When we grow everyone grows

Annual Financial Statements 2018

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Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

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The annual financial statements for the year ended 1 July 2018 have been audited by PricewaterhouseCoopers Inc., in compliance with the applicable requirements of the Companies Act, 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:

	2018	2017
US dollar	13.710	13.038
Pound sterling	17.979	16.969
Euro	15.972	14.916
Zambia kwacha	1.370	1.416
Mozambique metical	0.229	0.217

	2018	2017
Botswana pula	1.318	1.278
Uganda shilling	0.004	0.004
Malawi kwacha	0.019	0.018
Mauritius rupee	0.392	0.376
Angola kwanza	0.055	0.078

	2018	2017
India rupee	0.200	0.202
Ghana cedi	2.862	2.940
Madagascar ariary	0.004	0.004
Nigeria naira	0.045	0.043
DRC franc	0.008	0.009

Statement of responsibility by the board of directors

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

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 1 July 2018, 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 20 August 2018 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 1 July 2018, 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

20 August 2018

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. The Group prides itself in running a state-of-the-art distribution operation.
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, OK Dreams and House & Home outlets in South Africa, Botswana, Namibia, Swaziland, 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 Swaziland. 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

As a wholly owned subsidiary of Shoprite Holdings, Shoprite Investments conducts the Group's treasury function and financing of credit sales to third parties.

Computicket (Pty) Ltd

As a premier ticketing solution provider and one of the most recognised brand names, Computicket 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 USD as functional currency.

Other Group Subsidiaries

The interests of Shoprite Holdings in other subsidiaries are set out on page 79 of the annual financial statements.

Financial review

The Group's diluted headline earnings per share amounts to 968.7 cents for the year (2017: 1 007.4 cents). Details of the profit of Shoprite Holdings and its subsidiaries are contained in the statement of comprehensive income on page 15 with reference to the operating segment information on page 35. The financial position of Shoprite Holdings and its subsidiaries are recorded in the statement of financial position on page 14. Further details are furnished in the notes to the consolidated annual financial statements on pages 19 to 78. The Group's net asset value per share as at 1 July 2018 was 4 937 cents (2017: 4 905 cents).

Distribution to shareholders

Ordinary dividends

An interim cash dividend (no 138) of 205 cents per share was paid on 19 March 2018. A final dividend (no 139) of 279 cents per share, is payable on 10 September 2018, bringing the total dividend for the year to 484 cents (2017: 504 cents) per ordinary share.

Share capital

At the annual general and general meetings of shareholders on 30 October 2017, shareholders approved the:

- Conversion of 650 000 000 ordinary shares of 113.4 cents each into 650 000 000 ordinary shares having no par value;
- Increase in authorised ordinary share capital to 1 300 000 000 ordinary shares having no par value;
- Increase in the number of authorised deferred shares from 360 000 000 to 720 000 000 deferred shares.

During the period under review Shoprite Holdings purchased 8 683 327 ordinary shares from Bassgro (Pty) Ltd which were delisted on 15 September 2017 and cancelled. Subsequent to the delisting the issued ordinary share capital of Shoprite Holdings is 591 338 502 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 R3.274 billion to R6.977 billion during the financial year under review.

Special resolutions

At the annual general meeting of Shoprite Holdings held on 30 October 2017, 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;
- **Special resolution number 4:** General authority to repurchase shares;
- **Special resolution number 5:** Conversion of par value shares; and
- **Special resolution number 6:** Increase in authorised share capital.

During the reporting period the following special resolutions were passed by 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 28 and 29 and the company secretary's name, business and postal address 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.

Messrs JF Basson, JJ Fouché, JA Rock and Dr ATM Mokgokong retire as directors, in terms of Article 33.5.1 of the MOI of the Company, at the annual general meeting. All these directors have offered themselves for re-election as directors of Shoprite Holdings.

Ms S Zinn was appointed as an independent non-executive director on 31 August 2018 but retires in terms of Article 33.3 of the MOI at the annual general meeting on 29 October 2018. Being eligible for election, Ms Zinn offers herself for re-election.

The Board supports the re-election of these directors.

Mr JW Basson resigned as non-executive vice chairman with effect from 25 October 2017 whilst Mr A de Bruyn was appointed as executive director from 2 July 2018.

Directors' and alternate directors' interests in ordinary shares

Non-executive directors

	Direct beneficial	Indirect beneficial	Total 2018	Total 2017
CH Wiese	—	82 232 795	82 232 795	101 315 275
JF Basson	—	1 000	1 000	1 000
JW Basson*	n/a	n/a	n/a	9 104 122
JJ Fouché	472 171	—	472 171	472 171
CG Goosen	3 000	1 014 202	1 017 202	1 117 202
EC Kieswetter	9 509	—	9 509	7 924
JA Louw	—	50 000	50 000	50 000
ATM Mokgokong	—	—	—	—
JA Rock	—	—	—	—
JD Wiese**	—	14 674	14 674	14 074

* Resigned as non-executive vice chairman on 25 October 2017
** Alternate director

Executive directors

	Direct beneficial	Indirect beneficial	Total 2018	Total 2017
PC Engelbrecht	313 555	201 039	514 594	463 720
M Bosman#	136 410	60 000	196 410	208 147
B Harisunker	407 379	—	407 379	407 379
EL Nel+	—	148 727	148 727	148 727
JAL Basson++	66 044	89 201	155 245	155 245

Retired with effect from 2 July 2018
+ Retired with effect from 29 June 2018
++ Appointment as alternate director ended with effect from 29 June 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 2018	Total 2017
CH Wiese	305 621 601	305 621 601

Corporate governance

Statements of the Board's application of the codes of good corporate governance are set out in the Corporate Governance report on pages 47 to 50 of the Integrated Report.

Board committees

The reports of the various board committees are included in the corporate governance section of the Integrated Report on pages 51 to 67.

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.

Directors' report (continued)

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 1 July 2018 to the date of this report.

Holding company

Shoprite Holdings has no holding company. An analysis of the main shareholders appears on page 79 of the annual financial statements.

Litigation statement

Save for the referral to the National Consumer Tribunal and the judgement delivered in the Nigeria High Court as stated in note 32.3 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 of the South African subsidiaries of Shoprite Holdings, as permitted by section 94(2)(a) of the Companies Act.

The Audit Committee's terms of reference is formalised in a charter informed by the Companies Act and King IV™ which have been approved by the Board. The charter is reviewed on an annual basis.

During the period under review, the Audit Committee conducted its affairs in accordance with the charter and has discharged its responsibilities as required.

Audit Committee members, meeting attendance and assessment

Membership

The Audit Committee consists of four (4) independent non-executive directors elected by the shareholders of Shoprite Holdings on recommendation by the Board and is chaired by Mr JF Basson who is a chartered accountant. All the Audit Committee members are suitably skilled and experienced.

Audit Committee membership is restricted to independent non-executive directors. The financial director, internal and external auditors attended the Audit Committee meetings by invitation whilst the company secretary acted as secretary to the Audit Committee meetings. Other members of senior management responsible for finance and risk and information and technology also attended as required.

Meetings

Audit Committee meetings are held at least four (4) times a year as required by the charter. During the period under review, the Committee met five (5) times. In addition, a special Audit Committee meeting was held on 17 August 2018 to approve the 2017/18 annual financial statements of the Company.

The attendance of the Committee members is recorded below:

Committee member	14 August 2017	(Special) 18 August 2017	27 October 2017	16 February 2018	17 May 2018
JF Basson (Chairman)	✔	✔	✔	✔	✔
JA Louw	✔	✖	✔	✔	✔
JJ Fouché	✔	✔	✔	✔	✔
JA Rock	✔	✔	✔	✖	✔

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 addition, members were assessed in terms of the independence requirements of King IV™ and the Companies Act. All members of the Audit Committee continue to meet the independence requirements.

Responsibilities and functions

The responsibilities and functions of the Audit Committee are set out in the charter. The following is a summary of the responsibilities of the Audit Committee and how the committee carried out its functions.

Internal control framework

Internal Financial Controls

During the period under review, the Audit Committee reviewed the reports on the design, implementation and effectiveness of the Group's systems of internal financial controls. No material breakdowns in the internal and financial controls came to the attention of management of the Group that required reporting.

Assurance on compliance with systems of internal control and their effectiveness is obtained through regular management reviews, assurance from internal audit and testing of certain aspects of the internal financial control systems by the external auditors during the course of their statutory audit.

Finance function

Mr M Bosman retired as financial director and Mr A De Bruyn was appointed as his successor, both with effect from 2 July 2018. The Audit Committee, through a formal process, has satisfied itself that both Messrs Bosman and De Bruyn have the appropriate expertise and experience to act in this capacity. Mr de Bruyn's curriculum vitae appears on page 29 of the Integrated Report.

A written report on the manpower, roles and responsibilities, qualifications and experience of senior members of the Group Finance department was also considered. Based on this assessment, the Audit Committee is satisfied that the Group finance function has the required expertise and adequacy of resources to perform the Group financial function.

The Audit Committee is further satisfied that Shoprite Holdings has established appropriate financial reporting procedures and that these procedures are operating.

Risk governance

Whilst the Board is ultimately responsible for the maintenance of an effective risk management process, the Audit Committee assisted the Board in assessing the adequacy of the risk management process.

Shoprite has, over the years, managed its risks in terms of the applicable enterprise risk management fundamentals by establishing the context in terms of its internal and external environments, developing its risk profile/ landscape, which includes its risk taxonomy in relation to its organisational structure, risk categories, processes and controls, setting its strategy, objectives and risk appetite and tolerance levels and implementing a Group risk register.

In order to mature Governance Risk and Compliance ("GRC") in the Group the business has embarked on this journey through the appointment of a dedicated Group risk and compliance manager during 2017/18.

The risk forum (a management committee consisting of senior managers from all business units and chaired by the financial director) met four (4) times during the reporting period. During these meetings significant risks affecting the Group were considered and discussed to ensure that executive management is aware of the risks affecting the Group and their business units. Minutes of these meetings are submitted to the Audit Committee for consideration.

Audit and Risk Committee report (continued)

Shoprite's Risk Governance policy and framework provides guidance to implement a consistent, efficient, and economical approach to identify, evaluate and respond to key risks that may impact its business objectives. The framework is based on the principles embodied in the Enterprise Risk Management Framework published by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission, the International Guideline on Risk Management ("ISO31000") and the King Code on Corporate Governance Principles ("King IV™"). Risk Governance also forms an integral part of strategy and objective setting.

The principles outlined support the establishment of the Group's Risk Governance framework and ensure that risk management is embedded into day-to-day management activities.

The Shoprite Group's Risk Landscape includes 48 risk category descriptions which remains key focus areas on an ongoing basis and is driven from its five strategic drivers namely:
- revenue growth;
- cost efficient and resilient operations;
- customer service excellence;
- optimise people engagement; and
- corporate governance and sustainability,

and linked to the four main risk categories: strategic, operational, financial and compliance.

The following key risks remain high priority for Shoprite for the reporting period namely:
- reputational risk and brand deterioration;
- interruption in supply chain;
- loss of DC facilities due to fire risk;
- food safety;
- injury to employees, contractors, customers and other third parties;
- deterioration of trade union relationships as well as the risk of third party supplier employee strike actions;
- cyber risk;
- internal fraud; and
- regulatory risk.

These risks are closely managed and monitored by the business on a daily basis. In some instances even though the most effective controls have been implemented, these risks remain high.

Shoprite has a low risk appetite and zero tolerance for non-compliance to Health and Safety regulatory requirements. A dedicated Group health and safety manager has been appointed to drive health and safety risk management in the Group, which risk is closely managed and monitored.

The Group risk and compliance manager annually reviews, in conjunction with each business unit, the business unit specific risks as well as related controls, to determine the relevant residual risk. Critical and high residual risks are reported on a quarterly basis to ensure adequate management and transparency. Shoprite's combined assurance model is utilised to monitor the effectiveness of risk management and its internal control systems report utilised to track material defects in line with agreed deadlines to adjust, implement and test new control measures.

An internal operational risk loss database will be utilised going forward to enable the quantification of losses at a granular level in real time. This will highlight internal control failures other than those identified through internal and external planned audits.

Focus will continue and be enhanced in respect of losses due to fraud, whether internal by employees or external by any trade or expense vendor, as Shoprite has a low risk appetite and zero tolerance in this regard.

Shoprite's approach to risk governance remains consistent and within its current risk appetite and tolerance levels, with limited risks where the risk appetite is high. When identifying new or additional opportunities the same approach will be followed in terms of risk assessment and rating, whereby the relevant risk appetite and tolerance levels will be agreed and set.

Compliance governance

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

Each business unit has its own unique regulatory universe, which have been categorised and risk assessed, rated in terms of critical, high, medium and low likelihood and compliance risk impact to the business.

The constantly changing regulatory landscape is carefully monitored to ensure that key regulatory changes and any other significant compliance matters are escalated to the relevant management and executive teams. If required, and after consultation, the risk and compliance manager engages South African Regulators through the Industry Body, Consumer Goods Council South Africa ("CGCSA"), in an attempt to influence legal and regulatory reform and requirements.

Compliance monitoring is conducted to ensure that adequate assurance is provided to the Board. It is very similar in nature to that of auditing, with the main difference that compliance monitoring relates specifically to legislation and other regulatory requirements as well as related internal policies, processes and procedures. This monitoring is conducted through various assurance providers, namely:
- **1st line of assurance:** Line Management;
- **2nd line of assurance:** Legal, Risk and Compliance (independent);
- **3rd line of assurance:** Internal Audit (independent);
- **4th line of assurance:** External Auditors (independent); Other External Assurance Providers; and Regulators.

Due to limited resources, the 2nd line of assurance utilises the services of Internal Audit in certain instances, whereby the two lines of assurance collaborate to ensure that priority regulatory categories are incorporated into the internal audit plan.

Compliance monitoring takes on different 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, to mitigate regulatory compliance risk. 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 any).

Collectively the above assurance providers, provides combined assurance to the Board in respect of all activities monitored.

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, affecting their business units.

The following regulatory areas were identified as key for the reporting period:
- consumer protection;
- food safety;
- health & safety;
- labour and employment equity;
- B-BBEE;
- Protection of Personal Information ("POPI");
- competition;
- environmental; and
- tax.

These regulatory compliance risks are closely managed and monitored by the various assurance providers, as well as in combination, on a daily basis to ensure effective controls are in place and maintained.

The Group risk and compliance manager annually reviews, in conjunction with each business unit, the business unit specific regulatory risks as well as related controls to determine the relevant residual risk. Critical and high residual regulatory risks are reported on a quarterly basis to ensure adequate management and transparency. Shoprite's combined assurance model is utilised to monitor the effectiveness of compliance risk management and is an internal control systems report utilised to track material defects in line with agreed deadlines to adjust, implement and test new control measures.

Planned future focus areas are: health and safety, food safety, anti-bribery and corruption, competition, environmental, POPI and tax.

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

There were no material monitoring and compliance inspections by environmental regulators, findings of non-compliance with environmental laws, or criminal sanctions and prosecutions for such non-compliance.

Information Technology (IT) governance

The Board Charter and Audit Committee Charter define the Board's and Audit Committee's responsibility for the governance of IT, as well as reporting lines and reporting requirements. The IT Charter defines the Board's responsibility for ensuring the responsible use of IT. Within the Charter:

- the Board accepts its accountability for the overall governance of IT;
- authority is delegated for managing the use of IT (including the setting of Group-wide minimum standards) and the mandates provided for IT decision-making; and
- certain frameworks are endorsed for the establishment of controls aimed at mitigating the risks associated with IT.

Frameworks of control (including minimum standards, policies, procedures and rules) govern specific areas of risk.

IT Governance is implemented and operationalised 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 and procurement processes, disaster recovery trials and IT financial analysis reports.

IT risks are identified and managed through the IT Risk Register and related Action Tracker. The approach adheres to the Group ERM Policy.

IT reporting is provided to the Group Risk Forum, the Audit and Risk Committee and to the Board.

During the financial year, the Audit Committee reviewed the implementation of all relevant IT governance mandates, policies, processes and control frameworks. Furthermore, the Audit Committee also provides assurance to the Board on all IT related matters, including significant IT 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 focussed on the following key areas during the reporting period:

- **SAP IS Retail system implementation**
  The major IT system change during the reporting period was the preparation for and implementation of the SAP IS Retail system. Implementation started in August 2017 and is ongoing with the target date for completion by January 2019. The Audit Committee was informed about the progress of the implementation of the project, the implementation risks and how the risks were managed on a continuous basis. The Audit Committee also monitored the cost of the project against the original budget.

- **Information security**
  The Group recognises the significant threat that cybersecurity presents and how successful cybersecurity attacks can cause significant damage to a Group's business and reputation. As a result, an independent expert review was undertaken to assess the effectiveness of the Group's current IT security measures.

  Following the review, management embarked on a process of developing an Information Security Management System ("ISMS") as part of the process to improve the management of Cyber and other Security risks identified and to ensure the confidentiality, integrity and availability of information to the Group.

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

Combined assurance

Combined assurance model

Shoprite has adopted a combined assurance approach which is closely aligned with King IV™. The Board delegated the responsibility of oversight 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) assurance activities across all lines of assurance, which include:

- line functions that own and manage risk and opportunity;
- specialist functions that facilitate and oversee enterprise risk management and compliance;
- internal assurance providers i.e. internal auditors, internal forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries;
- independent external assurance service providers such as external auditors;
- other external assurance providers such as sustainability and environmental auditors, external actuaries, and external forensic fraud examiners and auditors; and
- regulators.

The risk and compliance manager, in conjunction with the internal audit manager, is continually striving to enhance the combined assurance model.

Internal Audit

The Audit Committee is responsible to ensure that the Group's internal audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its responsibilities effectively. Furthermore, it oversees cooperation between the internal and external auditors, and serves as a link between the Board and these functions.

Internal audit activities, all of which are risk based, are performed by a team of appropriately qualified and experienced employees who are led by the internal audit manager. The internal audit department is responsible for reviewing and providing assurance on the adequacy of the internal control environment across all of the significant areas of the Group's operations. Internal audit's activities are measured against an approved internal audit plan and the internal audit manager tables a progress report in this regard to the Audit Committee at each meeting.

The internal audit manager has direct access to the Audit Committee, primarily through the Chairman.

Audit and Risk Committee report (continued)

During the reporting period a formal independent quality review was performed of the Internal Audit function. The review highlighted certain areas for improvement of the effectiveness of the Internal Audit function. The internal audit manager is in the process of formalising plans to address aspects highlighted by the review and aligning the internal audit plan with the Combined Assurance model.

External Audit
The Audit Committee evaluates the performance of the external auditor, PricewaterhouseCoopers (PwC), against specified criteria that include delivering value to shareholders and the Group, and also assesses the effectiveness of the external audit process by:

- considering the external audit plan, in particular to get assurance that it addresses changes in circumstances from the prior year;
- reviewing the terms of engagement of the external auditor;
- monitoring the completion of the audit;
- meeting with the audit partners; and
- overseeing (and approving where relevant) non-audit services.

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 in respect of the 2017/18 financial year.

The Audit Committee is satisfied with the quality of the external audit.

A formal framework governs the process through which PwC renders non-assurance services to ensure that the 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 the nature and extent of non-assurance services that may be provided in terms of a pre-approval policy.

A breakdown of audit, audit-related and non-audit fees paid to PwC in the 2017/18 financial year is summarised as follows:

Description	Amount
Audit services	R34 363 085
Audit related services	R3 790 000
Total audit and audit related services	**R38 153 085**
Tax advisory and compliance services	R4 497 000
Other non-audit services	R5 004 000
Total non-audit services	**R9 501 000**
Total	**R47 654 085**

The Audit Committee annually assesses the independence of the external auditor. The following aspects were considered as part of the assessment of the independence of PwC:

- the fact that 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 audit partner rotation process which is in place in accordance with legal and regulatory requirements. Mr MC Hamman acted as the designated audit partner for the year under review;
- the nature of the aspects reported on 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) are in compliance with section 91(5) of the Companies Act, by comparison with the membership of the firm at the time of its re-appointment in 2017, more than one half of the members remain in 2018;
  - (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 the above assessment, the Audit Committee is satisfied that PwC is independent of the Group.

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

Based on the above conclusions on PwC's independence and taking into account the fact that MAFR will be required with effect from 1 April 2023, the Audit Committee re-nominates PwC as independent external auditor for the 2018/19 financial year with Mr MC Hamman performing the functions of the designated external auditor partner, until the 2019 annual general meeting of Shoprite Holdings. Shareholders are therefore requested to re-elect PwC as independent external auditor for the 2018/19 financial year at the annual general meeting on 29 October 2018 with Mr 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 which includes the review of significant accounting policies, key accounting items and areas of significant judgement, together with any material assumptions and estimates adopted by management and confirmed that these were appropriate and recommended the acceptance and approval thereof to the Board.

The Audit Committee considered, amongst others, the following significant matters in relation to the annual financial statements:

- **Use of the official exchange rate in Angola**
  IFRS requires the use of the official exchange rate for accounting of foreign investments. Other views are that the unofficial rate should rather be used. It was agreed with management that more information on the impact of the use of the official rate will be disclosed in the 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 managed and addressed within the current regulatory framework.

- **Hyperinflation in Angola**
  IAS 29: Financial Reporting in Hyperinflationary Economies, requires financial statements of entities operating in a hyperinflationary economy to take full account of the effects of inflation using a "current purchasing power" approach. The Audit Committee considered the applicability of this standard in respect of the Group's investment in Angola and the impact of the application of IAS 29 on the disclosures required in the 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 the utilisation of the assets imposed by the regulations and the appropriate classification of those assets in the light of the restrictions. The Audit Committee challenged management assessment and is in agreement with management on the classification of those assets.

- **Provisions**
  The Audit Committee discussed with management and the external auditors and evaluated the major provisions made or required to be made for purposes of the annual financial statements. The Audit Committee is satisfied that sufficient provisions have been made and that the provisions are not excessive.

- **Impairments**
  The Audit Committee considered the policy for impairment of 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 the requirements of IAS 36. The key assumptions to the impairment tests performed were discussed.

- **Taxes**
  The Audit Committee reviewed management's reports on the status of tax compliance in the Group as well as the status of disputes with and investigations by the relevant tax authorities to ensure that sufficient provision has been made for any potential income and other tax liabilities.

- **Inventory valuation**
  In the past, inventories were valued through the use of the retail inventory method as an approximation of weighted average cost. With the implementation of the SAP IS Retail System, the Group is now in a position to apply the moving average cost method. The SAP IS Retail System is however not yet fully implemented in all the branches and distribution centres. Management assessed the impact of this change in method on the valuation of inventory in respect of those branches and distribution centres where the SAP IS Retail System has not been implemented at year-end to account for the estimated impact of the change in method on those branches and distribution centres. The Audit Committee considered management assessment and is satisfied that the effect of the change in method is appropriately accounted for.

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

  The Audit Committee considered the work and recommendations of the Group's finance function and received reports from the external auditor on their findings, including any control observations relevant to their audit work.

- **Revenue recognition**
  The Audit Committee discussed the potential impact of the implementation of the revised standard IFRS 15: Revenue from contracts with customers, on the financial statements of the Group. It is expected that the implementation of the revised IFRS 15 will mainly affect the revenue classification of OK Franchise.

- **Leases and Financial Instruments**
  The Audit Committee discussed the impact of the implementation of IFRS 16: Leases and IFRS 9: Financial Instruments on the financial statements of the Group.

Integrated and Sustainability reporting

In fulfilling its oversight responsibilities, the Audit Committee has reviewed the sustainability information that forms part of the Group's Integrated Report and has assessed its consistency with operational and other information known to the Audit Committee members, as well as its consistency with the Group's 2018 annual financial statements.

The Audit Committee is satisfied that it is consistent with the Group's financial results. As such the Audit Committee has recommended that the Group's Integrated Report be approved by the Board.

Going concern

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

Recommendation to the Board

The Audit Committee has reviewed and considered the Integrated Report, including the annual financial statements and has recommended it for approval by the Board.

JF Basson
Chairman

20 August 2018

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 Holdings Limited (the Company) and its subsidiaries (together the Group) as at 1 July 2018, 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 14 to 79 comprise:

- the consolidated and separate statements of financial position as at 1 July 2018;
- 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 annual 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.

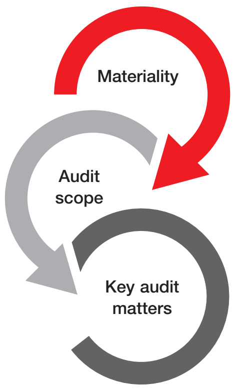
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

Our audit approach

Overview



Overall Group materiality

- Overall Group materiality: R366,700,000 which represents 5% of 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 assets in non-RSA operations
- Hyperinflation accounting
- Recognition of supplier rebates
- Accuracy of supermarkets inventory

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	R366,700,000
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 in order 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 the contribution to consolidated revenue and consolidated profit before tax. These in-scope components included the most significant components outside South Africa. The remainder of the components were considered to be insignificant to the Group individually and in aggregate.

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, or 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 judgment, 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. We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Impairment of assets in non-RSA operations
Refer to the accounting policies note 1.1.1.2 (b) (Assumptions and estimates – Impairment of assets), note 3 (Property, plant and equipment) and note 8.1 (Amounts owing by associate).

Due to a weakening in the general economic conditions in some of the non-RSA countries in which the Group operates and as result of a significant reduction in the future expected sales of merchandise an impairment of property, plant and equipment of R55 million was recorded in the current year.

An impairment charge of R34 million was recorded on the R990 million loans owing by Resilient Africa Proprietary Limited, an associate of the Group. As disclosed in note 6 to the financial statements, this associate is involved in the investment and letting of properties in Nigeria. These loans are thus underpinned by the properties in Nigeria. Estimates and judgement are required for the assumptions within the valuations of the properties and the related impairment assessment.

We regarded the impairment of assets in non-RSA operations to be a matter of most significance to the audit because of the judgemental factors involved in management's testing for impairment and because of the significant carrying values of property, plant and equipment and amounts owing by the associate.

In relation to the impairment on property, plant and equipment, judgement is required in identifying indicators of impairment and estimation is required in determining the recoverable amount of each of the Group's stores.

Management 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 and long-term growth rates.

For loss-making stores with no short-term positive outlook, the immoveable assets are identified and fully impaired.
</td><td>

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 growth rates.
■ We tested the mathematical accuracy of management's calculations;
■ We assessed the completeness of the stores included in management's assessment by reperforming the assessment;
■ 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 growth rates with reference to industry reports.

We found, based on our audit work performed, that the key assumptions and inputs used by management were supportable and appropriate in light of the current environment.

For our assessment of the impairment of the loans owing by the associate we obtained management's impairment assessment which included results for the associate and external property valuations. We assessed the independence and competence of management's external valuation expert and tested the reasonability of the valuation reports. No material exceptions were noted in our review of the loans impairment assessment.
</td></tr>
</table>

Independent auditor's report (continued)

Key audit matter	How our audit addressed the key audit matter
Hyperinflation accounting Refer to the accounting policies note 1.1 (Basis of preparation), note 1.1.1.1 (f) (Judgments – Hyperinflation) and note 1.4 (Hyperinflation). The impact on the financial statement line items affected has been included in each of the relevant notes to the financial statements. For the financial year ended 1 July 2018, 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. The hyperinflation impact reduced the Group's sale of merchandise with R777 million, while prior period gains of R869 million, which arose from the net monetary position, were recognised in other comprehensive income. These hyperinflationary adjustments were determined to be a matter of most significance to the audit due to the significance of the balances and transactions, and the complexity and subjectivity relating to the application of the Standard. IAS 29 requires significant judgments to be made by management considering the guidelines provided in 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. Our audit procedures included, among others: ■ We assessed and tested the indicators of hyperinflation on 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 Refer to the accounting policies note 1.1.1.2 (a) (Assumptions and estimates – Rebates from suppliers) and note 1.27 (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 recognises other income or a reduction in cost of sales as a result of amounts receivable from suppliers. We regarded the recognition of supplier rebates to be a matter of most significance to the audit as there is a risk that rebates may be materially misstated due to the significant magnitude thereof, the varying terms with the suppliers and also the judgements made in accruing for rebates as at year-end in relation to the nature and level of fulfilment of the Group's obligation under the supplier agreements.	We assessed the systems used to calculate rebates as well as the controls implemented by management over the accuracy of the calculation of rebates with the assistance of our information technology (IT) specialists. We tested the inputs used in calculating the supplier rebates by performing, among others, the following procedures for a sample of rebates: ■ We obtained the supplier contracts and agreed key terms such as discounts, allowances and targets 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. ■ 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.
Accuracy of supermarkets inventory Refer to the accounting policies note 1.15 (Inventories) and note 11 (Inventories). The Group held R18 billion of inventories at 1 July 2018 which includes supermarkets inventory. During the year the Group changed its measurement technique used to calculate the costing of inventory, from the retail inventory method to the weighted average cost method. The Group's new merchandise information system was used to determine the weighted average cost. The accuracy of supermarkets inventory was regarded as a matter of most significance to the audit due to the audit effort that was involved in testing the change in costing measurement technique, including the testing of data transferred to the new merchandise information system.	With the assistance of our IT specialists, we obtained an understanding of the process followed by management whilst transferring the inventory costing data from the old system to the new system and tested the IT general and manual controls management implemented to facilitate this data transfer. For a sample of items transferred, we tested the accuracy and noted no material differences between the two systems for the items selected. With the assistance of our IT specialists, we evaluated the IT general controls over the relevant new systems and tested the application controls over the inventory valuation process. These procedures included evaluating the process of recording inventory on receipt and agreeing a sample of invoices to proof of inventory receipt and relevant purchase orders. We tested the initial measurement of the inventory, by selecting a sample of inventory items and tracing them to the related purchase invoices. We tested subsequent measurement with the use of computer assisted audit techniques to assess whether the system appropriately calculated the weighted average cost of inventory. We noted no material differences during performance of these audit procedures.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Shoprite Holdings Limited Annual Financial Statements for the year ended 1 July 2018, which includes the Directors' report, the Audit and Risk Committee's 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 other sections of the Shoprite Holdings Limited Integrated Report 2018, which is expected to be made available to us after that date. Other information does not include the consolidated and 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 36 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: MC Hamman
Registered Auditor

Cape Town
20 August 2018

Statements of financial position

Shoprite Holdings Ltd and its subsidiaries as at 1 July 2018

Company				Group	
2017 Rm	2018 Rm		Notes	2018 Rm	2017 Rm
		Assets			
7 916	8 881	**Non-current assets**		29 352	24 572
—	—	Property, plant and equipment	3	21 218	18 407
7 909	8 874	Investments in subsidiaries	5	—	—
6	6	Equity accounted investments	6	—	27
—	—	Held-to-maturity investments	7	2 090	1 311
—	—	Loans and receivables	8	1 318	1 110
1	1	Deferred income tax assets	9	876	859
—	—	Intangible assets	10	2 994	2 355
—	—	Trade and other receivables	12	856	503
6 147	4 110	**Current assets**		32 306	31 032
—	—	Inventories	11	17 959	17 794
4	—	Trade and other receivables	12	4 931	5 105
—	—	Derivative financial instruments		—	1
—	—	Current income tax assets		120	154
5 576	4 098	Amounts owing by subsidiaries	5	—	—
—	—	Held-to-maturity investments	7	1 600	—
—	—	Loans and receivables	8	231	211
567	12	Cash and cash equivalents		7 465	7 767
—	—	**Assets held for sale**	4	184	119
14 063	12 991	**Total assets**		61 842	55 723
		Equity			
		Capital and reserves attributable to owners of the parent			
681	—	Share capital	13	—	681
8 585	—	Share premium		—	8 585
—	7 516	Stated capital	13	7 516	—
—	—	Treasury shares	13	(554)	(446)
4 781	5 461	Reserves	15	20 424	18 838
14 047	12 977			27 386	27 658
—	—	**Non-controlling interest**		91	91
14 047	12 977	**Total equity**		27 477	27 749
		Liabilities			
—	—	**Non-current liabilities**		3 567	1 492
—	—	Borrowings	16	1 371	—
—	—	Deferred income tax liabilities	9	697	96
—	—	Provisions	17	264	232
—	—	Fixed escalation operating lease accruals		1 235	1 164
16	14	**Current liabilities**		30 798	26 482
11	13	Trade and other payables	18	20 621	17 414
—	—	Borrowings	16	5 606	3 274
5	1	Current income tax liabilities		481	582
—	—	Provisions	17	95	154
—	—	Bank overdrafts		3 995	5 058
16	14	**Total liabilities**		34 365	27 974
14 063	12 991	**Total equity and liabilities**		61 842	55 723

Statements of comprehensive income

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 52 weeks 2017 Rm	Company 52 weeks 2018 Rm		Notes	Group 52 weeks 2018 Rm	Group 52 weeks 2017 Rm
—	—	Sale of merchandise		145 306	141 000
—	—	Cost of sales		(110 580)	(107 174)
—	—	**Gross profit**		34 726	33 826
4 325	3 876	Other operating income	19	2 779	2 615
—	—	Depreciation and amortisation	20	(2 530)	(2 176)
—	—	Operating leases	21	(4 272)	(3 819)
—	—	Employee benefits	22	(10 851)	(10 498)
(18)	(15)	Other operating expenses	24	(12 494)	(11 821)
—	—	Net monetary gain		653	—
4 307	3 861	**Trading profit**		8 011	8 127
—	—	Exchange rate losses		(251)	(236)
—	—	Items of a capital nature	25	(246)	(166)
4 307	3 861	**Operating profit**	26	7 514	7 725
19	14	Interest received		215	226
—	—	Finance costs	27	(422)	(340)
—	—	Share of profit of equity accounted investments	6	27	4
4 326	3 875	**Profit before income tax**		7 334	7 615
(28)	(39)	Income tax expense	28	(2 121)	(2 180)
4 298	3 836	**Profit for the year**		5 213	5 435
—	—	**Other comprehensive income, net of income tax**		(689)	(933)
		Items that will not be reclassified to profit or loss			
—	—	Re-measurements of post-employment medical benefit obligations		2	3
		Items that may subsequently be reclassified to profit or loss			
—	—	Foreign currency translation differences including hyperinflation effect	15	(678)	(822)
—	—	Share of foreign currency translation differences of equity accounted investments	15	(2)	(103)
—	—	Gains/(losses) on effective cash flow hedge	15	(11)	(11)
		For the year		3	(11)
		Reclassified to profit for the year		(14)	—
4 298	3 836	**Total comprehensive income for the year**		4 524	4 502
		Profit attributable to:			
4 298	3 836	Owners of the parent		5 201	5 428
—	—	Non-controlling interest		12	7
4 298	3 836			5 213	5 435
		Total comprehensive income attributable to:			
4 298	3 836	Owners of the parent		4 512	4 495
—	—	Non-controlling interest		12	7
4 298	3 836			4 524	4 502
		Basic earnings per share (cents)	29	934.3	999.8
		Diluted earnings per share (cents)	29	933.4	984.8

Statements of changes in equity

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Rm	Notes	Total equity	Non-controlling interest	Total	Share capital	Share premium	Stated capital	Treasury shares	Other reserves	Retained earnings
				Attributable to owners of the parent						
Group										
Balance at 3 July 2016		21 139	65	21 074	650	4 029	—	(760)	554	16 601
Total comprehensive income		4 502	7	4 495	—	—	—	—	(936)	5 431
Profit for the year		5 435	7	5 428						5 428
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	15	(925)		(925)					(925)	
Losses on effective cash flow hedge	15	(15)		(15)					(15)	
Income tax effect of losses on effective cash flow hedge	15	4		4					4	
Share-based payments – value of employee services	15	139		139					139	
Modification of cash bonus arrangement transferred from provisions	17	6		6					6	
Purchase of treasury shares	13	(59)		(59)				(59)		
Treasury shares disposed		2		2				2		
Realisation of share-based payment reserve	15	—		—				371	(371)	
Ordinary shares issued on conversion of convertible bonds	13	4 587		4 587	31	4 556				
Equity component of convertible bonds converted during the period transferred to retained earnings		—		—					(361)	361
Non-controlling interest on acquisition of subsidiary		2	2	—						
Non-controlling interest on disposal of subsidiary		27	27	—						
Dividends distributed to shareholders		(2 596)	(10)	(2 586)						(2 586)
Balance at 2 July 2017		27 749	91	27 658	681	8 585	—	(446)	(969)	19 807
Total comprehensive income		4 524	12	4 512	—	—	—	—	(691)	5 203
Profit for the year		5 213	12	5 201						5 201
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					177	
Income tax on foreign currency translation differences including hyperinflation effect	15	(857)		(857)					(857)	
Gains on effective cash flow hedge	15	(15)		(15)					(15)	
Income tax effect of gains on effective cash flow hedge	15	4		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					64	
Modification of cash bonus arrangement transferred from provisions	17	9		9					9	
Buy-back and cancellation of ordinary shares		(1 750)		(1 750)	(10)	(1 740)				
Purchase of treasury shares	13	(142)		(142)				(142)		
Treasury shares disposed		6		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)
Balance at 1 July 2018		27 477	91	27 386	—	—	7 516	(554)	(1 620)	22 044

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
Company										
Balance at 3 July 2016		7 916		7 916	650	4 029	—	—	2	3 235
Total comprehensive income										
Profit for the year		4 298		4 298						4 298
Ordinary shares issued	13	4 587		4 587	31	4 556				
Dividends distributed to shareholders		(2 754)		(2 754)						(2 754)
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

Statements of cash flows

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm		Notes	Group 2018 Rm	Group 2017 Rm
1 546	682	**Cash flows from operating activities**		7 418	3 339
4 307	3 861	Operating profit		7 514	7 725
(4 309)	(3 814)	Less: investment income		(344)	(189)
—	—	Non-cash items	31.1	2 919	3 089
(4)	5	Changes in working capital	31.2	2 686	(2 278)
(6)	52	Cash (utilised by)/generated from operations		12 775	8 347
63	97	Interest received		493	399
—	—	Interest paid	27.1	(555)	(416)
4 265	3 731	Dividends received		49	16
(2 754)	(3 155)	Dividends paid	31.3	(2 980)	(2 595)
(22)	(43)	Income tax paid	31.4	(2 364)	(2 412)
(1 407)	513	**Cash flows from/(utilised by) investing activities**		(7 355)	(6 985)
—	—	Investment in property, plant and equipment and intangible assets to expand operations		(3 720)	(3 836)
—	—	Investment in property, plant and equipment and intangible assets to maintain operations		(1 616)	(1 331)
—	—	Proceeds on disposal of property, plant and equipment and intangible assets		132	40
—	—	Proceeds on disposal of assets held for sale		121	—
—	—	Payments for held-to-maturity investments		(2 401)	(1 370)
—	—	Proceeds from held-to-maturity investments		490	—
—	—	Amounts paid to Resilient Africa (Pty) Ltd		(7)	(612)
—	—	Amounts received from Resilient Africa (Pty) Ltd		—	136
—	—	Amounts paid to RMB Westport Osapa		(182)	—
—	—	Amounts repaid by employees		102	123
—	—	Other investing activities		(99)	(125)
(4 173)	(3 784)	Amounts paid to subsidiaries		—	—
4 769	5 262	Amounts received from subsidiaries		—	—
(2 003)	(965)	Investment in subsidiaries		—	—
—	—	Investment in joint venture		(150)	—
—	—	Cash outflow on disposal of investment in subsidiary		—	(9)
—	—	Acquisition of subsidiaries and operations		(25)	(1)
267	(1 750)	**Cash flows (utilised by)/from financing activities**		1 426	2 826
—	—	Purchase of treasury shares		(142)	(59)
—	—	Proceeds from treasury shares disposed		6	4
267	—	Proceeds from ordinary shares issued		—	—
—	(1 750)	Buy-back and cancellation of ordinary shares		(1 750)	—
—	—	Convertible bonds settled at maturity date		—	(108)
—	—	Repayment of borrowings		(7 895)	(111)
—	—	Increase in borrowings		11 207	3 100
406	(555)	**Net movement in cash and cash equivalents**		1 489	(820)
161	567	Cash and cash equivalents at the beginning of the year		2 709	3 819
—	—	Effect of exchange rate movements and hyperinflation on cash and cash equivalents		(728)	(290)
567	12	**Cash and cash equivalents at the end of the year**		3 470	2 709
		Consisting of:			
567	12	Cash and cash equivalents	38.1	7 465	7 767
—	—	Bank overdrafts		(3 995)	(5 058)
567	12			3 470	2 709

Notes to the annual financial statements

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

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, unless otherwise stated.

The Group's consolidated and Company's separate financial statements were authorised for issue by the board of directors on 20 August 2018. Other than the facts in the Integrated Report, there have been no material changes in the affairs or financial position of the Group and its subsidiaries from 1 July 2018 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 1 July 2018, 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 Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the requirements of the South African Companies Act, No 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 judgments, assumptions and estimates

1.1.1.1 Judgments

The preparation of the financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying the Group's accounting policies. The most significant judgments 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 (2017: Angola and Nigeria) 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 judgment 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 (2017: Angola and Nigeria), albeit with some restrictions over their use, still qualifies 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) **Classification of financial instruments – role of the shareholders:** Shareholders as a collective body make key decisions affecting an entity's financial position and performance over its life. Hence, their decisions have to be analysed from an accounting perspective. Shareholders can make decisions as part of the entity (as members of the entity's corporate governance structure), or they can be separate and distinct from the entity itself when making these decisions (as holders of a particular instrument). The role of shareholders – that is, whether they are viewed as 'part of the entity' or as 'separate and distinct from the entity' – is critical in determining the classification of financial instruments if the entity's shareholders decide whether the entity delivers cash or another financial asset under those instruments.

   The Put Option (refer to note 40) exercised by Dr Basson during the previous year was subject to a special resolution by shareholders approving the specific repurchase of shares.

   The decisions taken at the general shareholders' meeting was considered to be decisions of the Company's normal decision-making process for similar transactions and formed part of the corporate governance decisions. As such, the shareholders were acting as the entity in the case of the approval of the specific repurchase. All decisions were made as a collective body and transactions with directors (i.e. similar transactions) were made in their capacity at the governance of the Company.

   Until such time as the shareholders' approval for the specific repurchase of shares had been obtained, the Company had an unconditional right to avoid settling the Put Option in cash. Accordingly, no financial liability had been recognised at the end of the previous year. This transaction was approved by shareholders at an extraordinary general meeting held on 5 September 2017, where after a financial liability was recognised and the repurchase of the shares from Dr Basson was settled.

1. Accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.1 Use of judgments, assumptions and estimates (continued)

1.1.1.1 Judgments (continued)

e) **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.

f) **Hyperinflation:** The Group exercises judgment 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 judgment as to when a restatement of the financial statements of a Group entity becomes necessary.

The economy of Angola was assessed to be hyperinflationary effective 3 July 2017 and hyperinflation accounting was applied for the year ended 1 July 2018. 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.

The hyperinflation impact reduced the Group's sale of merchandise with R777 million, while prior period gains of R869 million, which arose from the net monetary position, were recognised in other comprehensive income.

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. At the time of approval of the financial statements, the general price index for June 2018 was not yet published. Therefore, the published inflation rate of 19.52% was used to estimate a general price index of 211.65 at the end of the reporting period. An average adjustment factor for the current reporting period of 1.2 was applied to restate the results of the Angolan subsidiaries of the Group. As at 1 July 2018, the cumulative three-year inflation rate was 102.34%.

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 estimate 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 judgment. 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, 10 and 25.

c) **Useful lives of assets:** In determining the depreciation and amortisation charge for property, plant and equipment and intangible assets, management applies judgment in estimating the useful lives and residual values of these different asset classes. Refer to notes 3, 10 and 20.

d) **Income taxes:** The Group is subject to income taxes in numerous jurisdictions. Significant judgment 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, judgment is also required to determine whether sufficient future taxable income will be available against which these losses can be utilised. Refer to notes 1.29 and 9.

e) **Allowances for doubtful debts:** Trade receivables include instalment sale debtors and franchise debtors for which allowances for impairment are made in accordance with the accounting policy in note 1.16. These calculations involve the discounting of projected future cash flows and require the use of estimates. Details regarding the allowances are set out in note 12.

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 1.21, 1.23, 14 and 17.

1. Accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.1 Use of judgments, assumptions and estimates (continued)

1.1.1.2 Assumptions and estimates (continued)

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 judgments 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.

1.1.2 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.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

1. Accounting policies (continued)

1.2 Consolidation and equity accounting (continued)

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.

1.3 Foreign currency translation

1.3.1 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.

1.3.2 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.

1.3.3 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:

a) 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;
b) Income and expenses for each statement of comprehensive income presented are translated at the average exchange rates for the period presented; and
c) 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)

1.4 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.

1.5 Hedging activities

The Group designates certain non-derivative financial instruments as either:

a) Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
b) Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

1.5.1 Cash flow hedges

The effective portion of changes in the fair value of financial instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets), the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

1.5.2 Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss when the foreign operation is partially disposed of or sold. Refer to note 1.3.3.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

1. Accounting policies (continued)

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 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 statement of financial position 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 1.4).

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.

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 statement of financial position date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate.

1. Accounting policies (continued)
1.7 Intangible assets (continued)
1.7.2 Software, trademarks and customer relationships (continued)

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 statement of financial position 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 judgment 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 cash-generating units (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.

1.10 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 statement of financial position 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.

1.11 Derivative financial instruments

The Group's derivatives, being forward foreign exchange rate contracts, categorised as fair value through profit or loss, are either assets or liabilities. A classification between current and non-current is made based on the remaining contractual maturity of the foreign exchange rate contracts over the following 12 months. Purchases and settlements of derivative financial instruments are initially recognised on the trade date at fair value. Derivative financial instruments are subsequently carried at fair value. Transaction costs are expensed as they are incurred. Realised and unrealised gains and losses arising from changes in the fair value of derivative financial instruments are included in the statement of comprehensive income as other income or other expenses in the period in which they arise. The fair value of forward foreign exchange rate contracts is determined using forward exchange rates at the statement of financial position date.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

1. Accounting policies (continued)

1.12 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 statement of financial position 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.

1.13 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 statement of financial position 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.

1.14 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.

1.15 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 are measured at the lower of the restated cost and net realisable value (refer to note 1.4).

1.16 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 1.4).

1. Accounting policies (continued)

1.17 Leases

1.17.1 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.

1.17.2 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.

1.18 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.

1.19 Stated capital

Ordinary shares and non-convertible, non-participating, non-transferable deferred 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.

1.20 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 statement of financial position date.

1.21 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.

1.21.1 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.

1.21.2 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.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

1. Accounting policies (continued)

1.21 Provisions (continued)

1.21.3 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.

1.21.4 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.

1.22 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 statement of financial position 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.

1.23 Employee benefits

1.23.1 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.

1.23.2 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.

1.23.3 Cash-settled share-based payments

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

1.23.4 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.

1. Accounting policies (continued)

1.23 Employee benefits (continued)

1.23.4 Equity-settled share-based payments (continued)

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.

1.23.5 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.

1.24 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable 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. Sales are recognised 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.

1.25 Other operating income

Other operating income is recognised as follows:

1.25.1 Finance income earned

When merchandise is sold under instalment sale agreements, the present value of the instalment sale payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance income is recognised over the term of the instalment sale using the effective interest rate method, which reflects a constant periodic rate of return.

1.25.2 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 1.17.2.

1.25.3 Franchise fees received

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

1.25.4 Premium income

Premium income is recognised in the period it is earned. Net premiums earned are all written premiums relating to policies incepted during the period less amounts that are unearned at statement of financial position date. Refer note 1.33.2.

1.25.5 Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the related asset.

1.25.6 Dividend income

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

1.25.7 Gift vouchers and savings stamps

Proceeds from the sale of gift vouchers and saving stamps are initially recognised in other payables, deferring the income. The income is recognised as cash sales of goods when the gift vouchers or savings stamps are redeemed.

1.25.8 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.

1.26 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.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

1. Accounting policies (continued)

1.27 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 statement of financial position date.

1.28 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.

1.29 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 statement of financial position 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 statement of financial position 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 judgment 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 judgment 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 1.4).

1.30 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. Accounting policies (continued)

1.31 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.

1.32 Dividends distributed to shareholders

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

1.33 Basis of accounting for underwriting activities

1.33.1 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.

1.33.2 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 statement of financial position 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 statement of financial position 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).

1.34 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.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

1. Accounting policies (continued)

1.35 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 1.4) but are measured, in all other aspects, in a manner consistent with that in the statement of comprehensive income and statement of financial position.

1.36 Standards, interpretations and amendments that are not yet effective at 1 July 2018

The Group has considered the following new standards, and interpretations and amendments to existing standards, which are not yet effective as at 1 July 2018:

Number	Title	Effective for year ending
Amendments to IFRS 2	Share-Based Payments	2019
Amendments to IFRS 4	Insurance Contracts	2019
IFRS 9	Financial Instruments	2019
Amendment to IFRS 9	Financial Instruments	2020
IFRS 15	Revenue from Contracts with Customers	2019
IFRS 16	Leases	2020
IFRS 17	Insurance Contracts	2022
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2019
IFRIC 23	Uncertainty Over Income Tax Treatments	2020

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.

1. Accounting policies (continued)

1.36 Standards, interpretations and amendments that are not yet effective at 1 July 2018 (continued)

Title of standard	IFRS 9: Financial Instruments
Nature of change	IFRS 9 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.
Impact	Management assessed the effects of applying the new standard on the Group's financial statements: Financial assets held by the Group include debt instruments currently classified as held-to-maturity and loans and receivables measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9. Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets. There will be no significant impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and, other than forward foreign exchange rate contracts designated at fair value through profit or loss which are insignificant, the Group does not have any such liabilities. The derecognition rules have been transferred from *IAS 39 Financial Instruments: Recognition and Measurement* and have not been changed. The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under *IFRS 15: Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance (or provision) is required 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 assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the disclosures about its financial instruments particularly in the year of the adoption of the new standard.
Mandatory application date/Date of adoption by Group	IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will therefore adopt IFRS 9 for its 2019 financial year.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

1. Accounting policies (continued)

1.36 Standards, interpretations and amendments that are not yet effective at 1 July 2018 (continued)

Title of standard	IFRS 15: Revenue from Contracts with Customers
Nature of change	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.
Impact	Management assessed the effects of applying the new standard on the Group's financial statements and identified the following areas that are likely to be affected: ■ **Agent vs principal accounting:** Certain transactions which are currently recorded on a gross basis in terms of principal accounting will be recorded on a net basis in terms of agent accounting under the new guidance provided by IFRS 15. Transactions at the Group's OK Franchise division and variable airtime sales will be affected. ■ **Right of return:** IFRS 15 requires separate presentation on the statement of financial position of the right to recover the goods from the customer and the refund obligation. The adoption of IFRS 15 is expected to result in changes in classification on the statement of comprehensive income. Sale of merchandise and gross profit for the Group is expected to reduce by about R5.4 billion and R274 million respectively, while it is expected that other operating income and other operating expenses will increase by about R542 million and R260 million respectively. The resulting effect on the Group's trading profit is not considered to be material.
Mandatory application date/Date of adoption by Group	IFRS 15 must be applied for financial years commencing on or after 1 January 2018. The Group will therefore adopt IFRS 15 for its 2019 financial year.

Title of standard	IFRS 16: Leases
Nature of change	IFRS 16 was issued in January 2016. It 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. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of R18.6 billion (refer to note 33.2). The Group is in the process to determine the extent to which these commitments will result in the recognition of a right-of-use asset and a lease liability for future payments and how this will affect the Group's profit and classification of cash flows. The nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and an interest expense on lease liabilities. Where lease liabilities subject the Group to foreign currency exposure, it will result in foreign exchange rate differences.
Mandatory application date/Date of adoption by Group	IFRS 16 must be applied for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

1.37 Standards, interpretations and amendments effective for the year ended 1 July 2018

The following amendments to existing standards are effective for the year ended 1 July 2018 and had no significant effect on the Group's operations:

Number	Title
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets

The amendments to *IAS 7: Statement of Cash Flows* had no significant effect on the Group's operations, but required additional disclosure to enable users of financial statements to evaluate changes in liabilities arising from financing activities.

2 Operating segment information

2.1 Analysis per reportable segment

	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	107 547	23 106	5 967	9 463	146 083	(777)	145 306
Inter-segment	4 836	57	—	1	4 894	—	4 894
	112 383	23 163	5 967	9 464	150 977	(777)	150 200
Trading profit	6 539	650	256	250	7 695	316	8 011
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	17 259	4 199	3 073	59 539	2 303	61 842

	2017						
	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	101 734	24 840	5 432	8 994	141 000	—	141 000
Inter-segment	5 267	27	—	6	5 300	—	5 300
	107 001	24 867	5 432	9 000	146 300	—	146 300
Trading profit	6 424	1 407	123	173	8 127	—	8 127
Interest income included in trading profit	70	78	314	36	498	—	498
Depreciation and amortisation	1 884	421	108	44	2 457	—	2 457
Total assets	32 535	16 407	4 180	2 601	55 723	—	55 723

2.2 Geographical analysis

	2018				
	South Africa Rm	Outside South Africa Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
Sale of merchandise – external	120 216	25 867	146 083	(777)	145 306
Non-current assets*	17 567	4 889	22 456	2 612	25 068

	2017				
	South Africa Rm	Outside South Africa Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
Sale of merchandise – external	113 660	27 340	141 000	—	141 000
Non-current assets*	16 101	5 164	21 265	—	21 265

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

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 3 July 2016	1 324	4 425	8 836	2 323	16 908
Cost	1 324	4 810	16 221	2 741	25 096
Accumulated depreciation and impairment	—	(385)	(7 385)	(418)	(8 188)
Additions	31	820	3 102	394	4 347
Borrowing costs capitalised (note 3.3)	—	44	—	—	44
Transfer to assets held for sale (note 3.5)	(39)	(80)	—	—	(119)
Acquisition of subsidiaries	—	—	33	—	33
Disposal	—	—	(105)	(1)	(106)
Proceeds on disposal	—	—	(30)	—	(30)
Loss on disposal and scrapping	—	—	(75)	(1)	(76)
Depreciation	—	(64)	(2 014)	(68)	(2 146)
Impairment (note 3.6)	—	—	(8)	(11)	(19)
Foreign currency translation differences	(6)	(58)	(184)	(287)	(535)
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 3.5)	(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 3.6)	—	—	(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)

* Includes aircraft with a carrying value of R141 million (2017: R136 million) and vehicles with a carrying value of R1.4 billion (2017: R1.1 billion).

3 Property, plant and equipment (continued)

3.2 Security

An aircraft with a carrying value of R33 million was pledged as security for the loan from The Standard Bank of South Africa Ltd at the end of the previous year (refer to note 16.8).

3.3 Borrowing costs capitalised

Borrowing costs were capitalised against qualifying items of property, plant and equipment during the previous year. The weighted average borrowings rate was 9.81%.

3.4 Property, plant and equipment not yet in use

Included in the gross amounts of buildings and leasehold improvements is R202.5 million (2017: R1.1 billion) 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 statement of financial position date.

3.5 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.)

3.6 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.

The impairment charge in the current financial year arose in the Supermarkets RSA and Supermarkets Non-RSA (2017: 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.

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		4 Assets held for sale		
		Land and buildings	161	119
		Investment in joint venture (note 6.2)	23	–
–	–		184	119
		4.1 Reconciliation of carrying value		
		Carrying value at the beginning of the year	119	17
		Transfer from property, plant and equipment (note 3)	140	119
		Transfer from equity accounted investments (note 6.2)	23	–
		Transfer to trade and other receivables	–	(14)
		Disposal	(101)	–
		Proceeds on disposal	(121)	–
		Profit on disposal and scrapping	20	–
		Foreign currency translation differences including hyperinflation effect	3	(3)
–	–	Carrying value at the end of the year	184	119

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		5	**Interests in subsidiaries**		
7 909	8 874		Investments in ordinary shares		
5 576	4 098		Amounts owing by subsidiaries		
13 485	12 972			–	–
			Analysis of total interests in subsidiaries:		
7 909	8 874		Non-current		
5 576	4 098		Current		
13 485	12 972			–	–

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

Amounts owing by 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% (2017: 6.50%) during the year under review. All other amounts owing by subsidiaries are interest-free.

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		6	**Equity accounted investments**		
6	6		Associates (note 6.1)	–	–
–	–		Joint ventures (note 6.2)	–	(57)
6	6			–	(57)
–	–		Joint venture liability included in trade and other payables (note 18)	–	84
6	6			–	27

6.1 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.

Company 2017 Rm	Company 2018 Rm		% Owned by the Group 2018	% Owned by the Group 2017	Group 2018 Rm	Group 2017 Rm
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.

	Group 2018 Rm	Group 2017 Rm

6 Equity accounted investments (continued)

6.1 Associates (continued)

Summary financial information of Resilient Africa (Pty) Ltd

Statement of financial position

	2018 Rm	2017 Rm
Total assets	1 922	1 818
Current assets	67	95
Non-current assets	1 855	1 723
Total liabilities	1 836	1 702
Current liabilities	28	32
Non-current liabilities	1 808	1 670
Net assets	86	116
Attributable to other owners of Resilient Africa (Pty) Ltd	(25)	(2)
Attributable to the Shoprite Holdings Ltd Group	(16)	(26)
Non-controlling interest	127	144

Statement of comprehensive income

	2018 Rm	2017 Rm
Revenue	126	114
(Loss)/profit for the year	(73)	61
Attributable to other owners of Resilient Africa (Pty) Ltd	(44)	38
Attributable to the Shoprite Holdings Ltd Group	(28)	25
Non-controlling interest	(1)	(2)
Other comprehensive income/(loss) for the year	37	(348)
Attributable to other owners of Resilient Africa (Pty) Ltd	18	(196)
Attributable to the Shoprite Holdings Ltd Group	11	(126)
Non-controlling interest	8	(26)
Total comprehensive (loss)/income for the year	(36)	(287)
Attributable to other owners of Resilient Africa (Pty) Ltd	(26)	(158)
Attributable to the Shoprite Holdings Ltd Group	(17)	(101)
Non-controlling interest	7	(28)

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 have 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.

	2018 Rm	2017 Rm
Reconciliation to carrying amount:		
Net (liabilities)/assets attributable to the Group at the beginning of the year	(26)	75
(Loss)/profit for the year attributable to the Group	(28)	25
Other comprehensive income/(loss) for the year attributable to the Group	11	(126)
Net liabilities attributable to the Group at the end of the year	(43)	(26)
Unrecognised share of losses at the end of the year	28	—
Unrecognised share of other comprehensive loss at the end of the year	15	26
Carrying amount at the end of the year	—	—
Unrecognised share of losses:		
Unrecognised share of losses for the year	28	—
Unrecognised share of other comprehensive loss:		
Unrecognised share of other comprehensive loss at the beginning of the year	26	—
Unrecognised share of other comprehensive loss for the year	(11)	26
Unrecognised share of other comprehensive loss at the end of the year	15	26

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.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		6	**Equity accounted investments (continued)**		
		6.2	**Joint ventures**		
			Carrying value at the beginning of the year	(57)	(36)
			Investment in ordinary shares acquired	150	–
			Share of total comprehensive loss	25	(24)
			Share of post-acquisition profits/(losses)	27	(21)
			Share of other comprehensive loss	(2)	(3)
			Dividends received from joint ventures	(14)	–
			Transfer to assets held for sale (note 4.1)	(23)	–
			Loss on disposal of investment in Hungry Lion Fast Foods (Pty) Ltd	(80)	–
			Foreign currency translation differences including hyperinflation effect	(1)	3
–	–		Carrying value at the end of the year	–	(57)

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

	% Owned by the Group 2018	% Owned by the Group 2017
Hungry Lion Fast Foods (Pty) Ltd	0%	50%
Hungry Lion (Mauritius) Ltd	50%	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 since the Group has started negotiations to dispose of this investment.

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		7	**Held-to-maturity investments**		
			AOA, USD Index Linked, Angola Government Bonds (note 7.1)	3 008	1 311
			Angola Treasury Bills (note 7.2)	682	–
–	–			3 690	1 311
			Analysis of total held-to-maturity investments:		
			Non-current	2 090	1 311
			Current	1 600	–
–	–			3 690	1 311
			Reconciliation of movement in held-to-maturity investments:		
			Carrying value at the beginning of the year	1 311	–
			Additional investments	2 401	1 370
			Investments matured	(490)	–
			Interest income (note 19.1)	191	52
			Interest received	(160)	(52)
			Exchange rate differences	901	(59)
			Foreign currency translation differences including hyperinflation effect	(464)	–
			Carrying value at the end of the year	3 690	1 311

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		7 Held-to-maturity investments (continued)		
		7.1 AOA, USD Index Linked, Angola Government Bonds		
		The AOA, USD Index Linked, Angola Government Bonds are denominated in Angola kwanza, earn interest at an average rate of 7.0% (2017: 7.0%) p.a. and mature after a period of 2 to 3 years. Accrued interest is payable bi-annually.		
		The maximum exposure to credit risk at the reporting date is the carrying value. None of the AOA, USD Index Linked, Angola Government Bonds are either past due or impaired. The Group does not hold any collateral as security.		
		7.2 Angola Treasury Bills		
		The Angola Treasury Bills are denominated in Angola kwanza, earn interest at an average rate of 22.8% (2017: N/A) p.a. and mature within 12 months. Accrued interest is payable at maturity.		
		The maximum exposure to credit risk at the reporting date is the carrying value. None of the Angola Treasury Bills are either past due or impaired. The Group does not hold any collateral as security.		
		8 Loans and receivables		
		Amounts owing by associate (note 8.1)	990	953
		Amounts owing by employees (note 8.2)	—	102
		Amounts owing by franchisees (note 8.3)	334	266
		Amounts owing by RMB Westport Osapa (note 8.4)	195	—
		Other	30	—
—	—		1 549	1 321
		Analysis of total loans and receivables:		
		Non-current	1 318	1 110
		Current	231	211
—	—		1 549	1 321
		8.1 Amounts owing by associate	990	953
		ZAR denominated amounts owing by Resilient Africa (Pty) Ltd (note 8.1.1)	373	367
		USD denominated amounts owing by Resilient Africa (Pty) Ltd (note 8.1.2)	617	586
		The Group is committed to provide a shareholder loan to Resilient Africa (Pty) Ltd to a maximum of R1.457 billion (2017: R1.457 billion).		
		8.1.1 The ZAR denominated shareholder loan earns interest at an average rate of 6.6% (2017: 6.6%) p.a. and is repayable on demand, subject to certain conditions.		
		The maximum exposure to credit risk at the reporting date is the carrying value. An impairment allowance of R60 million (2017: R26 million) was recognised for the shareholder loan. The Group does not hold any collateral as security for this amount.		

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		8 Loans and receivables (continued)		
		8.1 Amounts owing by associate (continued)		
		8.1.2 The US dollar denominated amount earns interest at an average rate of 3.0% (2017: 3.0%) p.a. and is repayable after seven years, subject to certain conditions.		
		The maximum exposure to credit risk at the reporting date is the carrying value. No allowance for impairment has been made. 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 this amount.		
		8.2 Amounts owing by employees	–	102
		The amounts owing by employees were denominated in ZAR, earned interest at an average rate of 6.5% (2017: 6.5%) p.a. and were repaid during the year under review. Accrued interest was payable bi-annually on 3 April and 3 October. These loans were granted on commercial terms with full recourse.		
		The maximum exposure to credit risk at the previous reporting date was the carrying value. No allowance for impairment was made. Shoprite Holdings Ltd shares to the value of R137 million were held as collateral for these loans at the end of the previous year.		
		8.3 Amounts owing by franchisees		
		Gross amount	363	274
		Accumulated impairment	(29)	(8)
–	–		334	266
		The amounts are mainly denominated in ZAR, earn interest at a weighted average variable interest rate (linked to the South African prime rate) of 10.4% (2017: 10.4%) p.a. and are repayable between one and five years.		
		The maximum exposure to credit risk at the reporting date is the carrying value, which approximates fair value. Balances are due within 30 days of statement date and the age analysis of these amounts are reviewed on a monthly basis. All amounts past due 60 days or more are individually impaired. The credit history of all franchisees are verified with an external credit bureau. Notarial and mortgage bonds and bank guarantees to the value of R384 million (2017: R257 million) are held as collateral for these amounts.		
		Reconciliation of accumulated impairment		
		Balance at the beginning of the year	8	6
		Allowance for impairment for the year	21	2
–	–	Balance at the end of the year	29	8
		The allowance for impairment relates to the following amounts owing by franchisees:		
		Receivable in the next year	57	4
		Receivable between 1 and 3 years	21	8
		Receivable between 3 and 5 years	19	3
–	–		97	15

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		8	**Loans and receivables (continued)**		
		8.3	**Amounts owing by franchisees (continued)**		
			Amounts owing by franchisees relate to a wide-spread number of franchisees which are individually insignificant.		
			The individually impaired amounts owing by franchisees relate to franchisees experiencing unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. Interest of R10.3 million (2017: R1.9 million) was accrued on these balances during the year under review. All balances that were past due were considered for impairment.		
		8.4	**Amounts owing by RMB Westport Osapa**	195	—
			The amount owing by RMB Westport Osapa is denominated in US dollar, earns interest at an average rate of 3.0% p.a. and is repayable after five years, subject to certain conditions.		
			The maximum exposure to credit risk at the reporting date is the carrying value. No allowance for impairment has been made. 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.		
		9	**Deferred income tax**		
1	1		Deferred income tax assets (note 9.1)	876	859
—	—		Deferred income tax liabilities (note 9.2)	(697)	(96)
1	1		Net deferred income tax assets	179	763
			The movement in the net deferred income tax assets is as follows:		
1	1		Carrying value at the beginning of the year	763	570
—	—		Charge to profit for the year	255	236
—	—		Provisions and accruals	(119)	227
—	—		Allowances on property, plant and equipment	(148)	(71)
—	—		Fixed escalation operating lease accruals	17	46
—	—		Allowances on intangible assets	(4)	27
—	—		Unrealised exchange rate differences	334	11
—	—		Tax losses	175	(4)
—	—		Charged to other comprehensive income	(858)	(1)
—	—		Foreign currency translation differences including hyperinflation effect	19	(42)
1	1		Carrying value at the end of the year	179	763

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		9 Deferred income tax (continued)		
		9.1 Deferred income tax assets		
1	1	Provisions and accruals	929	1 028
–	–	Allowances on property, plant and equipment	(653)	(532)
–	–	Fixed escalation operating lease accruals	382	347
–	–	Allowances on intangible assets	(103)	(98)
–	–	Unrealised exchange rate differences	94	86
–	–	Tax losses	227	28
1	1		876	859
–	–	Net taxable temporary differences to be settled after more than 12 months	(623)	(511)
1	1	Net deductible temporary differences to be recovered within 12 months	1 499	1 370
1	1		876	859
		9.2 Deferred income tax liabilities		
		Provisions and accruals	102	(16)
		Allowances on property, plant and equipment	876	137
		Fixed escalation operating lease accruals	–	(7)
		Allowances on intangible assets	3	3
		Unrealised exchange rate differences	(281)	(8)
		Tax losses	(3)	(13)
–	–		697	96
		Net taxable temporary differences to be settled after more than 12 months	739	142
		Net deductible temporary differences to be recovered within 12 months	(42)	(46)
–	–		697	96
		9.3 Net calculated income tax losses and net deductible temporary differences		
		Calculated income tax losses and net deductible temporary differences at year-end	6 338	5 351
		Applied in the provision for deferred income tax	(3 037)	(2 997)
–	–		3 301	2 354
		The utilisation of the income tax relief on net calculated income tax losses, to the value of R305 million (2017: R519 million), is dependent on sufficient future taxable income in the companies concerned. The income tax relief is calculated at current income tax rates and translated at closing rates.		
		The carry forward of all gross calculated income tax losses is indefinite, except for certain African countries, as set out below:		
		Expiry date of income tax relief		
		2018 Financial year-end	–	10
		2019 Financial year-end	6	4
		2020 Financial year-end	12	10
		2021 Financial year-end	50	5
		2022 Financial year-end	5	11
		2023 Financial year-end	70	–
–	–		143	40
–	–	Calculated temporary differences on consolidation associated with investments in subsidiaries for which deferred income tax liabilities have not been created	143	191

10 Intangible assets

10.1 Reconciliation of carrying values

Group Rm	Goodwill	Software	Trademarks	Customer relationships	Total
Carrying value at 3 July 2016	267	1 538	33	19	1 857
Gross amount	427	2 498	194	54	3 173
Accumulated amortisation and impairment losses	(160)	(960)	(161)	(35)	(1 316)
Additions	—	73	—	—	73
Internally generated	—	747	—	—	747
Borrowing costs capitalised (note 10.2)	—	72	—	—	72
Disposal	—	(13)	—	—	(13)
Proceeds on disposal	—	(10)	—	—	(10)
Loss on disposal and scrapping	—	(3)	—	—	(3)
Amortisation	—	(302)	(4)	(5)	(311)
Impairment (note 10.4)	—	(70)	—	—	(70)
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 10.2)	—	133	—	—	133
Loss on disposal and scrapping	—	(28)	—	—	(28)
Amortisation	—	(354)	(4)	(6)	(364)
Impairment (note 10.4)	(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)

10.2 Borrowing costs capitalised

Borrowing costs were capitalised against qualifying items of software during the year under review. The weighted average borrowings rate was 8.42% (2017: 9.81%).

10.3 Software not yet in use

Included in the gross amount of software is R1.6 billion (2017: R1.5 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 statement of financial position date.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

10 Intangible assets (continued)

10.4 Impairment of intangible assets

10.4.1 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 current financial year arose in the Supermarkets RSA and Supermarkets Non-RSA (2017: Supermarkets RSA and Other) operating segments. This impairment was the result of components of SAP merchandising software becoming obsolete.

10.4.2 Impairment of goodwill

Goodwill is allocated to the Group's cash-generating units (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% (2017: 5.8%). 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.

Supermarket operations	2018 %	2017 %
Operating margin*	5.3	4.6
Growth rate**	5.0	5.8
Pre-tax discount rate***	11.8	12.7
Other operations	**%**	**%**
Operating margin*	2.8	2.5
Growth rate**	5.0	5.8
Pre-tax discount rate***	11.8	12.7

* 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.

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		11 Inventories		
—	—	Trading goods	17 959	17 794

In the prior year, the weighted average cost formula was determined by applying the retail inventory method. The retail inventory method approximates the weighted average cost and is determined by reducing the sales value of the inventory by the appropriate gross margin percentage. In the current year, the Group's merchandise information system was used to determine the weighted average cost. The change in estimate did not have a material impact on the financial results of the Group, as the Group had adequate provisions in place.

12 Trade and other receivables

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		Instalment sales		
		Gross amount (note 12.1)	1 616	1 789
		Accumulated impairment (note 12.2)	(307)	(336)
		Unearned finance income	(81)	(89)
—	—		1 228	1 364
—	—	Trade receivables (note 12.3)	2 108	1 715
4	—	Other receivables (note 12.4)	1 369	1 431
—	—	Prepayments and taxes receivable	1 057	739
—	—	Amounts owing by joint ventures (note 12.5)	25	359
4	—		5 787	5 608
		Analysis of trade and other receivables:		
—	—	Non-current	856	503
4	—	Current	4 931	5 105
4	—		5 787	5 608

12.1 Instalment sales

The Group has entered into various instalment sale agreements for household furniture. The periods of these contracts range between 1 and 2 years and the weighted average interest rate on these receivables is 23.2% (2017: 22.1%) p.a. The amounts are mainly denominated in ZAR.

The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value. Instalment sales comprise a wide-spread client base and external credit checks are made to ensure that all instalment sale clients have an appropriate credit history. Furniture items, including appliances and electronic products are held as collateral for all instalment sale agreements.

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		Instalment sale receivables		
		Future minimum instalment payments receivable under non-cancellable instalment sale agreements		
		Not later than 1 year	1 373	1 215
		Later than 1 year not later than 2 years	243	574
—	—		1 616	1 789

These amounts are reflected as current as they form part of the normal operating cycle.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		12 Trade and other receivables (continued)		
		12.2 Accumulated impairment		
		Reconciliation of accumulated impairment		
		Balance at the beginning of the year	336	266
		Allowance for impairment for the year	110	167
		Receivables written off during the year as uncollectible	(115)	(102)
		Penalty interest accrued	–	15
		Foreign currency translation differences including hyperinflation effect	–	(2)
		Unused amounts reversed	(24)	(8)
–	–	Balance at the end of the year	307	336

The accumulated impairment relates to actual arrears, individual repayments that are past due, and the age analysis below reflects the period that these amounts are overdue.

	Actual arrears 2018 Rm	Actual arrears 2017 Rm	Balance of contract arrears 2018 Rm	Balance of contract arrears 2017 Rm
30 days	53	48	125	149
60 days	40	35	64	73
90 days	33	28	51	56
120 days	27	23	42	45
150 days	23	19	35	37
180 days	20	16	32	30
+ 180 days	159	107	337	265
	355	276	686	655

The accumulated impairment is calculated with reference to actual default history of the Group's instalment sale receivables on a collective basis and is in line with industry norms. On this basis the provision of R307 million (2017: R336 million) was calculated taking into account the actual arrears of R355 million (2017: R276 million) and an amount of R686 million (2017: R655 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 is expected to be recovered. All amounts that have not been impaired are fully performing and have no overdue instalments. Based on this the credit quality of these amounts is considered to be satisfactory.

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		12 Trade and other receivables (continued)		
		12.3 Trade receivables		
		Gross amount	2 247	1 864
		Accumulated impairment	(139)	(149)
–	–		2 108	1 715
		Analysis of total trade receivables:		
		Receivables from franchisees	1 029	874
		Gross amount	1 048	906
		Accumulated impairment	(19)	(32)
		Receivables from medical aid schemes, pharmacies and doctors	241	250
		Gross amount	267	275
		Accumulated impairment	(26)	(25)
		Buying aid societies and other receivables	838	591
		Gross amount	932	683
		Accumulated impairment	(94)	(92)

Trade receivables consist mainly of sale of merchandise to franchisees, medical aid schemes, pharmacies, doctors and buying aid societies. The amounts are mainly denominated in ZAR.

The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value. 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. All amounts past due 60 days or more are individually assessed for impairment. 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 R1.2 billion (2017: R882 million) are held as collateral for these amounts. Long standing trading relationships exist with the buying aid societies and the Group reviews the credit history, based on its own records as well as information from an external credit bureau, of these societies on a cyclical basis. Based on this the Group considers the credit quality of all fully performing amounts as satisfactory.

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		Reconciliation of accumulated impairment		
		Balance at the beginning of the year	149	160
		Allowance for impairment for the year	19	41
		Receivables written off during the year as uncollectible	(10)	(33)
		Foreign currency translation differences including hyperinflation effect	–	(6)
		Unused amounts reversed	(19)	(13)
–	–	Balance at the end of the year	139	149

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		12 Trade and other receivables (continued)		
		12.3 Trade receivables (continued)		
		The provision for impairment relates to trade receivables of R179 million (2017: R184 million) receivable within the next 12 months.		
		These individually impaired amounts relate mostly to franchisees experiencing unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. Interest of R2.1 million (2017: R1.7 million) was accrued on these balances during the year under review.		
		Trade receivables that were past due but not impaired are reflected below. These amounts relate to a number of debtors for whom there is no recent history of default.		
		30 Days	236	190
		60 Days	46	33
		90 Days	27	11
		120 Days	43	–
–	–		352	234
4	–	**12.4 Other receivables**	1 369	1 431
		Other receivables consist of various operational debtors such as rental and municipal deposits refundable and insurance claims receivable. The amounts are mainly denominated in ZAR.		
		The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value. The age analysis of these amounts are reviewed on a monthly basis and credit worthiness 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.		
–	–	**12.5 Amounts owing by joint ventures**	25	359
		These amounts owing are mainly denominated in ZAR, payable on demand and earn interest at an average rate of 5.1% (2017: 7.6%) p.a.		
		The maximum exposure to credit risk at the reporting date is the carrying value. No allowance for impairment has been made. A guarantee to the value of R162 million was held as collateral for these amounts at the end of the previous year.		

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		13 Share capital and treasury shares		
		13.1 Stated capital		
—	671	Conversion of share capital	671	—
—	6 845	Conversion of share premium	6 845	—
—	7 516		7 516	—

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 year under review.

13.2 Ordinary share capital

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		Authorised:		
		1 300 000 000 no par value ordinary shares (2017: 650 000 000 ordinary shares of 113.4 cents each)		
		Issued:		
681	—	591 338 502 no par value ordinary shares (2017: 600 021 829 ordinary shares of 113.4 cents each)	—	681

Reconciliation of movement in number of ordinary shares issued:

	Number of shares 2018	Number of shares 2017
Balance at the beginning of the year	600 021 829	572 871 960
Shares issued during the year	—	27 149 869
Buy-back and cancellation of ordinary shares (note 40)	(8 683 327)	—
Balance at the end of the year	591 338 502	600 021 829

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 2018	Number of shares 2017
Issued ordinary share capital	591 338 502	600 021 829
Treasury shares (note 13.4)	(36 659 642)	(36 166 544)
	554 678 860	563 855 285

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 Report.

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		13 Share capital and treasury shares (continued)		
		13.3 Deferred share capital		
		Authorised:		
		720 000 000 (2017: 360 000 000) 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 year under review.		
		Issued:		
–	–	305 621 601 (2017: 305 621 601) non-convertible, non-participating, non-transferable no par value deferred shares	–	–

Reconciliation of movement in number of deferred shares issued:

	Number of shares 2018	Number of shares 2017
Balance at the beginning of the year	305 621 601	291 792 794
Shares issued during the year	–	13 828 807
Balance at the end of the year	305 621 601	305 621 601

The unissued deferred shares are not under the control of the directors, and can only be issued under predetermined circumstances as set out in the Memorandum of Incorporation of Shoprite Holdings Ltd.

All shares are fully paid up and carry the same voting rights as the ordinary shares.

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		13.4 Treasury shares		
–	–	36 659 642 (2017: 36 166 544) ordinary shares	554	446

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

	Number of shares 2018	Number of shares 2017
Balance at the beginning of the year	36 166 544	38 246 183
Shares purchased during the year	689 219	300 439
Shares disposed during the year	(25 342)	(19 259)
Shares utilised for settlement of equity-settled share-based payment arrangements	(170 779)	(2 360 819)
Balance at the end of the year	36 659 642	36 166 544
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)	1 223 070	729 972
	36 659 642	36 166 544

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 22.1 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

14.2.1 Executive share plan

The Group operated an executive share plan under which it previously granted shares to directors and management in the form of forfeitable retention share awards and forfeitable co-investment share awards. Full share grants awarded in terms of the executive share plan for which vesting conditions were met, vested on 15 June 2017. The terms and conditions of the schemes under the executive share plan are set out in the Remuneration Report contained in the Integrated Report.

Shares previously granted in terms of the executive share plan met the definition of an equity-settled share-based payment. The Group has recognised a share-based payment reserve in respect of these equity-settled share-based payments and has included it within equity.

Refer to note 22.1 for the expense recognised in the statement of comprehensive income as employee benefits.

	Number of shares	
Movements in the number of full share grants awarded in terms of the executive share plan at a weighted average price of R156.96 per share on date of the grant:	2018	2017
Balance at the beginning of the year	—	2 252 500
Shares vested during the year	—	(2 242 500)
Shares forfeited during the year	—	(10 000)
Balance at the end of the year	—	—

The market price of full share grants vested on 15 June 2017 was R200.07 per share.

Full share grants held by executive directors in terms of the executive share plan during the previous year:

			Number of shares		
Director	Grant date	Award grant price	2016	Exercised during the year	2017
JAL Basson (resigned 29/6/2018)	15 June 2014	R0.00	40 000	(40 000)	—
M Bosman (retired 2/7/2018)	15 June 2014	R0.00	50 000	(50 000)	—
PC Engelbrecht	15 June 2014	R0.00	80 000	(80 000)	—
AE Karp (resigned 1/2/2017)	15 June 2014	R0.00	60 000	(60 000)	—

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

14 Share-based compensation plans (continued)

14.2 Equity-settled share-based payments (continued)

14.2.2 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 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 lead 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.)

The Company's main trading subsidiary, Shoprite Checkers (Pty) Ltd, purchased 689 219 (2017: 300 439) 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 2018 and 30 September 2022 and are set out below.

Refer to note 22.1 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 R208.08 per share. The following assumptions were used in calculating the fair value:

	2018
Total number of full share grants awarded	689 219
Grant date	24 October 2017
Vesting date	30 September 2018 – 2022
Share price on grant date	R208.08
Exercise price	R0.00
Forfeiture rate	4.0%

14 Share-based compensation plans (continued)

14.2 Equity-settled share-based payments (continued)

14.2.2 Incentive bonus share allocation scheme (continued)

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	
	2018	2017	2018	2017
Balance at the beginning of the year	R171.51	R155.66	729 972	557 111
Shares granted during the year	R208.08	R196.94	689 219	300 439
Shares vested during the year	R169.14	R160.60	(170 779)	(118 319)
Shares forfeited during the year	R183.39	R182.54	(25 342)	(9 259)
Balance at the end of the year	R192.20	R171.51	1 223 070	729 972

The market price of full share grants vested during the year was R213.48 (2017: R183.43) 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:

	2018	2017	2018	2017
30 September 2017	R0.00	R160.76	—	122 724
30 September 2018	R179.50	R154.15	251 735	143 248
30 September 2019	R186.93	R173.62	308 437	203 360
30 September 2020	R195.44	R176.89	369 221	162 152
30 September 2021	R202.72	R196.94	192 568	98 488
30 September 2022	R208.08	R0.00	101 109	—
	R192.20	R171.51	1 223 070	729 972

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

				Number of shares			
Director/ prescribed officer	Grant date	Award grant price	Vesting date	2017	Granted during the year	Vested during the year	2018
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
M Bosman (retired 2/7/2018)	24/10/2017	R0.00	16/5/2018*	—	15 012	(15 012)	—
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

* Vesting accelerated due to retirement.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		15	**Reserves**		
4 779	5 461		Retained earnings	22 044	19 807
2	—		Other reserves (note 15.1)	(1 620)	(969)
4 781	5 461			20 424	18 838
		15.1	**Other reserves**		
2	—		Capital redemption reserve	—	2
—	—		Share-based payments reserve	108	64
—	—		Foreign currency translation reserve	(1 728)	(1 048)
—	—		Cash flow hedging reserve	—	13
2	—			(1 620)	(969)

Reconciliation of carrying values of other reserves

Group Rm	Share-based payments reserve	Equity component of convertible bonds	Foreign currency translation reserve	Cash flow hedging reserve	Other
Balance at 3 July 2016	290	361	(123)	24	2
Share-based payments – value of employee services	139				
Modification of cash bonus arrangement transferred from provisions	6				
Realisation of share-based payment reserve	(371)				
Equity component of convertible bonds converted during the period transferred to retained earnings		(361)			
Foreign currency translation differences			(925)		
Group			(822)		
Equity accounted investments			(103)		
Losses on effective cash flow hedge, net of income tax				(11)	
Losses on effective cash flow hedge				(15)	
Related income tax				4	
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					
Gains on effective cash flow hedge reclassified to exchange rate gains				(19)	
Related income tax				5	
Cash flow hedging reserve transferred to trade and other receivables				(2)	
Gains on effective cash flow hedge				(3)	
Related income tax				1	
Balance at 1 July 2018	108	—	(1 728)	—	—

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		16	**Borrowings**		
			Consisting of:		
			ABSA Bank Ltd (note 16.3)	—	1 304
			Barclays Bank Mauritius Ltd (note 16.4)	1 359	1 173
			Standard Chartered Bank (Mauritius) Ltd (note 16.5)	1 371	652
			Standard Finance (Isle of Man) Ltd (note 16.6)	4 113	—
			First National Bank of Namibia Ltd (note 16.7)	134	134
			The Standard Bank of South Africa Ltd (note 16.8)	—	11
—	—			6 977	3 274
			Analysis of total borrowings:		
			Non-current	1 371	—
			Current	5 606	3 274
—	—			6 977	3 274
		16.1	**Reconciliation of movement in liabilities arising from financing activities:**		
			Carrying value at the beginning of the year	3 274	5 124
			Cash inflows	11 207	3 100
			Cash outflows	(7 895)	(111)
			Convertible bonds settled at maturity date	—	(108)
			Acquisitions	—	11
			Disposals	—	(31)
			Foreign currency translation differences including hyperinflation effect	391	(164)
			Ordinary shares issued on conversion of convertible bonds	—	(4 587)
			Other non-cash movements	—	40
—	—		Carrying value at the end of the year	6 977	3 274
		16.2	**Convertible bonds**		
			The Group's 6.5% convertible bonds matured on 3 April 2017 at their nominal value. Bondholders converted their convertible bonds at the maturity date at the rate of 5 919.26 shares per R1 million.		
			The convertible bonds recognised in the statement of financial position is calculated as follows:		
			Liability component at the beginning of the year	—	4 655
			Ordinary shares issued on conversion of convertible bonds	—	(4 587)
			Convertible bonds settled at maturity date	—	(108)
			Interest expense (note 27)	—	187
			Interest paid	—	(147)
—	—		Liability component at the end of the year	—	—
		16.3	**ABSA Bank Ltd**	—	1 304
			This loan was denominated in US dollar, unsecured, repaid during the year and carried interest at an average of 2.46% (2017: 1.82%) p.a.		
		16.4	**Barclays Bank Mauritius Ltd**	1 359	1 173
			This loan is denominated in US dollar, unsecured, payable within 12 months and bears interest at an average of 2.51% (2017: 2.16%) p.a.		

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		16	**Borrowings (continued)**		
		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 2.69% (2017: 2.47%) p.a.	1 371	652
		16.6	**Standard Finance (Isle of Man) Ltd** This loan is denominated in US dollar and unsecured. R1.37 billion is payable after 36 months and bears interest at a fixed rate of 3.49% p.a. The remaining balance is payable within 12 months and bears interest at an average of 2.76% p.a.	4 113	–
		16.7	**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% (2017: 9.75%) p.a.	134	134
		16.8	**The Standard Bank of South Africa Ltd** This loan was denominated in ZAR, repaid during the year and carried interest at an average of 8.60% (2017: 8.85%) p.a. An aircraft with a carrying value of R33 million was pledged as security for this loan at the end of the previous year (refer to note 3.2).	–	11
		17	**Provisions**		
			Provision for post-employment medical benefits	31	33
			Provision for onerous lease contracts	9	39
			Provision for outstanding claims	7	9
			Provision for long-term employee benefits	248	202
			Reinstatement provision	64	103
–	–			359	386

17 Provisions (continued)

Reconciliation of carrying values

Group Rm	Post-employment medical benefits	Onerous lease contracts	Outstanding claims	Long-term employee benefits	Reinstatement provision	Total
Balance at 3 July 2016	35	87	11	164	157	454
Additional provisions	—	7	—	40	3	50
Unused amounts reversed	—	(25)	(2)	(1)	(28)	(56)
Re-measurements recognised directly in other comprehensive income	(4)	—	—	—	—	(4)
Utilised during the year	(2)	(17)	—	(11)	(27)	(57)
Accretion of discount	4	(10)	—	17	—	11
Modification of cash bonus arrangement transferred to share-based payments reserve	—	—	—	(6)	—	(6)
Foreign currency translation differences	—	(3)	—	(1)	(2)	(6)
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
Analysis of total provisions:						
2017						
Non-current	33	21	—	142	36	232
Current	—	18	9	60	67	154
	33	39	9	202	103	386
2018						
Non-current	31	2	—	191	40	264
Current	—	7	7	57	24	95
	31	9	7	248	64	359
Discount rates used						
2017	10%	13%	N/A	10%	13%	
2018	10%	15%	N/A	8%	15%	

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		18	**Trade and other payables**		
—	—		Trade payables	12 986	10 141
11	13		Other payables and accruals	5 370	5 120
—	—		Employee benefit accruals	1 288	1 246
—	—		Indirect taxes payable	403	284
			Insurance contract allowances		
—	—		– Unearned premiums (note 18.1)	214	226
—	—		Amounts owing to joint ventures (note 18.2)	1	12
—	—		Joint venture liability (note 6)	—	84
—	—		Fixed escalation operating lease accruals	145	108
—	—		Cash-settled share-based payment accrual (note 14.1)	214	193
11	13			20 621	17 414
		18.1	**Analysis of allowance for unearned premiums**		
			Balance at the beginning of the year	226	230
			Change in allowance for unearned premiums	(12)	(4)
			Premiums written during the year	315	380
			Amortisation charged to income (note 19)	(327)	(384)
—	—		Balance at the end of the year	214	226
—	—	**18.2**	**Amounts owing to joint ventures**	1	12
			These loans are unsecured, payable on demand and interest-free (2017: carried interest at an average of 7.1% p.a).		
		19	**Other operating income**		
—	—		Finance income earned	355	325
4 309	3 814		Investment income (note 19.1)	344	189
—	—		Franchise fees received	84	75
—	—		Operating lease income (note 19.2)	455	435
—	—		Commissions received (note 19.3)	845	811
—	—		Premiums earned (note 18.1)	327	384
16	62		Other income	369	396
4 325	3 876			2 779	2 615
		19.1	**Investment income**		
44	82		Interest received from subsidiaries	—	—
—	—		Interest received from joint ventures	15	23
—	—		Interest received from associates	44	40
—	—		Interest received on held-to-maturity investments	191	52
—	1		Interest received other	59	58
4 265	3 731		Dividends – subsidiaries	—	—
—	—		Dividends – unlisted investments	35	16
4 309	3 814			344	189
		19.2	**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 (2017: 1 and 10 years). Rental comprises mainly minimum monthly payments. Rental escalations vary, but average at a rate of 7.7% (2017: 7.7%) p.a.		
		19.3	**Commissions received**		
			Commission on Computicket ticket sales	216	208
			Commission on money transfers	236	241
			Commission on third party account and insurance payments	133	110
			Other comissions received	260	252
—	—			845	811

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		20	**Depreciation and amortisation**		
			Property, plant and equipment	2 518	2 146
			Intangible assets	364	311
				2 882	2 457
			Disclosed as cost of sales	(352)	(281)
–	–			2 530	2 176
		21	**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 (2017: 5 and 10 years) with renewal options averaging a further 3 to 20 (2017: 3 to 20) years. Rental comprises minimum monthly payments and contingent payments based on turnover levels. Turnover rentals, where applicable, average 1.92% (2017: 1.92%) of turnover. Rental escalations vary, but average at a rate of 6.41% (2017: 6.31%) p.a.		
			Operating lease payments – property	4 352	3 956
			Operating lease payments – equipment	189	159
				4 541	4 115
			Disclosed as cost of sales	(269)	(296)
–	–			4 272	3 819
			Consisting of:		
			Minimum lease payments	4 175	3 811
			Contingent lease payments	366	304
–	–			4 541	4 115
		22	**Employee benefits**		
			Wages, salaries and other staff benefits	11 428	10 841
			Share-based payment arrangements (note 22.1)	85	171
			Post-employment medical benefits	3	4
			Retirement benefit contributions (note 35)	458	547
				11 974	11 563
			Disclosed as cost of sales	(1 123)	(1 065)
–	–			10 851	10 498
		22.1	**Share-based payment arrangements**		
			Cash-settled share-based payments (note 14.1)	21	33
			Equity-settled share-based payments (note 14.2)	64	138
–	–			85	171
		22.2	**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% (2017: 28%).		
			Mandatory grants received	18	16
			Discretionary grants received	16	6
–	–			34	22

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		22	**Employee benefits (continued)**		
		22.3	**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. This rebate allowance is currently promulgated to expire in February 2019. The resulting reduction in employee benefit expenses is set out below.		
			Employment tax incentive	277	226
		23	**Directors' remuneration**		
93	91		Executive directors		
3	4		Non-executive directors		
96	95			—	—
(93)	(91)		Less: paid by subsidiaries and joint ventures		
3	4			—	—
			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.		
			Refer to note 40 for details of amounts owing by directors at the end of the previous reporting period.		

	2018						2017				
R'000	Remu-neration	Short-term perfor-mance bonus	Long-term incentive bonus[1]	Retirement and medical benefits	Other benefits	Total	Remune-ration	Short-term perfor-mance bonus	Retirement and medical benefits	Other benefits	Total
Executive directors and alternates											
JW Basson (retired 25/10/2017)[2]	12 414	—	—	17	7 029	19 460	49 656	—	64	394	50 114
JAL Basson (resigned 29/6/2018)	2 468	1 679	—	153	245	4 545	2 189	2 360	300	332	5 181
M Bosman (retired 2/7/2018)	3 791	2 380	5 809	341	618	12 939	2 601	2 216	487	259	5 563
PC Engelbrecht	15 007	4 524	10 586	330	503	30 950	9 713	4 324	685	527	15 249
CG Goosen[3]	38	—	—	12	2	52	206	293	194	803	1 496
B Harisunker	3 553	1 615	—	—	790	5 958	3 339	1 572	—	2 418	7 329
AE Karp (resigned 1/2/2017)	—	—	—	—	—	—	1 178	933	275	79	2 465
EL Nel (retired 29/6/2018)[4]	3 708	2 035	—	—	11 271	17 014	3 452	2 185	—	301	5 938
BR Weyers (retired 30/6/2017)	—	—	—	—	—	—	—	—	—	162	162
	40 979	12 233	16 395	853	20 458	90 918	72 334	13 883	2 005	5 275	93 497
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 14.2.2). The vesting of Mr M Bosman's long-term incentives 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 mainly comprise 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 and he has assumed the role of non-executive director with effect from 21 August 2017.
4 A cash retention award of R11 million is included in Mr EL Nel's other benefits. This award vested at retirement date.

Gains made on the exercise of equity-based awards during the previous year are disclosed in note 14.2.1 for shares previously alloted in terms of the Executive Share Plan.

23 Directors' remuneration (continued)

R'000	2018 Fees	2018 Total	2017 Fees	2017 Total
Non-executive directors				
JF Basson	654	654	499	499
JJ Fouché	509	509	364	364
CG Goosen[3]	283	283	—	—
EC Kieswetter	484	484	324	324
JA Louw	731	731	570	570
ATM Mokgokong	447	447	270	270
JA Rock	509	509	364	364
CH Wiese*	751	751	570	570
	4 368	4 368	2 961	2 961

[3] Mr CG Goosen's role as an executive director has changed and he has assumed the role of non-executive director with effect from 21 August 2017.

* Paid to Chaircorp (Pty) Ltd in its capacity as employer.

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		24 Other operating expenses		
—	—	Advertising	2 385	2 244
—	—	Cleaning	740	697
—	—	Commission paid	721	658
—	—	Electricity and water	2 889	2 756
8	6	Fees for professional services	521	521
—	—	Motor vehicle expenses	987	844
—	—	Repairs and maintenance	1 647	1 591
—	—	Security services	1 581	1 386
10	9	Other expenses	2 386	2 332
18	15		13 857	13 029
—	—	Disclosed as cost of sales	(1 363)	(1 208)
18	15		12 494	11 821
		25 Items of a capital nature		
		Profit on disposal of assets held for sale	20	—
		Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 10)	(108)	(79)
		Impairment of property, plant and equipment (note 3)	(49)	(19)
		Impairment of intangible assets (note 10)	(51)	(70)
		Insurance claims receivable	—	5
		Loss on disposal of investment in joint venture	(80)	—
		Profit/(loss) on other investing activities	22	(3)
—	—		(246)	(166)

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		26	**Operating profit**		
			Determined after taking into account the following:		
			Fair value (losses)/gains on financial instruments	(2)	33
			Policyholder claims and benefits paid	35	31
			– claims paid	35	33
			– movement in accumulated outstanding claims (note 17)	—	(2)
		27	**Finance costs**		
			Interest on convertible bonds	—	187
			Interest paid	554	269
			Interest paid to joint ventures	1	—
			Borrowing costs capitalised	(133)	(116)
—	—			422	340
		27.1	**Interest paid per cash flow statement:**		
			Finance costs expense	422	340
			Borrowing costs capitalised	133	116
			Interest on convertible bonds amortised	—	(40)
—	—			555	416
		28	**Income tax expense**		
		28.1	**Classification**		
28	39		South African income tax	1 933	1 750
—	—		Foreign income tax	188	430
28	39			2 121	2 180
		28.2	**Consisting of:**		
33	48		Current income tax	2 271	2 285
(5)	(9)		Prior year income tax	17	52
—	—		Withholding income tax	88	79
28	39			2 376	2 416
—	—		Deferred income tax	(255)	(236)
28	39			2 121	2 180
		28.3	**Reconciliation of income tax**		
1 211	1 085		South African current income tax at 28% (2017: 28%)	2 054	2 132
(1 183)	(1 046)		Net adjustments	67	48
(1 194)	(1 045)		Dividend income	(11)	(5)
—	—		Exempt income*	(294)	(282)
16	8		Non-deductible expenses	151	66
—	—		Income tax allowances	(14)	(6)
—	—		Deferred income tax asset previously not recognised	(11)	3
(5)	(9)		Prior year income tax	17	52
—	—		Effect of foreign income tax rates	78	115
—	—		Withholding income tax	88	79
—	—		Deferred income tax asset not recognised	63	26
28	39		Income tax	2 121	2 180
0.6%	1.0%		Effective tax rate	28.9%	28.6%

* 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.

29 Earnings per share

Rm	2018 Gross	2018 Income tax effect	2018 Net
Profit attributable to owners of the parent			5 201
Profit on disposal of assets held for sale	(20)	5	(15)
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 10)	108	(29)	79
Impairment of property, plant and equipment (note 3)	49	1	50
Impairment of intangible assets (note 10)	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)	5 398

There are no convertible bonds outstanding during the year under review. For this reason there is no reconciling item between profit attributable to owners of the parent, used in the basic and diluted earnings per share calculations, and headline earnings, used in the basic and diluted headline earnings per share calculations, in the current year.

Rm	2017 Gross	2017 Income tax effect	2017 Net
Profit attributable to owners of the parent			5 428
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 10)	79	(20)	59
Impairment of property, plant and equipment (note 3)	19	(2)	17
Impairment of intangible assets (note 10)	70	(20)	50
Insurance claims receivable	(5)	2	(3)
Loss on other investing activities	3	(1)	2
Re-measurements included in share of profit of equity-accounted investments	1	—	1
Headline earnings	167	(41)	5 554
Profit attributable to owners of the parent:			
Used in calculating basic earnings per share			5 428
Add: Interest savings on convertible bonds	187	(52)	135
Used in calculating diluted earnings per share	187	(52)	5 563
Headline earnings			5 554
Add: Interest savings on convertible bonds	187	(52)	135
Used in calculating diluted headline earnings per share	187	(52)	5 689

Number of ordinary shares	2018 '000	2017 '000
– In issue	554 679	563 855
– Weighted average	556 643	542 927
– Weighted average adjusted for dilution	557 172	564 814
Reconciliation of weighted average number of ordinary shares in issue during the year:		
Weighted average number of ordinary shares	556 643	542 927
Adjustments for dilutive potential of full share grants and convertible bonds	529	21 887
Weighted average number of ordinary shares for diluted earnings per share	557 172	564 814

Earnings per share	Cents	Cents
– Basic earnings	934.3	999.8
– Diluted earnings	933.4	984.8
– Basic headline earnings	969.6	1 023.2
– Diluted headline earnings	968.7	1 007.4

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Cents	Company 2018 Cents		Group 2018 Cents	Group 2017 Cents
		30 Dividends per share		
		30.1 Dividends per share paid		
296.0	324.0	No 137 paid 11 September 2017 (2017: No 135 paid 12 September 2016)	324.0	296.0
180.0	205.0	No 138 paid 19 March 2018 (2017: No 136 paid 20 March 2017)	205.0	180.0
476.0	529.0		529.0	476.0
		30.2 Dividends per share declared		
324.0	279.0	No 139 payable 10 September 2018 (2017: No 137 paid 11 September 2017)	279.0	324.0

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		31 Cash flow information		
		31.1 Non-cash items		
		Depreciation of property, plant and equipment	2 518	2 146
		Amortisation of intangible assets	364	311
		Net fair value losses/(gains) on financial instruments	2	(33)
		Net monetary gain	(653)	—
		Exchange rate losses	251	236
		Profit on disposal of assets held for sale	(20)	—
		Loss on disposal and scrapping of plant and equipment and intangible assets	108	79
		Impairment of property, plant and equipment	49	19
		Impairment of intangible assets	51	70
		Loss on disposal of investment in joint venture	80	—
		Movement in provisions	(15)	(52)
		Movement in cash-settled share-based payment accrual	21	11
		Movement in share-based payment reserve	64	139
		Movement in fixed escalation operating lease accruals	99	163
—	—		2 919	3 089
		31.2 Changes in working capital		
—	—	Inventories	(880)	(3 237)
(4)	4	Trade and other receivables	(14)	(164)
—	1	Trade and other payables	3 580	1 123
(4)	5		2 686	(2 278)
		31.3 Dividends paid		
(7)	(7)	Shareholders for dividends at the beginning of the year	(10)	(9)
(2 754)	(3 156)	Dividends distributed to equity holders	(2 969)	(2 586)
—	—	Dividends distributed to non-controlling interest	(12)	(10)
7	8	Shareholders for dividends at the end of the year	11	10
(2 754)	(3 155)		(2 980)	(2 595)
		31.4 Income tax paid		
1	(5)	(Payable)/prepaid at the beginning of the year	(428)	(428)
(28)	(39)	Per statement of comprehensive income	(2 376)	(2 416)
—	—	Income tax effect of gains/losses on effective cash flow hedge charged to other comprehensive income	4	4
—	—	Foreign currency translation differences including hyperinflation effect	78	—
—	—	Acquisition of subsidiaries	(3)	—
5	1	Payable at the end of the year	361	428
(22)	(43)		(2 364)	(2 412)

Company 2017 Rm	Company 2018 Rm			Group 2018 Rm	Group 2017 Rm
		32	**Contingent liabilities**		
		32.1	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.	356	85
		32.2	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 judgment 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 judgment.		
		32.3	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 judgment, 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 judgment until final liquidation of the entire sum were awarded. A notice of appeal of the judgment to the Supreme Court of Appeal was filed on 5 December 2017. Based on legal advice, the Group considers it to be probable that the judgment will be in its favour and has therefore not recognised a provision in relation to this claim.		
		33	**Commitments**		
		33.1	**Capital commitments**		
			Contracted for property, plant and equipment	1 619	1 771
			Contracted for intangible assets	2	36
			Authorised by directors, but not contracted for	3 938	3 306
–	–		Total capital commitments	5 559	5 113
			Funds to meet this expenditure will be provided from the Group's own resources and borrowings.		
		33.2	**Operating lease commitments**		
			Future minimum lease payments under non-cancellable operating leases:		
			– Not later than one year	3 443	3 465
			– Later than one year not later than five years	10 525	10 924
			– Later than five years	4 585	5 013
				18 553	19 402
			Less: fixed escalation operating lease accruals	(1 380)	(1 272)
–	–			17 173	18 130
		33.3	**Operating lease receivables**		
			Future minimum lease payments receivable under non-cancellable operating leases:		
			– Not later than one year	361	316
			– Later than one year not later than five years	687	536
			– Later than five years	112	69
				1 160	921
			Less: fixed escalation operating lease accruals	(51)	(43)
–	–			1 109	878

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

Company 2017 Rm	Company 2018 Rm		Group 2018 Rm	Group 2017 Rm
		34 Borrowing powers In terms of the Memorandum of Incorporation of the Company the borrowing powers of Shoprite Holdings Ltd are unlimited.		
		35 Post-employment benefits Group companies provide post-employment benefits in accordance with the local conditions and practices in the countries in which they operate. The Group provides retirement benefits to 69.8% (2017: 66.0%) of employees and 8.0% (2017: 7.7%) of the employees belong to national retirement plans. The monthly contributions are charged to the statement of comprehensive income. All company funds are defined contribution funds. All South African funds are subject to the Pension Fund Act of 1956. During the year under review contributions to retirement funding have been calculated as:	458	547

36 Offsetting financial assets and financial liabilities

36.1 Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

Group	Trade receivables	Cash and cash equivalents	Total
Rm	**2018**		
Gross amounts of recognised financial assets	4 750	11 177	15 927
Gross amounts of recognised financial liabilities set off in the statement of financial position	(2 642)	(3 712)	(6 354)
Net amounts of financial assets presented in the statement of financial position	2 108	7 465	9 573
Related amounts not set off in the statement of financial position*			
Financial instruments	(112)	–	(112)
Net amounts	1 996	7 465	9 461
Rm	**2017**		
Gross amounts of recognised financial assets	4 060	10 926	14 986
Gross amounts of recognised financial liabilities set off in the statement of financial position	(2 345)	(3 159)	(5 504)
Net amounts of financial assets presented in the statement of financial position	1 715	7 767	9 482
Related amounts not set off in the statement of financial position*			
Financial instruments	(101)	–	(101)
Net amounts	1 614	7 767	9 381

* 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.

36 Offsetting financial assets and financial liabilities (continued)

36.2 Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

Group	Trade payables	Bank overdrafts	Total
Rm	**2018**		
Gross amounts of recognised financial liabilities	15 628	7 707	23 335
Gross amounts of recognised financial assets set off in the statement of financial position	(2 642)	(3 712)	(6 354)
Net amounts of financial liabilities presented in the statement of financial position	12 986	3 995	16 981
Related amounts not set off in the statement of financial position*			
Financial instruments	(112)	—	(112)
Net amounts	12 874	3 995	16 869
Rm	**2017**		
Gross amounts of recognised financial liabilities	12 486	8 217	20 703
Gross amounts of recognised financial assets set off in the statement of financial position	(2 345)	(3 159)	(5 504)
Net amounts of financial liabilities presented in the statement of financial position	10 141	5 058	15 199
Related amounts not set off in the statement of financial position*			
Financial instruments	(101)	—	(101)
Net amounts	10 040	5 058	15 098

* 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 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. 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.

The Group's derivatives – being forward foreign exchange rate contracts – are measured at fair value and classified at level 2. The fair value of forward foreign exchange rate contracts is determined using forward exchange rates at the statement of financial position date. There were no transfers between levels 1 and 2 during the year.

All other 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 1 July 2018

37 Fair value of financial instruments (continued)

Group	Note	Carrying amount					Fair value				
		Held-to-maturity	Loans and receivables	Fair value through profit and loss	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	7.1	3 008	—	—	—	3 008	—	2 995	—	2 995	6.9%
Angola Treasury Bills	7.2	682	—	—	—	682	—	686	—	686	16.7%
Loans and receivables		—	1 549	—	—	1 549	—	1 418	—	1 418	
ZAR denominated amounts owing by Resilient Africa (Pty) Ltd	8.1.1	—	373	—	—	373	—	346	—	346	7.6%
US dollar denominated amounts owing by Resilient Africa (Pty) Ltd	8.1.2	—	617	—	—	617	—	534	—	534	6.0%
Amounts owing by franchisees	8.3	—	334	—	—	334	—	334	—	334	10.4%
Amounts owing by RMB Westport Osapa	8.4	—	195	—	—	195	—	174	—	174	6.0%
Other		—	30	—	—	30	—	30	—	30	7.6%
Instalment sales		—	1 228	—	—	1 228	—	—	1 228	1 228	
Trade receivables		—	2 108	—	—	2 108	—	—	2 108	2 108	
Other receivables excluding prepayments and taxes receivable		—	1 369	—	—	1 369	—	—	1 369	1 369	
Amounts owing by joint ventures		—	25	—	—	25	—	—	25	25	
Cash and cash equivalents		—	7 465	—	—	7 465	—	—	7 465	7 465	
Total financial assets		3 690	13 744	—	—	17 434	—	5 099	12 195	17 294	
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	—	—	—	2 876	2 876	—	2 734	—	2 734	4.6%
Non-current borrowing from Standard Finance (Isle of Man) Ltd	16.6	—	—	—	1 237	1 237	—	1 312	—	1 312	5.3%
First National Bank of Namibia Ltd	16.7	—	—	—	134	134	—	134	—	134	9.5%
Reinstatement provision		—	—	—	64	64	—	—	64	64	
Trade payables		—	—	—	12 986	12 986	—	—	12 986	12 986	
Other payables and accruals excluding taxes payable and employee benefit accruals		—	—	—	5 370	5 370	—	—	5 370	5 370	
Amounts owing to joint ventures		—	—	—	1	1	—	—	1	1	
Bank overdrafts		—	—	—	3 995	3 995	—	—	3 995	3 995	
Total financial liabilities		—	—	—	29 393	29 393	—	6 892	22 416	29 308	

37 Fair value of financial instruments (continued)

Group	Note	Carrying amount					Fair value				
		Held-to-maturity	Loans and receivables	Fair value through profit and loss	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	Borrowing rate used
Rm		**2017**									
Financial asset measured at fair value											
Derivative financial instruments		–	–	1	–	1	–	1	–	1	N/A
Financial assets not measured at fair value											
Held-to-maturity investments		1 311	–	–	–	1 311	–	1 311	–	1 311	
AOA, USD Index Linked, Angola Government Bonds	7.1	1 311	–	–	–	1 311	–	1 311	–	1 311	7.0%
Loans and receivables		–	1 321	–	–	1 321	–	1 321	–	1 321	
ZAR denominated amounts owing by Resilient Africa (Pty) Ltd	8.1.1	–	367	–	–	367	–	367	–	367	6.6%
US dollar denominated amounts owing by Resilient Africa (Pty) Ltd	8.1.2	–	586	–	–	586	–	586	–	586	3.0%
Amounts owing by employees	8.2	–	102	–	–	102	–	102	–	102	10.5%
Amounts owing by franchisees	8.3	–	266	–	–	266	–	266	–	266	10.4%
Instalment sales		–	1 364	–	–	1 364	–	–	1 364	1 364	
Trade receivables		–	1 715	–	–	1 715	–	–	1 715	1 715	
Other receivables excluding prepayments and taxes receivable		–	1 431	–	–	1 431	–	–	1 431	1 431	
Amounts owing by joint ventures		–	359	–	–	359	–	–	359	359	
Cash and cash equivalents		–	7 767	–	–	7 767	–	–	7 767	7 767	
Total financial assets		1 311	13 957	1	–	15 269	–	2 633	12 636	15 269	
Financial liabilities not measured at fair value											
Borrowings		–	–	–	3 274	3 274	–	3 274	–	3 274	
ABSA Bank Ltd	16.3	–	–	–	1 304	1 304	–	1 304	–	1 304	1.8%
Barclays Bank Mauritius Ltd	16.4	–	–	–	1 173	1 173	–	1 173	–	1 173	2.2%
Standard Chartered Bank (Mauritius) Ltd	16.5	–	–	–	652	652	–	652	–	652	2.5%
First National Bank of Namibia Ltd	16.7	–	–	–	134	134	–	134	–	134	9.8%
The Standard Bank of South Africa Ltd	16.8	–	–	–	11	11	–	11	–	11	8.9%
Reinstatement provision		–	–	–	103	103	–	–	103	103	
Trade payables		–	–	–	10 141	10 141	–	–	10 141	10 141	
Other payables and accruals excluding taxes payable and employee benefit accruals		–	–	–	5 120	5 120	–	–	5 120	5 120	
Amounts owing to joint ventures		–	–	–	12	12	–	–	12	12	
Bank overdrafts		–	–	–	5 058	5 058	–	–	5 058	5 058	
Total financial liabilities		–	–	–	23 708	23 708	–	3 274	20 434	23 708	

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

38 Financial risk management

38.1 Financial risk factors

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.

38.1.1 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 (R4.4 billion liability) and South Africa rand (R299 million liability). This US dollar currency risk is mitigated by the investment in AOA, USD Index Linked, Angola Government Bonds (R3.0 billion asset) (refer to note 7.1) 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	
Foreign currency	2018 Rm	2017 Rm
South Africa rand	58	13
US dollar	470	478
Euro	12	56
Other currencies	1	3
	541	550

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 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. At 2 July 2017 the total possible decrease in Group post-tax profit, calculated for all estimated currency movements, was R309 million with the AON/USD exchange rate (with an expected 10.4% decline) contributing R250 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.

38 Financial risk management (continued)

38.1 Financial risk factors (continued)

38.1.1 Market risk (continued)

a) **Currency risk (continued)**

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 financial position date, subject to translation risk.

	Group	
Foreign currency	2018 Rm	2017 Rm
Angola kwanza	2 898	2 517
Euro	(334)	(262)
US dollar	(3 636)	(1 921)

Cash flow hedges

At the end of the previous year the Group had US dollar denominated firm commitments to pay $8.65 million to acquire an aircraft from a foreign supplier. The risk of changes in the ZAR/USD spot exchange rate resulting in changes in the cash flows in ZAR terms were hedged. The payments were expected to be made in the 2018 calendar year as indicated below:

	Group	
	2018 $	2017 $
Second deposit – First quarter of 2018	–	250 000
Third deposit – First quarter of 2018	–	1 000 000
Final deposit – Fourth quarter of 2018	–	7 400 000
	–	8 650 000

The Group paid the second and third deposits amounting to $1.25 million during the year under review and then transferred the remaining commitment of $7.40 million under this purchase order to an external third party.

The Group held R114 million [$8.65 million] (2 July 2017: R113 million [$8.65 million]) in a customer foreign currency account until payment of the second and third deposits. This total comprised of three individual designations which were designated as hedges of the three expected future payments, for which the Group had firm commitments. The fair value of the customer foreign currency account approximated its book value.

The foreign exchange gain of R4 million (2017: loss of R15 million at the reporting date) on translation of the customer foreign currency account at the settlement date is recognised in other comprehensive income and accumulated in the cash flow hedging reserve, in shareholders' equity. Upon payment of the $1.25 million during the year, foreign exchange gains of R3 million accumulated in the cash flow hedging reserve in respect of the second and third deposits were transferred to trade and other receivables where these deposits were recorded as prepayments. The remaining foreign exchange gains of R19 million accumulated in the cash flow hedging reserve in respect of the final deposit of $7.4 million were reclassified to profit for the year since this future payment is no longer expected to occur. (Refer to note 15.1.) No ineffectiveness was recognised in the statement of comprehensive income.

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 held-to-maturity investments (refer to note 7), loans and receivables (refer to note 8), instalment sale receivables (refer to note 12.1) 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% (2017: 8.1%).

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. During the current year, the Group obtained a US$100 million loan at a fixed interest rate of 3.49% p.a. (refer to note 16.6). No interest rate swaps were entered into during the current year.

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

38 Financial risk management (continued)

38.1 Financial risk factors (continued)

38.1.1 Market risk (continued)

b) Cash flow and fair value interest rate risk (continued)

For exposure to interest rate risk on other monetary items refer to the following:
– Amounts owing by franchisees: note 8.3
– Amounts owing by joint ventures: note 12.5
– Amounts owing to joint ventures: note 18.2

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 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. At 2 July 2017 the total possible decrease in Group post-tax profit, calculated for all estimated interest rate movements, was R11.7 milion. The estimated decrease of 50 basis points in the South African prime rate would have resulted in a possible decrease in Group post-tax profit of R10.5 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.

38.1.2 Credit risk

Credit risk is managed on a group basis. Potential concentration of credit risk consists primarily of cash and cash equivalents, trade and other receivables, financial guarantees and investments.

Funds are only invested with South African financial institutions with a minimum Moody's short-term credit rating of P-2 and a minimum Moody's long-term rating of Baa2. For financial institutions registered outside South Africa the required minimum Moody's short-term and long-term credit ratings are P-1 and Aa3 respectively. 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.

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 Company has guaranteed various revolving credit facilities of R20.8 billion (2017: R15.9 billion). 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 R20.8 billion (2017: R15.9 billion).

Refer to the following notes for exposure to credit risk on other monetary items and how this risk is managed:
– Held-to-maturity investments: note 7
– Loans and receivables: note 8
– Trade and other receivables: note 12

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

Company			Group	
2017 Rm	2018 Rm		2018 Rm	2017 Rm
		Rating		
567	12	P-1	3 724	4 978
—	—	P-2	5	—
—	—	NP	239	—
—	—	No rating available	2 994	2 427
—	—	Cash on hand and in transit	503	362
567	12	Total cash and cash equivalents	7 465	7 767

38 Financial risk management (continued)

38.1 Financial risk factors (continued)

38.1.3 Liquidity risk

The risk of illiquidity is managed by using cash flow forecasts, maintaining adequate unutilised banking facilities (2018: R6.0 billion; 2017: R3.1 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.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position 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.

Non-derivative financial liabilities	Book value	Total	Not later than one year	Between one and two years	Between two and five years
Group					
Rm	2018				
Borrowings	6 977	7 096	5 654	48	1 394
Reinstatement provision	64	64	64	—	—
Trade payables	12 986	12 986	12 986	—	—
Other payables and accruals excluding taxes payable and employee benefit accruals	5 370	5 370	5 370	—	—
Amounts owing to joint ventures	1	1	1	—	—
Bank overdrafts	3 995	3 995	3 995	—	—
Financial commitment	—	1 084	1 084	—	—
	29 393	30 596	29 154	48	1 394
Rm	2017				
Borrowings	3 274	3 274	3 274	—	—
Reinstatement provision	103	103	103	—	—
Trade payables	10 141	10 141	10 141	—	—
Other payables and accruals excluding taxes payable and employee benefit accruals	5 120	5 120	5 120	—	—
Amounts owing to joint ventures	12	12	12	—	—
Bank overdrafts	5 058	5 058	5 058	—	—
Financial commitment	—	1 090	1 090	—	—
	23 708	24 798	24 798	—	—

Non-derivative financial liabilities	Book value	Total	Not later than one year	Between one and two years	Between two and five years
Company					
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	—	—
Rm	2017				
Other payables and accruals excluding taxes payable and employee benefit accruals	11	11	11		
Financial guarantees	—	15 916	15 916		
	11	15 927	15 927	—	—

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

38 Financial risk management (continued)

38.2 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.

39 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 25.39% (2017: 11.82%) on the statement of financial position date.

The Group is currently maintaining a two times dividend cover based on dilutive headline earnings per share.

40 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.

In the prior year, Dr Basson notified the Company of the exercise of his put option. This specific repurchase of 8 683 327 Shoprite Holdings Ltd shares at R201.07 per share was approved by shareholders at an extraordinary general meeting held on 5 September 2017, where after the shares were repurchased by the Company and cancelled with effect from 15 September 2017.

Non-executive director, CH Wiese, is an employee of Chaircorp (Pty) Ltd, a management company that renders advisory services to Shoprite Checkers (Pty) Ltd in return for an annual fee. An amount of R10.9 million (2017: R9.9 million) was paid to Chaircorp (Pty) Ltd for advisory services to Shoprite Checkers (Pty) Ltd.

Details of the remuneration of directors, and equity- and cash-settled share-based payment instruments issued to directors, are disclosed in notes 14 and 23.

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.

Amounts receivable from directors and key management at the end of the previous reporting period in terms of the executive share plan are set out below. The repayment terms of these loans and receivables are disclosed in note 8.2.

	Group	
Directors and key management	2018 Rm	2017 Rm
JAL Basson	–	9
M Bosman	–	11
PC Engelbrecht	–	18
Other key management personnel	–	64
	–	102

40 Related party information (continued)

Key management personnel compensation	Group 2018 Rm	Group 2017 Rm
Short-term employee benefits	113	234
Post-employment benefits	2	12
Long term incentive bonuses including share based payments	42	75
Directors' fees	4	3
	161	324

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 and JA Louw and former directors JW Basson 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.

These transactions and related balances were as follows:	Group 2018 Rm	Group 2017 Rm
Purchase of merchandise	121	429
Utilisation of services	9	18
Interest paid by the Group	—	2
Year-end balances owed to the Group	—	1
Year-end balances owed by the Group	11	45

During the previous financial year, the Group disposed of its 75.1% interest in Royal Retail (Pty) Ltd to an entity in which a direct family member of former director JW Basson had a significant influence. The disposal of Royal Retail (Pty) Ltd was insignificant in terms of the Group's total operations for the previous year.

The Group has a 39% interest in Resilient Africa (Pty) Ltd and Resilient Africa Managers (Pty) Ltd (refer to note 6.1).

The following transactions took place between the Resilient Africa associates and the Group during the year under review:	Group 2018 Rm	Group 2017 Rm
Rent paid to the associates	13	24
Interest received by the Group	44	40

The year-end balances relating to loans receivable from Resilient Africa (Pty) Ltd are disclosed in note 8.1.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 1 July 2018

40 Related party information (continued)

The Group has a 50% interest in Hungry Lion (Mauritius) Ltd and has started negotiations to dispose of this investment (refer to notes 6.2 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	
The following transactions took place between the Hungry Lion joint venture and the Group during the year under review:	2018 Rm	2017 Rm
Sale of merchandise to the joint venture	321	445
Operating expenses recovered by the Group	23	14
Administration fees received by the Group	16	6
Administration fees paid to the joint venture	8	2
Interest received by the Group	15	23
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 12.5 and 18.2.

Details of the Company's interests in subsidiaries are provided in note 5 and Annexure A.

The Company paid dividends of R187 million (2017: R169 million) to Shoprite Checkers (Pty) Ltd during the year under review.

	Company	
The Company received the following from its subsidiaries:	2018 Rm	2017 Rm
Annual administration fee received from Shoprite Checkers (Pty) Ltd	2	2
Dividends received from Shoprite Checkers (Pty) Ltd	3 631	4 115
Dividends received from Shoprite Insurance Company Ltd	100	150
Guarantee fee received from Shoprite International Ltd	57	9
Interest received from Shoprite Investments Ltd	82	44

Annexure A – Interests in subsidiaries

Shoprite Holdings Ltd and its subsidiaries as at 1 July 2018

	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	
				2018 Rm	2017 Rm	2018 Rm	2017 Rm
Direct subsidiaries							
Shoprite Checkers (Pty) Ltd	South Africa	1 129	100	174	174	3 262	1 748
Shoprite DTMC (Pty) Ltd	South Africa*	424	100	424	—	—	—
Shoprite Investments Ltd	South Africa	400	100	400	400	779	3 819
Shoprite International Ltd	Mauritius*	7 856	100	7 856	7 315	57	9
Shoprite Insurance Company Ltd	South Africa	20	100	20	20	—	—
				8 874	7 909	4 098	5 576
Indirect subsidiaries							
Africa Supermarkets Ltd	Zambia*	229	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*	—	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*	1 046	100				
Sentra Namibia Ltd	Namibia*	6	100				
Shophold (Mauritius) Ltd	Mauritius*	189	100				
Shoprite (Mauritius) Ltd	Mauritius*	266	100				
Shoprite Angola Imobiliaria Lda	Angola*	1 289	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*	228	100				
Shoprite Trading Ltd	Malawi*	127	100				

* Investments in subsidiaries with functional currencies other than South African rands are converted at historical exchange rates.

** Non-controlling interests in respect of these subsidiaries are not material.

Significant restrictions

Local currency cash and short-term deposits of R1.4 billion (2017: R2.3 billion) are held in Angola (2017: Angola and Nigeria) and are subject to onerous local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends. These balances held by the respective subsidiaries are not available for general use by the holding company or other subsidiaries in the Group.

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 1 July 2018

Shareholder spread	No of shareholdings	%	No of shares	%
1 – 1 000 shares	26 719	81.72	6 884 860	1.16
1 001 – 10 000 shares	4 597	14.06	12 893 544	2.18
10 001 – 100 000 shares	1 023	3.13	34 661 489	5.86
100 001 – 1 000 000 shares	268	0.82	79 150 069	13.38
Over 1 000 001 shares	88	0.27	457 748 540	77.42
Totals	**32 695**	**100.00**	**591 338 502**	**100.00**

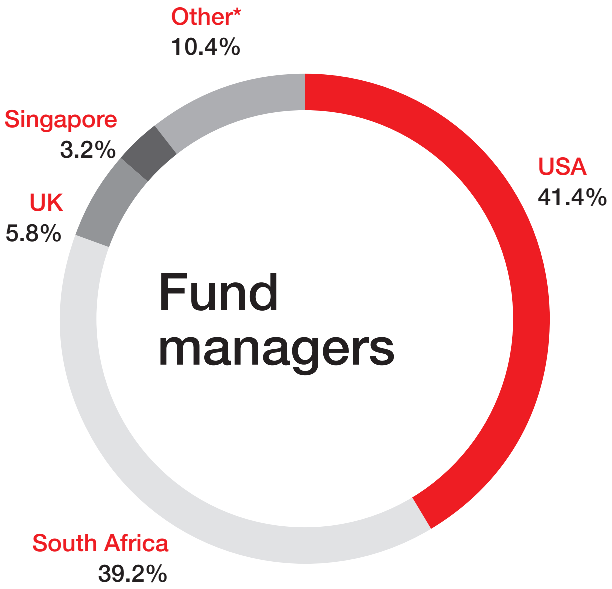
Distribution of shareholders	No of shareholdings	%	No of shares	%
Banks/brokers	325	0.99	273 331 822	46.22
Close corporations	229	0.70	948 766	0.16
Endowment funds	189	0.58	1 424 434	0.24
Individuals	25 422	77.76	18 635 539	3.15
Insurance companies	126	0.39	17 214 447	2.91
Investment companies	11	0.03	1 914 934	0.32
Medical aid schemes	40	0.12	731 846	0.12
Mutual funds	542	1.66	36 310 924	6.14
Other corporations	178	0.54	179 345	0.03
Private companies	773	2.36	74 484 808	12.60
Public companies	15	0.05	861 777	0.15
Retirement funds	519	1.59	101 085 663	17.09
Treasury shares	3	0.01	35 436 572	5.99
Trusts	4 323	13.22	28 777 625	4.87
Totals	**32 695**	**100.00**	**591 338 502**	**100.00**

Public/non-public shareholders	No of shareholdings	%	No of shares	%
Non-public shareholders	**53**	**0.16**	**120 656 279**	**20.40**
Directors of the company	50	0.15	85 219 707	14.41
Treasury shares	3	0.01	35 436 572	5.99
Public shareholders	**32 642**	**99.84**	**470 682 223**	**79.60**
Totals	**32 695**	**100.00**	**591 338 502**	**100.00**

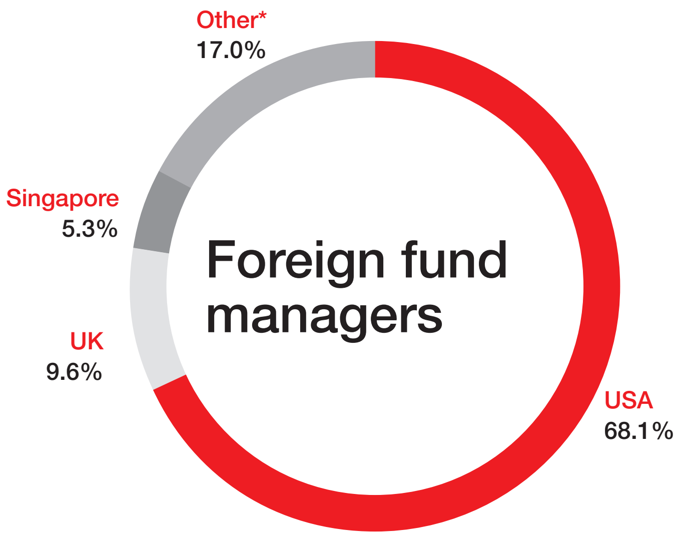
Beneficial shareholders holding 1% or more	No of shares	%
Wiese, CH	82 232 795	13.91
Government Employees Pension Fund	67 451 687	11.41
Shoprite Checkers (Pty) Ltd	35 436 572	5.99
Capital Group	22 773 782	3.85
Oppenheimer Funds	19 661 768	3.32
T Rowe Price	18 541 741	3.14
Lazard	18 333 320	3.10
Vanguard	15 420 392	2.61
BlackRock	14 691 771	2.48
GIC Private Limited	12 923 220	2.19
Le Roux, JF	8 861 281	1.50
Government Pension Fund – Norway	6 802 615	1.15
Absa	6 624 697	1.12
Old Mutual	6 095 611	1.03
Liberty Group	6 028 377	1.02
Totals	**341 879 629**	**57.81**

Shareholders

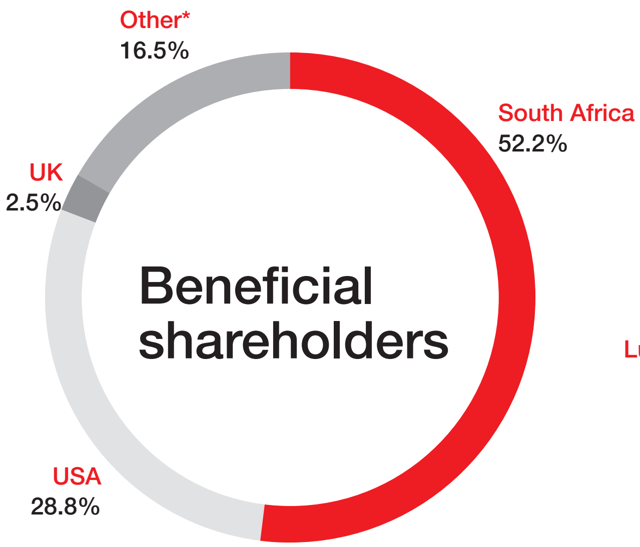
Country classification



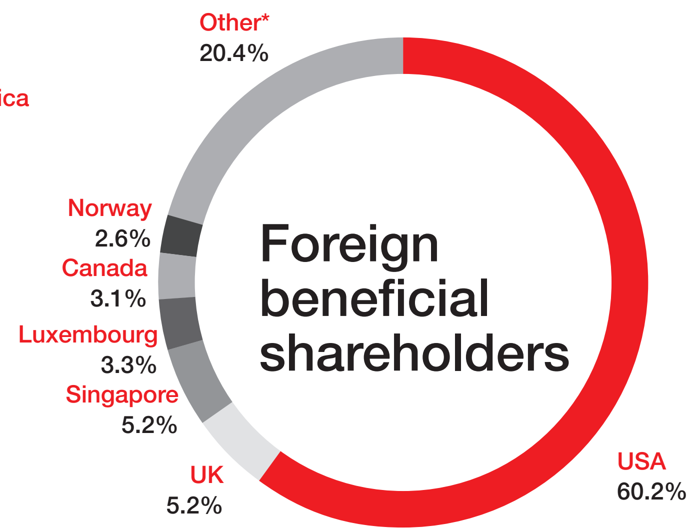
*Other: Luxembourg, Canada, UAE, Japan, Namibia, Australia, China, Germany, Switzerland, Netherlands, France, Sweden, Ireland, Denmark, Norway, Belgium, South Korea, SA, Austria, Malta, Italy, Mauritius, Hong Kong, Channel Islands, Finland, Slovenia



*Other: Luxembourg, Canada, UAE, Japan, Namibia, Australia, China, Germany, Switzerland, Netherlands, France, Sweden, Ireland, Denmark, Norway, Belgium, South Korea, SA, Austria, Malta, Italy, Mauritius, Hong Kong, Channel Islands, Finland, Slovenia



*Other: Singapore, Luxembourg, Canada, Norway, Namibia, Ireland, Japan, UAE, Unidentified, China, Australia, Germany, Switzerland, Netherlands, South Korea, Denmark, Sweden, France, Kuwait, Cayman Islands, Saudi Arabia, Zambia, Belgium, Thailand, Lesotho, Austria, Taiwan



*Other: Namibia, Ireland, Japan, UAE, Unidentified, China, Australia, Germany, Switzerland, Netherlands, South Korea, Denmark, Sweden, France, Kuwait, Cayman Islands, Saudi Arabia, Zambia, Belgium, Thailand, Lesotho, Austria, Taiwan, Malta

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