	12
Other currencies	3	1
	578	541

The Group does not have significant foreign creditors as most inventory imports are prepaid.

Where material concentrations of currency risk exists within the Group a sensitivity analysis was performed to calculate what the increase/decrease in profit for the year would have been if the various individual currencies strengthened or weakened against the ZAR and the USD. At 30 June 2019 the total possible decrease in Group post-tax profit, calculated for all estimated currency movements, was R362 million with the AON/USD exchange rate (with an expected 15.8% decline) contributing R172 million to this number. At 1 July 2018 the total possible decrease in Group post-tax profit, calculated for all estimated currency movements, was R447 million with the AON/USD exchange rate (with an expected 6.8% decline) contributing R158 million to this number. These changes had no material effect on the Group's equity.

The amounts were calculated with reference to the financial instruments, exposed to currency risk at the reporting date and does not reflect the Group's exposure throughout the reporting period as these balances may vary significantly due to the self funding nature of the Group's required working capital and cyclical nature of cash received from sale of merchandise and payment to trade and other payables. The possible currency movements were determined based on management's best estimates taking into account prevailing economic and market conditions and future expectations.

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to foreign currency translation risk. Although not subject to market risk, the following constituted significant concentrations of net monetary assets/(liabilities), including short-term surplus funds, in currencies other than the reporting currency as at the statement of reporting date, subject to translation risk.

	Group	
	2019 Rm	2018 Rm
Foreign currency		
Angola kwanza	2 923	2 898
Euro	(333)	(334)
US dollar	(5 436)	(3 636)

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.2 Market risk (continued)

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk arises mainly from daily call accounts, bank overdrafts and borrowings. The Group does not account for any fixed rate financial assets or liabilities at fair value through profit and loss and therefore a change in interest rates at the reporting date would not affect profit or loss. Fixed rate financial instruments include government bonds and bills (refer to note 8), loans receivable (refer to note 9), instalment sale receivables (refer to note 12.2) and certain borrowings (refer to note 16.6).

Daily call accounts and bank overdrafts carry interest at rates fixed on a daily basis and expose the Group to cash flow interest rate risk. The Group analyses this interest rate exposure on a dynamic basis. Daily cash flow forecasts are done and combined with interest rates quoted on a daily basis. This information is then taken into consideration when reviewing refinancing/reinvesting and/or renewal/cancellation of existing positions and alternative financing/investing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for cash/borrowings that represent the major interest-bearing positions. The weighted average effective interest rate on call accounts was 7.7% (2018: 7.7%).

As part of the process of managing floating rate interest-bearing debt, the interest rate characteristics of borrowings (refer to note 16) are positioned according to the expected movements in interest rates. Interest rate profiles are analysed by the changes in borrowing levels and the interest rates applicable to the facilities available to the Group. The chief financial officer has the mandate to approve the use of fixed interest debt and interest rate swaps as circumstances dictate. The Group obtained fixed interest rate loans of USD100 million at a rate of 3.49% p.a. and USD250 million at a rate of 4.31% p.a. (refer to note 16.6). No interest rate swaps were entered into during the current year.

For exposure to interest rate risk on other monetary items refer to the following:

- Amounts receivable from franchisees: note 9.2
- Amounts receivable from joint ventures: note 12.4
- Amounts owing to joint ventures: note 18.3

Where material concentrations of interest rate risk exists within the Group a sensitivity analysis was performed to calculate what the increase/decrease in profit for the year would have been if the various individual interest rates the Group's financial instruments are subject to strengthened or weakened. At 30 June 2019 the total possible decrease in Group post-tax profit, calculated for all estimated interest rate movements, was R6.8 million. The estimated decrease of 25 basis points in the South African prime rate would have resulted in a possible decrease in Group post-tax profit of R6.9 million. At 1 July 2018 the total possible increase in Group post-tax profit, calculated for all estimated interest rate movements, was R5.6 million. The estimated increase of 50 basis points in the South African prime rate would have resulted in a possible increase in Group post-tax profit of R3.9 million. These changes had no material effect on the Group's equity.

The amounts were calculated with reference to the financial instruments exposed to interest rate risk at the reporting date and does not reflect the Group's exposure throughout the reporting period as these balances may vary significantly due to the self funding nature of the Group's required working capital and cyclical nature of cash received from sale of merchandise and payment to trade and other payables. The possible interest rate movements were determined based on management's best estimates taking into account prevailing economic and market conditions and future expectations.

37.4.3 Liquidity risk

The risk of illiquidity is managed by using cash flow forecasts, maintaining adequate unutilised banking facilities (2019: R7.3 billion; 2018: R6.0 billion) and unlimited borrowing powers. All unutilised facilities are controlled by the Group's treasury department in accordance with a treasury mandate as approved by the Board of Directors.

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- the leverage ratio (net debt to earnings before interest, income tax, depreciation and amortisation (EBITDA)) must not exceed 2.5 – 2.75 times,
- the net finance costs cover ratio (EBITDA divided by net finance costs) must be a minimum of 5 times, and
- the finance costs cover ratio (EBITDA divided by finance costs) must be a minimum of 3.5 times.

The Group has complied with these covenants throughout the reporting period. As at the reporting date, the leverage ratio was 0.85 times (2018: 0.35 times) and the finance cost cover ratio was 11.28 times (2018: 24.00 times).

The table on the next page analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows based on the earliest date on which the Group can be required to pay and include both interest and principal cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

37 Risk management and financial instrument disclosure (continued)

37.4 Financial risk management (continued)

37.4.3 Liquidity risk (continued)

Non-derivative financial liabilities	Book value	Total	Not later than one year	Between one and two years	Between two and five years
Group					
Rm	2019				
Borrowings	11 706	12 811	2 827	354	9 630
Trade payables	13 082	13 082	13 082	—	—
Other payables and accruals excluding taxes payable and employee benefit accruals	3 539	3 539	3 539	—	—
Deposits and third party payments liability	512	512	512	—	—
Amounts owing to joint ventures	8	8	8	—	—
Refund liability	39	39	39	—	—
Contract liabilities	791	791	791	—	—
Bank overdrafts	4 124	4 124	4 124	—	—
Financial commitment	—	47	47	—	—
	33 801	34 953	24 969	354	9 630
Rm	2018				
Borrowings	6 977	7 096	5 654	48	1 394
Trade payables	12 986	12 986	12 986	—	—
Other payables and accruals excluding taxes payable and employee benefit accruals	3 842	3 842	3 842	—	—
Deposits and third party payments liability	908	908	908	—	—
Amounts owing to joint ventures	1	1	1	—	—
Refund liability	47	47	47	—	—
Contract liabilities	578	578	578	—	—
Bank overdrafts	3 995	3 995	3 995	—	—
Financial commitment	—	1 084	1 084	—	—
	29 334	30 537	29 095	48	1 394
Company					
Rm	2019				
Other payables and accruals excluding taxes payable and employee benefit accruals	14	14	14		
Financial guarantees	—	27 672	27 672		
	14	27 686	27 686	—	—
Rm	2018				
Other payables and accruals excluding taxes payable and employee benefit accruals	13	13	13		
Financial guarantees	—	20 762	20 762		
	13	20 775	20 775	—	—



37 Risk management and financial instrument disclosure (continued)

37.5 Insurance risk

The Group underwrites insurance products with the following terms and conditions:

- Credit protection which covers the risk of the customer being unable to settle the terms of the credit agreement as a result of death, disability or qualifying retrenchment.
- All risk cover which covers the repair or replacement of the product due to accidental loss or damage within the terms and the conditions of the policy, and extended guarantees which covers the repair or replacement of faulty products as an extension of the suppliers' guarantees.

The risk under any one insurance contract is the possibility that an insured event occurs as well as the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and unpredictable.

Underwriting risk is the risk that the Group's actual exposure to short-term risks in respect of policy-holding benefits will exceed prudent estimates. Where appropriate, the above risks are managed by senior management and directors.

Within the insurance process, concentration risk may arise where a particular event or series of events could impact heavily on the Group's resources. The Group has not formally monitored the concentration risk; however, it has mitigated against concentration risk by structuring event limits in every policy to ensure that the probability of underwriting loss is minimised. Therefore the Group does not consider its concentration risk to be high.

38 Related party information

Related party relationships exist between the Company, subsidiaries, directors, as well as their close family members, and key management of the Company.

During the year under review, in the ordinary course of business, certain companies within the Group entered into transactions with each other. All these intergroup transactions have been eliminated in the annual financial statements on consolidation.

Dr Basson exercised his put option during the previous year, which resulted in a specific repurchase of 8 683 327 Shoprite Holdings Ltd shares at R201.07 per share. The shares were repurchased by the Company and cancelled with effect from 15 September 2017.

Details of the remuneration of directors, and equity- and cash-settled share-based payment instruments issued to directors, are disclosed in notes 14 and 24.

Details of the directors' interests in ordinary and non-convertible, non-participating, non-transferable no par value deferred shares of the Company are provided in the directors' report.

	Group	
	2019 Rm	2018 Rm
Key management personnel compensation		
Short-term employee benefits	66	113
Long-term incentive bonuses including share-based payments	13	42
Post-employment benefits	2	2
Directors' fees	6	4
	87	161

During the year key management have purchased goods at the Group's usual prices less a 15% discount. Discount ranging from 5% to 15% is available to all permanent full-time and flexi-time employees.

During the financial year under review, in the ordinary course of business, certain companies in the Group entered into transactions with certain entities in which directors CH Wiese, JF Basson and ATM Mokgokong and former directors JA Louw and EL Nel, or their direct family members, have a significant influence. These transactions are insignificant in terms of the Group's total operations for the year.

	Group	
	2019 Rm	2018 Rm
These transactions and related balances were as follows:		
Purchase of merchandise	495	121
Utilisation of services	17	9
Year-end balances owed by the Group	81	11

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

38 Related party information (continued)

The Group has a 39% interest in Resilient Africa (Pty) Ltd and Resilient Africa Managers (Pty) Ltd (refer to note 7.1).

	Group	
	2019 Rm	2018 Rm
The following transactions took place between the Resilient Africa associates and the Group during the year under review:		
Rent paid to the associates	5	13
Interest received by the Group	48	44

The year-end balances relating to loans receivable from Resilient Africa (Pty) Ltd are disclosed in note 9.1.

The Group has a 50% interest in Hungry Lion (Mauritius) Ltd and has started negotiations to dispose of this investment (refer to notes 7.2 and 4). The other 50% is indirectly held by former alternate non-executive director JAL Basson. The Group disposed of its interest in Hungry Lion Fast Foods (Pty) Ltd on 1 July 2018.

	Group	
	2019 Rm	2018 Rm
The following transactions took place between the Hungry Lion joint venture and the Group during the year under review:		
Sale of merchandise to the joint venture	71	321
Operating expenses recovered by the Group	2	23
Administration fees received by the Group	8	16
Administration fees paid to the joint venture	—	8
Interest received by the Group	—	15
Interest paid to the joint venture	—	1
Dividends paid to the Group	—	14

The year-end balances relating to the transactions with the joint venture are disclosed in notes 12.4 and 18.3.

Details of the Company's interests in subsidiaries are provided in note 6 and Annexure A.

The Company paid dividends of R154 million (2018: R187 million) to Shoprite Checkers (Pty) Ltd during the year under review.

	Company	
	2019 Rm	2018 Rm
The Company received the following from its subsidiaries:		
Annual administration fee received from Shoprite Checkers (Pty) Ltd	2	2
Dividends received from Shoprite Checkers (Pty) Ltd	1 513	3 631
Dividends received from Shoprite Insurance Company Ltd	350	100
Guarantee fee received from Shoprite International Ltd	90	57
Interest received from Shoprite Investments Ltd	52	82

39 Changes in accounting policies

39.1 Effect of adopting IFRS 9: Financial Instruments

IFRS 9 replaces IAS 39: Financial Instruments: Recognition and Measurement. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The adoption of IFRS 9 with effect from 2 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the annual financial statements. The Group has elected not to restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to opening retained earnings on 2 July 2018. Therefore comparative information in the prior period annual financial statements has not been amended for the impact of IFRS 9.

The total impact on the Group's retained earnings as at 2 July 2018 is as follows:	Notes	Rm
Closing retained earnings on 1 July 2018 as previously reported		22 044
Adjustments to retained earnings on initial application of IFRS 9		(381)
Increase in impairment allowance for trade and other receivables	39.1.3	(395)
Increase in impairment allowance for government bonds and bills	39.1.3	(133)
Increase in impairment allowance for loans receivable	39.1.3	(1)
Increase in net deferred income tax assets relating to impairment allowances		148
Opening retained earnings on 2 July 2018 (before restatement for IFRS 15)		21 663

The application of IFRS 9 had no material impact on the reported earnings or financial position for the period under review.

39.1.1 Classification and measurement of financial instruments

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Management has assessed which business models apply to the financial assets held by the Group at the date of initial application of IFRS 9 and has classified its financial instruments into the appropriate IFRS 9 categories. It was determined that all of the Group's financial assets which were measured at amortised cost and classified as held-to-maturity and loans and receivables under IAS 39, satisfy the conditions for classification at amortised cost under IFRS 9. Hence there is no change to the measurement of these assets.

There has been no change to the classification of the Group's financial liabilities and they continue to be classified and measured at amortised cost.

A summary of the change in classification and measurement of financial assets and liabilities under IFRS 9 and IAS 39 at the date of initial application, 2 July 2018, is presented below:

Application, 2 July 2018, is presented below.

		Measurement category		Carrying amount		
	Notes	Original (IAS 39)	New (IFRS 9)	Original	Remeasure- ments	New
				Rm	Rm	Rm
Financial assets						
Held-to-maturity investments	8	Held-to-maturity	Amortised cost	3 690	(133)	3 557
Loans and receivables	9	Loans and receivables	Amortised cost	1 549	(1)	1 548
Instalment sales	12.2	Loans and receivables	Amortised cost	1 228	(316)	912
Trade receivables	12.1	Loans and receivables	Amortised cost	2 112	—	2 112
Other receivables excluding prepayments and taxes receivable	12.3	Loans and receivables	Amortised cost	1 369	(81)	1 288
Amounts receivable from joint ventures	12.4	Loans and receivables	Amortised cost	25	—	25
Cash and cash equivalents		Loans and receivables	Amortised cost	7 465	—	7 465
Total financial assets				17 438	(531)	16 907
Financial liabilities						
Borrowings	16	Other financial liabilities	Amortised cost	6 977	—	6 977
Trade payables	18	Other financial liabilities	Amortised cost	12 986	—	12 986
Other payables and accruals excluding taxes payable and employee benefit accruals	18	Other financial liabilities	Amortised cost	5 417	—	5 417
Amounts owing to joint ventures	18.3	Other financial liabilities	Amortised cost	1	—	1
Bank overdrafts		Other financial liabilities	Amortised cost	3 995	—	3 995
Total financial liabilities				29 376	—	29 376

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

39 Changes in accounting policies (continued)

39.1 Effect of adopting IFRS 9: Financial Instruments (continued)

39.1.2 Derivatives and hedging activities

The Group does not currently apply hedge accounting and continues to account for forward exchange contracts at fair value through profit and loss.

39.1.3 Impairment of financial assets under the expected credit loss model

IFRS 9 has introduced new ECL impairment requirements, as opposed to an incurred loss model applied in terms of IAS 39. The ECL requirements apply to all financial assets measured at amortised cost and will result in the earlier recognition of credit provisions.

At a minimum, an impairment provision is required to be measured at an amount equal to the 12-month ECL for financial assets measured at amortised cost. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.

The Group has the following types of financial assets measured at amortised cost that are subject to IFRS 9's new ECL model:

- Instalment sale receivables
- Trade receivables for sales of inventory
- Loans receivable
- Government bonds and bills
- Other receivables

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is tabled on the previous page.

The measurement of ECL reflects a probability-weighted outcome, the time value of money and the best forward-looking information available to the Group. The calculated ECL are discounted using the original effective interest rate applicable to the financial asset.

The Group measures loans receivable, government bonds and bills and other receivables using probability of write-off, exposure at write-off, timing of when write-off is likely to occur and loss given write-off. These components are multiplied together and adjusted for the likelihood of write-off.

For instalment sale receivables with a significant financing component, the Group has elected to measure the impairment allowance at an amount equal to the lifetime ECL. This policy will be applied to all instalment sale receivables.

For trade and other receivables without a significant financing component, the Group has adopted the simplified approach which recognises lifetime ECL regardless of stage classification. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to such trade and other receivables and the economic environment.

When a financial asset is classified as stage 3 impaired, interest income is calculated on the impaired value (gross carrying amount less impairment allowance) based on the original effective interest rate. The contractual interest income on the gross carrying amount of the financial asset is suspended and is only recognised as interest income when the financial asset is reclassified out of stage 3.

39.2 Effect of adopting IFRS 15: Revenue from Contracts with Customers

IFRS 15 replaces IAS 18: Revenue. It addresses the classification, measurement and disclosure of revenue from contracts with customers. It establishes a five-step model to account for revenue from contracts with customers, based on the principle that revenue is recognised either over time or at a point in time, as or when the Group satisfies performance obligations and transfers control of goods or services to its customers.

The adoption of IFRS 15 with effect from 2 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the annual financial statements. The Group has adopted the new standard retrospectively in accordance with the transition provisions in paragraph C3(a) of IFRS 15 without using the practical expedients for completed contracts in paragraphs C5(a) and (b) and contract modifications in paragraph C5(c). It has restated comparatives for the 2018 financial year.

The total impact on the Group's retained earnings as at 2 July 2017 is as follows:

	Notes	Rm
Closing retained earnings on 2 July 2017 as previously reported		19 807
Adjustments to retained earnings from adoption of IFRS 15		(10)
Refund liability for customers' right to return goods	39.2.1	(47)
Revenue recognised for customers' unexercised rights	39.2.2	30
Timing of revenue recognition		3
Increase in net deferred income tax assets relating to the above		4
Opening retained earnings on 3 July 2017		19 797

The impact of IFRS 15 on the consolidated financial statements is disclosed under note 39.3.



39 Changes in accounting policies (continued)

39.2 Effect of adopting IFRS 15: Revenue from Contracts with Customers (continued)

39.2.1 Accounting for refunds

It is policy to sell goods with the right of return in terms of current consumer legislation. Such sales are cancelled where the right of return is exercised. Under IFRS 15, a refund liability for the expected refunds to customers is recognised as an adjustment to revenue in trade and other payables. The accumulated experience of the Group's returns has been utilised to estimate such refund liability at the time of sale. Based on past experience it is estimated that goods returned in a saleable condition will be insignificant. Therefore the Group does not recognise an asset and a corresponding adjustment to cost of sales for its right to recover the product from the customer where the customer exercises the right of return.

39.2.2 Accounting for breakage

A customer's non-refundable prepayment to an entity gives the customer a right to receive a good or service in the future. However, customers occasionally do not exercise all of their contractual rights. In terms of IFRS 15, the Group recognised the expected breakage amount in such contract liabilities resulting from customers' unexercised rights as revenue, in proportion to the pattern of rights exercised by its customers. The accumulated experience of the Group's breakage history has been utilised to estimate when it expects to be entitled to a breakage amount.

39.2.3 Agent vs principal assessment

IFRS 15 provides new guidance that impacted the Group's assessment of whether it acts as principal or agent when recognising revenue from certain value-added services. In certain instances, revenue previously recognised on a gross basis and included in sale of merchandise and cost of sales, is now required to be recognised on a net basis in other operating income. In other cases, revenue previously recognised on a net basis in other operating income, is now required to be recognised on a gross basis in other operating income and other operating expenses.

39.3 Impact on the consolidated financial statements

The following tables set out the impact of the changes in accounting policies and retrospective adjustments recognised for each individual line item affected in the consolidated financial statements. IFRS 9 was adopted without restating comparative information and the impact is therefore not reflected in the restated comparatives but recognised in the opening statement of financial position on 2 July 2018. The aggregate effect of the changes in accounting policies on the annual financial statements is as follows:

39.3.1 Impact on statement of comprehensive income

	Audited As previously reported 1 Jul '18 Rm	Audited IFRS 15 restatement 1 Jul '18 Rm	Restated Audited 52 weeks ended 1 Jul '18 Rm
Sale of merchandise	145 306	(202)	145 104
Cost of sales	(110 580)	165	(110 415)
Gross profit	34 726	(37)	34 689
Other operating income	2 779	147	2 926
Other operating expenses	(12 494)	(97)	(12 591)
Trading profit	8 011	13	8 024
Income tax expense	(2 121)	(3)	(2 124)
Profit attributable to:	5 213	10	5 223
Owners of the parent	5 201	10	5 211
Non-controlling interest	12	—	12
Basic earnings per share (cents)	934.3	1.7	936.0
Diluted earnings per share (cents)	933.4	1.8	935.2
Basic headline earnings per share (cents)	969.6	1.8	971.4
Diluted headline earnings per share (cents)	968.7	1.8	970.5

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

39 Changes in accounting policies (continued)

39.3 Impact on the consolidated financial statements (continued)

39.3.2 Impact on statement of financial position

	Audited As previously reported 1 Jul '18 Rm	Audited IFRS 15 restatement 1 Jul '18 Rm	Restated Audited at 1 Jul '18 Rm	Audited IFRS 9 restatement 2 Jul '18 Rm	Restated Audited at 2 Jul '18 Rm
Assets					
Non-current assets					
Loans receivable	—	—	—	1 317	1 317
Government bonds and bills	—	—	—	1 970	1 970
Loans and receivables	1 318	—	1 318	(1 318)	—
Held-to-maturity investments	2 090	—	2 090	(2 090)	—
Deferred income tax assets	876	1	877	148	1 025
Current assets					
Trade and other receivables	4 931	4	4 935	(397)	4 538
Loans receivable	—	—	—	231	231
Government bonds and bills	—	—	—	1 587	1 587
Loans and receivables	231	—	231	(231)	—
Held-to-maturity investments	1 600	—	1 600	(1 600)	—
Equity					
Reserves	20 424	—	20 424	(383)	20 041
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	697	—	697	—	697
Current liabilities					
Trade and other payables	20 621	(573)	20 048	—	20 048
Contract liabilities	—	578	578	—	578
Current income tax liabilities	481	—	481	—	481

39.3.3 Impact on statement of cash flows

	Audited As previously reported 1 Jul '18 Rm	Audited IFRS 15 restatement 1 Jul '18 Rm	Other reclassifi- cations 1 Jul '18 Rm	Restated Audited 52 weeks ended 1 Jul '18 Rm
Cash flows from operating activities				
Operating profit	7 514	13	—	7 527
Less: investment income	(344)	—	(355)	(699)
Changes in working capital	2 686	(13)	—	2 673
Interest received	493	—	355	848

40 Reclassification of disclosure items

Certain reclassifications of statement of financial position and statement of cash flows items in the current year resulted in changes to the relevant comparative information to ensure accurate comparability with the current year information. The affected line items are detailed below.

- 40.1** Reclassification of employment tax incentives from financial other receivables to prepayments and indirect taxes receivable. These reclassifications ensured that all indirect taxes receivable are classified appropriately as non-financial instruments.

Statement of financial position	2018 Rm
Decrease in financial other receivables	275
Increase in prepayments and indirect taxes receivable	275
Trade and other receivables	—

- 40.2** Reclassification of finance income earned from instalment sale receivables in the statement of cash flows. This reclassification ensured that all interests received are classified appropriately.

Statement of cash flows	2018 Rm
Decrease in cash generated from operations	355
Increase in interest received	355
Cash flows from operating activities	—

41 Accounting policies, assumptions and estimates applied until 1 July 2018

The adoption of IFRS 9 with effect from 2 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the annual financial statements. The Group has elected not to restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to opening retained earnings on 2 July 2018. Therefore comparative information in the prior period annual financial statements has not been amended for the impact of IFRS 9. The accounting policies, assumptions and estimates applied until 1 July 2018 and prior year credit quality disclosures not included in note 37.4.1 are detailed below.

41.1 Accounting policies until 1 July 2018

a) Financial instruments

The Group classifies its financial instruments in the following categories: loans and receivables, held-to-maturity financial assets, financial liabilities and derivatives at fair value through profit and loss. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates such designations when circumstances indicate that reclassification is permitted. The Group assesses at each reporting date whether there is objective evidence that a financial instrument or a group of financial instruments is impaired.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the contractual obligation is discharged, cancelled, expires or when a substantial modification of the terms occur.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable, and purchases and sales are recognised at trade date at fair value, including transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method. These financial assets are included under current assets unless it matures later than 12 months after reporting date.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans and receivables' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate applicable to the relevant loans and receivables. The carrying amount will be reduced and the loss recognised in the statement of comprehensive income.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 30 June 2019

41 Accounting policies, assumptions and estimates applied until 1 July 2018 (continued)

41.1 Accounting policies until 1 July 2018 (continued)

c) Held-to-maturity investments

The Group classifies investments as held-to-maturity if they are non-derivative financial assets with fixed or determinable payments and fixed maturities and the Group intends to, and is able to, hold them to maturity.

Held-to-maturity financial assets are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost, using the effective interest rate method. These financial assets are included under non-current assets unless it matures within 12 months after reporting date. Interest on held-to-maturity financial assets is recognised in the statement of comprehensive income as part of other operating income.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the held-to-maturity investments' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate applicable to the relevant held-to-maturity investments. The carrying amount will be reduced and the loss recognised in the statement of comprehensive income.

d) Trade and other receivables

Trade and other receivables are recognised at trade date at fair value. Subsequent recognition is measured at amortised cost using the effective interest rate method, less allowance made for impairment of these receivables. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, discounted at the original effective interest rate. Any resulting impairment losses are included in other expenses in the statement of comprehensive income. The impairment of instalment sale receivables is done on a collective basis due to the wide-spread customer base. When a receivable is uncollectible, it is written off against the allowance for impairment for receivables. Subsequent recoveries of amounts previously written off are recognised in the statement of comprehensive income.

Prepayments are stated at their nominal values. As the functional currency of the Group's subsidiaries in Angola is a currency of a hyperinflationary economy, prepayments relating to these subsidiaries are restated by applying the change in the general price indices from the date of payment to the current reporting date (refer to note 1.5).

e) Cash and cash equivalents and bank overdrafts

Cash and cash equivalents and bank overdrafts are carried at cost and, if denominated in foreign currencies, are translated at closing rates. Cash comprises cash on hand and cash at banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Bank overdrafts are disclosed separately on the face of the statement of financial position.

f) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

g) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Financial guarantee contracts are recognised initially at fair value and subsequently at the higher of: the initially recognised fair value, less appropriate cumulative amortisation recognised on a straight-line basis over the estimated duration of the contract, or an amount that is the best estimate of the expenditure required to settle the present obligation at reporting date. Intra-group financial guarantees are eliminated on consolidation.

When the financial guarantee contract is issued by the Company to a subsidiary, the fair value at initial recognition is capitalised as part of the investment in the relevant subsidiary.

41.2 Assumptions and estimates applied until 1 July 2018

a) Allowances for doubtful debts

Trade receivables included instalment sale debtors and franchise debtors for which allowances for impairment were made in accordance with the accounting policy in note 41.1(d). These calculations involved the discounting of projected future cash flows and required the use of estimates.



41 Accounting policies, assumptions and estimates applied until 1 July 2018 (continued)

41.3 Prior year credit quality disclosures not included in note 37.4.1

a) Government bonds and bills (note 8)

None of the government bonds and bills were either past due or impaired at the end of the previous year.

b) Loans receivable (note 9)

All loans receivable from franchisees past due 60 days or more were individually impaired. (Refer to note 9.2.) The allowance for impairment related to the following amounts owing by franchisees at the end of the previous year:

	2018 Rm
Receivable in the next year	57
Receivable between 1 and 3 years	21
Receivable between 3 and 5 years	19
	97

The individually impaired loans receivable from franchisees related to franchisees experiencing unexpectedly difficult economic situations. It was assessed that a portion of the receivables was expected to be recovered. Interest of R10.3 million was accrued on these balances during the previous year. All balances that were past due were considered for impairment.

None of the other loans receivable were past due at the end of the previous year.

c) Trade receivables from contracts with customers (note 12.1)

All trade receivables past due 60 days or more were individually assessed for impairment. The provision for impairment at the end of the previous year related to trade receivables of R179 million receivable within the next 12 months.

These individually impaired amounts related mostly to franchisees experiencing unexpectedly difficult economic situations. It was assessed that a portion of the receivables was expected to be recovered. Interest of R2.1 million was accrued on these balances during the previous year.

Trade receivables that were past due but not impaired at the end of the previous year are reflected below. These amounts relate to a number of debtors for whom there was no recent history of default.

	2018 Rm
30 Days	236
60 Days	46
90 Days	27
120 Days	43
	352

d) Instalment sale receivables from contracts with customers (note 12.2)

The accumulated impairment at the end of the previous year related to actual arrears, individual repayments that were past due, and the age analysis below reflects the period that these amounts were overdue.

	Actual arrears 2018 Rm	Balance of contract arrears 2018 Rm
30 days	53	125
60 days	40	64
90 days	33	51
120 days	27	42
150 days	23	35
180 days	20	32
+ 180 days	159	337
	355	686

The accumulated impairment was calculated with reference to actual default history of the Group's instalment sale receivables on a collective basis and was in line with industry norms. On this basis the provision of R307 million at the end of the previous year was calculated taking into account the actual arrears of R355 million and an amount of R686 million which represents the maximum exposure if all debtors included in actual arrears continued to default. It was assessed that a portion of the receivables was expected to be recovered. All amounts that have not been impaired were fully performing and had no overdue instalments. Based on this the credit quality of these amounts was considered to be satisfactory.

Annexure A – Interests in subsidiaries

Shoprite Holdings Ltd and its subsidiaries as at 30 June 2019

	Country of incorporation and place of business	Issued ordinary and preference share capital and premium Rm	Percentage shares held by Group %	Investment in shares		Amount owing by	
				2019	2018	2019	2018
				Rm	Rm	Rm	Rm
Direct subsidiaries							
Shoprite Checkers (Pty) Ltd	South Africa	1 129	100	174	174	1 704	3 262
Shoprite DTMC (Pty) Ltd	South Africa*	653	100	653	424	–	–
Shoprite Investments Ltd	South Africa	400	100	400	400	831	779
Shoprite International Ltd	Mauritius*	8 121	100	8 122	7 856	90	57
Shoprite Insurance Company Ltd	South Africa	20	100	20	20	–	–
				9 369	8 874	2 625	4 098
Indirect subsidiaries							
Africa Supermarkets Ltd	Zambia*	657	100				
Checkers Chatsworth Ltd**	South Africa	2	48				
Computicket (Pty) Ltd	South Africa	69	100				
Medirite (Pty) Ltd	South Africa	500	100				
Megasave Trading (Pvt) Ltd	India*	118	100				
Mercado Fresco de Angola Lda	Angola*	225	100				
OK Bazaars (Lesotho) (Pty) Ltd**	Lesotho*	–	50				
OK Bazaars (Namibia) Ltd	Namibia*	1	100				
OK Bazaars (Swaziland) (Pty) Ltd	Swaziland*	–	100				
OK Bazaars (Venda) Ltd**	South Africa	2	50				
Shoprite Mozambique Lda	Mozambique*	149	100				
Retail Holdings Botswana (Pty) Ltd	Botswana*	165	100				
Retail Supermarkets Nigeria Ltd	Nigeria*	1 164	100				
Sentra Namibia Ltd	Namibia*	6	100				
Shophold (Mauritius) Ltd	Mauritius*	189	100				
Shoprite (Mauritius) Ltd	Mauritius*	266	100				
Shoprite Angola Imobiliaria Lda	Angola*	1 634	100				
Shoprite Checkers Uganda Ltd	Uganda*	148	100				
Shoprite Egypt for Internal Trade SAE	Egypt*	42	100				
Shoprite Ghana (Pty) Ltd	Ghana*	108	100				
Shoprite Lesotho (Pty) Ltd	Lesotho*	–	100				
Shoprite Madagascar S.A.	Madagascar*	215	100				
Shoprite Namibia (Pty) Ltd	Namibia*	–	100				
Shoprite RDC SPRL	DRC*	82	100				
Shoprite Supermercados Lda	Angola*	836	100				
Shoprite Trading Ltd	Malawi*	127	100				

* Investments in subsidiaries with functional currencies other than South Africa rand are converted at historical exchange rates.

**Non-controlling interests in respect of these subsidiaries are not material.

Note

General information in respect of subsidiaries is set out in respect of only those subsidiaries of which the financial position or results are material for a proper appreciation of the affairs of the Group. A full list of subsidiaries is available on request.



Annexure B – Shareholder analysis

Shoprite Holdings Ltd as at 30 June 2019

Shareholder spread	No of Shareholdings	%	No of Shares	%
1 – 1 000 shares	32 275	83.29	8 267 638	1.40
1 001 – 10 000 shares	5 126	13.23	13 985 879	2.36
10 001 – 100 000 shares	964	2.49	32 635 684	5.52
100 001 – 1 000 000 shares	304	0.78	90 595 502	15.32
Over 1 000 000 shares	80	0.21	445 853 799	75.40
Totals	38 749	100.00	591 338 502	100.00

Distribution of shareholders	No of Shareholdings	%	No of Shares	%
Banks/Brokers	339	0.88	274 071 321	46.35
Close Corporations	263	0.68	997 668	0.17
Endowment Funds	233	0.60	1 960 024	0.33
Individuals	30 605	78.98	21 530 952	3.64
Insurance Companies	89	0.23	19 022 936	3.22
Investment Companies	12	0.03	938 352	0.16
Medical Schemes	35	0.09	425 904	0.07
Mutual Funds	501	1.29	45 895 674	7.76
Other Corporations	206	0.53	186 575	0.03
Private Companies	939	2.42	62 147 746	10.51
Public Companies	14	0.04	229 610	0.04
Retirement Funds	473	1.22	104 903 663	17.74
Treasury Shares	3	0.01	35 436 572	5.99
Trusts	5 037	13.00	23 591 505	3.99
Totals	38 749	100.00	591 338 502	100.00

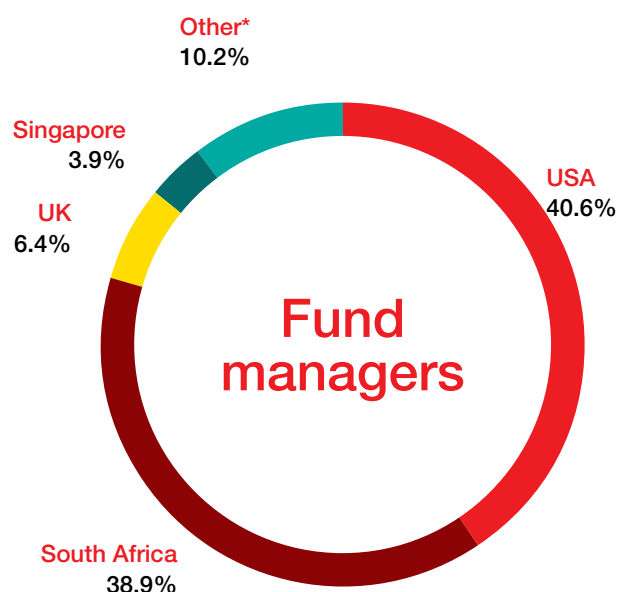
Public/non-public shareholders	No of Shareholdings	%	No of Shares	%
Non-public shareholders	36	0.09	101 096 048	17.10
Directors of the Company	32	0.08	64 315 390	10.88
Shares held for benefit of participants to equity settled share-based payments arrangements*	1	0.00	1 344 086	0.23
Treasury shares	3	0.01	35 436 572	5.99
Public shareholders	38 713	99.91	490 242 454	82.90
Totals	38 749	100.00	591 338 502	100.00

* Excludes shares held by directors in Shoprite Holdings Ltd Executive Share Plan.

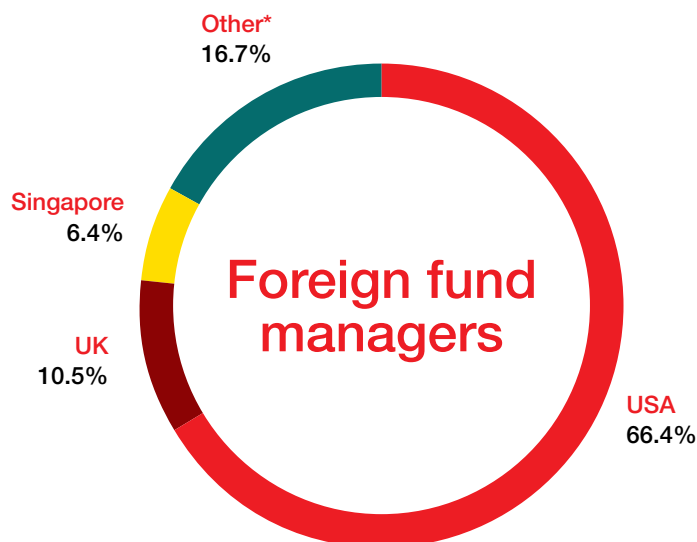
Beneficial shareholders holding 1% or more	No of Shares	%
Government Employees Pension Fund	70 051 109	11.85
Wiese, CH	63 247 189	10.70
Shoprite Checkers (Pty) Ltd	35 436 572	5.99
OppenheimerFunds	27 031 152	4.57
T. Rowe Price	22 758 534	3.85
Capital Group	17 230 505	2.91
Vanguard	17 200 273	2.91
GIC Private Limited	16 539 510	2.80
Lazard	14 172 101	2.40
Coronation Fund Managers	13 282 469	2.25
BlackRock	11 493 578	1.94
Le Roux, JF	8 861 281	1.50
Government Pension Fund – Norway	8 678 166	1.47
JPMorgan	8 405 136	1.42
Old Mutual	7 229 450	1.22
Sanlam	7 163 658	1.21
Totals	348 780 683	58.99

Shareholders

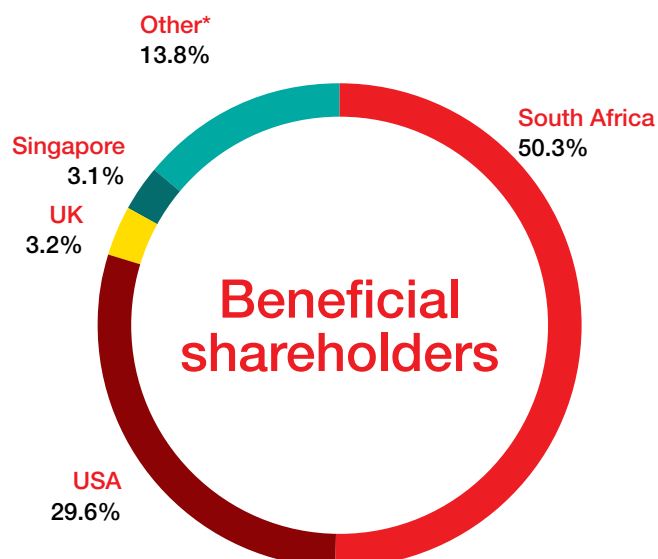
Country classification



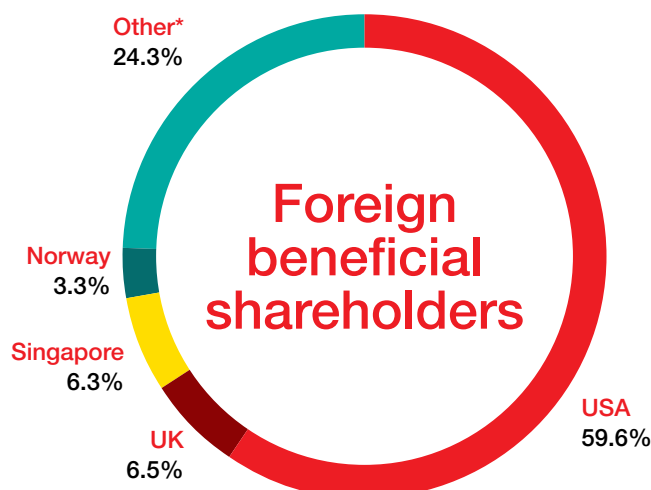
*Other: Japan, Luxembourg, Namibia, Australia, China, Canada, Denmark, Germany, France, UAE, Switzerland, Norway, Sweden, Netherlands, Ireland, Malta, Belgium, South Korea, Italy, Austria, Kuwait, Slovenia, Cayman Islands, Hong Kong, Chile



*Other: Japan, Luxembourg, Namibia, Australia, China, Canada, Denmark, Germany, France, UAE, Switzerland, Norway, Sweden, Netherlands, Ireland, Malta, Belgium, South Korea, Italy, Austria, Kuwait, Slovenia, Cayman Islands, Hong Kong, Chile, Saudi Arabia



*Other: Norway, Namibia, Japan, Luxembourg, Ireland, Canada, Unidentified, China, Australia, Denmark, Germany, Switzerland, South Korea, France, Netherlands, UAE, Sweden, Saudi Arabia, Zambia, Swaziland, Belgium, Malta, Kuwait, Cayman Islands, Italy



*Other: Namibia, Japan, Luxembourg, Ireland, Canada, Unidentified, China, Australia, Denmark, Germany, Switzerland, South Korea, France, Netherlands, UAE, Sweden, Saudi Arabia, Zambia, Swaziland, Belgium, Malta, Kuwait, Cayman Islands, Italy, Austria

Administration

Shoprite Holdings Ltd

Registration number

1936/007721/06

Registered office

Cnr William Dabbs Street and Old Paarl Road
Brackenfell, 7560, South Africa
PO Box 215, Brackenfell, 7561, South Africa
Telephone: +27 (0)21 980 4000
Facsimile: +27 (0)21 980 4050
Website: www.shopriteholdings.co.za

Company Secretary

Mr PG du Preez
Physical address: Cnr William Dabbs Street and Old Paarl Road
Brackenfell, 7560, South Africa
Postal address: PO Box 215, Brackenfell, 7561, South Africa
Telephone: +27 (0)21 980 4284
Facsimile: +27 (0)21 980 4468
Email: cosec@shoprite.co.za

Transfer Secretaries

South Africa

Computershare Investor Services (Pty) Ltd
PO Box 61051, Marshalltown, 2107, South Africa
Telephone: +27 (0)11 370 5000
Facsimile: +27 (0)11 688 5238
Email: Web.Queries@Computershare.co.za
Website: www.computershare.com

Namibia

Transfer Secretaries (Pty) Ltd
PO Box 2401, Windhoek, Namibia
Telephone: +264 (0)61 227 647
Email: ts@nsx.com.na

Zambia

ShareTrack Zambia
Spectrum House, Stand 10 Jesmondine
Great East Road, Lusaka, Zambia,
PO Box 37283, Lusaka, Zambia
Telephone: +260 (0)211 374 791 – 374 794
Facsimile: +260 (0)211 374 781
Email: sharetrack@scs.co.zm
Website: www.sharetrackzambia.com

Sponsors

South Africa

Nedbank Corporate and Investment Banking
PO Box 1144, Johannesburg, 2000, South Africa
Telephone: +27 (0)11 295 8525
Facsimile: +27 (0)11 294 8525
Email: doristh@nedbank.co.za
Website: www.nedbank.co.za

Namibia

Old Mutual Investment Services (Namibia) (Pty) Ltd
PO Box 25549, Windhoek, Namibia
Telephone: +264 (0)61 299 3347
Facsimile: +264 (0)61 299 3500
Email: NAM-OMInvestmentServices@oldmutual.com

Zambia

Pangaea Securities Ltd
1st Floor, Pangaea Office Park, Great East Road, Lusaka, Zambia,
PO Box 30163, Lusaka 10101, Zambia
Telephone: +260 (0)211 220 707 / 238 709/10
Facsimile: +260 (0)211 220 925
Email: info@pangaea.co.zm,
Website: www.pangaea.co.zm

Auditors

PricewaterhouseCoopers Incorporated
PO Box 2799, Cape Town, 8000, South Africa
Telephone: +27 (0)21 529 2000
Facsimile: +27 (0)21 529 3300
Website: www.pwc.com/za

Bankers

ABSA Bank Ltd
Citibank N.A.
First National Bank Ltd
Investec Bank Ltd
Nedbank Ltd
The Standard Bank of South Africa Ltd
Standard Chartered Bank PLC
JP Morgan Chase Bank, N.A.

Shareholders' diary

June	August	September	October	December	February	March
Financial year-end	Audited results	Publishing of Integrated Annual Report Payment of final ordinary dividend	Annual General Meeting	End of financial half-year	Interim results	Payment of interim ordinary dividend

Please consult our website www.shopriteholdings.co.za for the latest published diary dates.

