

RESILIENT SHOPRITE SHIELDS CONSUMERS AND PREPARES FOR FUTURE GROWTH

In testing trading conditions, the Shoprite Group has continued to show strength and resilience and has built on its solid foundation for future growth.

The Group increased turnover by 3.1% to R145.3 billion in the 12 months to 1 July 2018. Positive volume growth of 2.7% and a 3.3% increase in customer numbers as well as local market share gains reflect a strong underlying performance.

Turnover growth includes the effect of hyperinflation accounting in Angola for the first time in accordance with International Financial Reporting Standards. Excluding this adjustment, turnover increased by 3.6%.

The Group's internal inflation (its own selling prices) dropped off significantly to only 0.5% from 7.3% in the previous year as it continued to offer the most affordable products to financially stressed customers.

This, together with the effect of no economic growth, crippling unemployment levels and VAT, petrol, input costs and other price increases on customers, affected top line and profit growth. Trading profit was 1.4% lower but still R8.0 billion.

Integrated planning, strict cost disciplines and an extensive and sophisticated supply-line infrastructure have helped the Group to limit the effect of deflation, and report a still healthy trading margin of 5.5%.

The core South African supermarket operations, trading through 1 610 outlets and representing 74.0% of total sales, increased turnover by 5.7% despite deflation in selling prices for six out of the twelve months. Internal inflation declined sharply to just 0.3% from 5.9%, with 13 241 products in deflation during the year.

"This is testimony to Shoprite's commitment for almost 40 years to put customers first by keeping prices low," CEO Pieter Engelbrecht said. "The Group is able to provide some relief to customers under unprecedented financial pressure."

The Group's strategy to capture a bigger proportion of the higher LSM expenditure has seen Checkers, which excludes the larger format Hyper stores, outperform the market and increase sales by 8.2%.

Checkers' revamped stores and fresh and convenience offerings have been well received by customers, and higher LSM shoppers are spending more and shopping with increased frequency.

Checkers has converted 13 stores to the new look FreshX concept and aims to revamp at least a third of its stores to the new look in the medium term.

The sales increase at Shoprite was 4.3%, a creditable performance given that its customers are under severe financial pressure.

The small format, hard discounter Usave, offering the lowest possible prices on a limited assortment, continued to perform well with a 7.5% increase in turnover. A net 33 new

Usave stores were opened as reach was extended to consumers in traditionally underserved areas.

The LiquorShop stores in South Africa recorded a strong performance, with a 20.6% increase in sales and new store expansion of almost one store per week.

The implementation of a new SAP ERP system, the biggest IT project ever embarked upon by the Group, is almost complete. It will see all stores and distribution centres in all countries on one common technology platform and will facilitate inventory accuracy and improved efficiencies whilst addressing scalability.

Turnover at Supermarkets Non-RSA operations across 14 countries declined by 7.0%, measured against exceptional growth in Angola in the prior year and reflecting slow economic recoveries and currency fluctuations in the major countries of operation and a significant decline in internal inflation to just 1.1% from 14.4%.

The Group's imminent expansion into Kenya provides an exciting opportunity and reflects its ongoing commitment to the African continent, where it has a significant competitive advantage.

The Group continues to advance its primary purpose: to be Africa's most accessible and affordable food retailer. It opened a net 124 new corporate stores and at year-end was trading from 2 843 outlets, adding 3 676 additional jobs to bring the total staff complement to 147 478. It has created some 75 000 new jobs over the last 10 years.

While sales in the Non-RSA business will remain under pressure due to continued currency weakness and foreign exchange shortages, the Group is in a strong position going forward.

"Our key indicators remain strong. We remain robust and profitable and continue to attract more customers and win market share."

"We made a deliberate decision in the face of many headwinds to maintain investment in our people and in new stores for the sustainable long-term health of the business, the benefits of which will be realised in the future," Engelbrecht says.

"We continue to invest in our people and products and secure growth opportunities in South Africa and beyond for the long-term growth of the business and in order to serve our customers, communities, suppliers and shareholders."

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