



**OUR CUSTOMERS ARE AT
THE HEART OF OUR BUSINESS**

ANNUAL FINANCIAL STATEMENTS 2017

Annual Financial Statements

Shoprite Holdings Ltd and its Subsidiaries as at 2 July 2017

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The annual financial statements for the year ended 2 July 2017 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 M Bosman, 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:

	2017	2016		2017	2016		2017	2016
US dollar	13.038	14.775	Botswana pula	1.278	1.383	India rupee	0.202	0.219
Pound sterling	16.969	19.685	Uganda shilling	0.004	0.004	Ghana cedi	2.940	3.731
Euro	14.916	16.393	Malawi kwacha	0.018	0.021	Madagascar ariary	0.004	0.005
Zambia kwacha	1.416	1.514	Mauritius rupee	0.376	0.415	Nigeria naira	0.043	0.052
Mozambique metical	0.217	0.221	Angola kwanza	0.078	0.089	DRC franc	0.009	0.016

Statement of Responsibility by the Board of Directors

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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 2 July 2017, 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 (IFRSs) 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 pages 8 – 11. 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 21 August 2017 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 2 July 2017, 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

21 August 2017

Directors' Report

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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.

Fast Foods: The Hungry Lion chain owns and operates modern, well-designed fast food outlets with a focus on fried chicken within South Africa, Botswana, Zambia, Lesotho, Swaziland, Namibia and Angola.

Franchise: The OK Franchise Division's stores offer a wide range of perishable and non-perishable food items through supermarket/convenience outlets under the OK Foods, OK Grocer, OK Minimark, OK Value, OK Express, Friendly Grocer and 7-Eleven brands. Wholesale franchise partners trade under the Megasave brand and the add-on retail liquor outlets under the OK Liquor and Friendly Liquormarket brands.

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 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.

Other Group Subsidiaries

The interests of Shoprite Holdings in other subsidiaries are set out on page 72 of the annual financial statements.

Financial review

The Group's diluted headline earnings per share amounts to 1,007.4 cents for the year (2016: 900.3 cents). Details of the profit of Shoprite Holdings and its subsidiaries are contained in the statement of comprehensive income on page 13 with reference to the operating segment information on page 32. The financial position of Shoprite Holdings and its subsidiaries are recorded in the statement of financial position on page 12. Further details are furnished in the notes to the consolidated annual financial statements on pages 17 – 71. The Group's net asset value per share as at 2 July 2017 was 4,905 cents (2016: 3,942 cents).

Distribution to shareholders

Ordinary dividends

An interim cash dividend (no. 136) of 180 cents per share was paid on 20 March 2017. A final dividend (no. 137) of 324 cents per share, is payable on 11 September 2017, bringing the total dividend for the year to 504 cents (2016: 452 cents) per ordinary share.

Share capital

The authorised share capital of Shoprite Holdings remained unchanged at 650 000 000 (six hundred and fifty million) ordinary shares of 113.4 cents (one hundred and thirteen point four cents) each.

During the period under review Shoprite Holdings issued 27 149 869 (twenty seven million one hundred and forty nine thousand eight hundred and sixty nine) ordinary shares in respect of conversion notices received from the holders of 458 671 Shoprite Investments convertible bonds. Accordingly, the issued share capital increased from 572 871 960 (five hundred and seventy two million eight hundred and seventy one thousand nine hundred and sixty) to 600 021 829 (six hundred million twenty one thousand eight hundred and twenty nine) ordinary shares of 113.4 cents each.

On 31 August 2016 and 19 June 2017, Shoprite Holdings issued 13 828 807 (thirteen million eight hundred and twenty eight thousand eight hundred and seven) non-convertible, non-participating, no par value deferred shares in the share capital of Shoprite Holdings to Thibault Square Financial Services (Pty) Ltd pursuant to the issue of 27 149 869 (twenty seven million one hundred and forty nine thousand eight hundred and sixty nine) ordinary shares as reported above. The total issued non-convertible, non-participating, no par value deferred shares therefore increased to 305 621 601 (three hundred and five million six hundred and twenty one thousand six hundred and one).

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 decreased from R5.124 billion to R3.274 billion during the financial year under review.

Special resolutions

At the annual general meeting of Shoprite Holdings held on 31 October 2016, 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 approval to repurchase shares;
- **Special resolution number 5:** Approval of amendments to clauses 9.3 to 9.6 of the Shoprite Holdings MOI;
- **Special resolution number 6:** Approval of amendment to clause 15 of the Shoprite Holdings MOI; and
- **Special resolution number 7:** Approval of amendments to clauses 1.2.24, 1.2.25 and 48 of the Shoprite Holdings MOI.

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 26 and 27 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.

Dr CH Wiese and Messrs EC Kieswetter and JA Louw 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.

Mr CG Goosen was appointed as non-executive director with effect from 21 August 2017 but retires in terms of Article 13.2 of the MOI at the annual general meeting on 30 October 2017. Being eligible for election, Mr Goosen offers himself for re-election.

The Board supports the re-election of these directors.

Directors' and alternate directors' interests in ordinary shares

Non-executive directors

	Direct beneficial	Indirect beneficial	Total 2017	Total 2016
CH Wiese	—	101 315 275	101 315 275	91 252 531
JJ Fouché	472 171	—	472 171	472 171
JF Basson	—	1 000	1 000	1 000
EC Kieswetter	7 924	—	7 924	6 304
JA Louw	—	50 000	50 000	50 000
ATM Mokgokong	—	—	—	—
JA Rock	—	—	—	—
JD Wiese**	—	14 074	14 074	14 074

** Alternate director

Executive directors

	Direct beneficial	Indirect beneficial	Total 2017	Total 2016
JW Basson*	—	9 104 122	9 104 122	9 104 122
PC Engelbrecht	262 681	201 039	463 720	411 039
M Bosman	148 147	60 000	208 147	175 000
CG Goosen**	3 000	1 114 202	1 117 202	1 117 202
B Harisunker	407 379	—	407 379	407 379
AE Karp+	225 269	—	225 269	225 269
EL Nel	—	148 727	148 727	148 727
BR Weyers#	254 000	—	254 000	284 594
JAL Basson**	66 044	89 201	155 245	129 201

* Appointed as non-executive vice chairman with effect from 1 January 2017

** Appointed as non-executive director with effect from 21 August 2017

+ Resigned with effect from 1 February 2017

Retired with effect from 30 June 2017

** Alternate director

There were no changes in the shareholding of directors in ordinary shares between 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 2017	Total 2016
CH Wiese	305 621 601	291 792 794

Directors' Report (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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 56 – 59 of the Integrated Report.

Board committees

The reports of the various board committees are included in the corporate governance section of the Integrated Report and on pages 5 – 7.

Auditors

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

Events after the reporting date

Other than the facts in the annual financial statements, there have been no material changes in the affairs or financial position of the Group and its subsidiaries from 2 July 2017 to the date of this report.

Holding company

Shoprite Holdings has no holding company. An analysis of the main shareholders appears on page 73 of the annual financial statements.

Litigation statement

Save for the referral to the National Consumer Tribunal 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

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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 main purpose of the Audit Committee is to assist the Board in monitoring the integrity of financial statements and overseeing the Integrated Report. It is also responsible to oversee the effectiveness of the Group's internal financial controls as well as the internal and external audit functions. The Companies Act furthermore requires the Audit Committee to perform specific duties.

The Audit Committee's terms of reference are formalised in a charter informed by the Companies Act and King III, and 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

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 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.

The attendance of the committee members is recorded below:

Committee member	15/08/2016	19/08/2016 (Special)	28/10/2016	17/02/2017	19/05/2017
JF Basson (Chairman)	●	●	●	●	●
JA Louw	●	●	●	●	○
JJ Fouché	●	●	●	●	●
JA Rock	●	●	●	●	●

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 also attended as required.

The Audit Committee agendas provide for 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 III and the Companies Act. All members of the Audit Committee continue to meet the independence requirements.

Roles and responsibilities

During the period under review, the Audit Committee fulfilled the statutory duties as required by the Companies Act and recommended in King III, as well as various additional responsibilities assigned to it by the Board.

In addition and/or as part of the regular duties of the Audit Committee as discussed below, the following were key areas of focus during the accounting period:

- Group Enterprise Risk Management framework;
- SAP Merchandising project;
- Group approval framework;
- King IV gap analyses; and
- Cyber Security.

External auditor appointment and independence

The Audit Committee evaluates the performance of the external auditor during its term of appointment 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.

In consultation with the Group's executive management, the Audit Committee agreed to the terms of the PricewaterhouseCoopers (PwC) audit engagement letter, audit plan and budgeted audit fees in respect of the 2016/17 financial year.

A formal framework governs the process through which PwC renders non-audit 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-audit 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 2016/17 financial year is summarised as follows:

Description	Amount
Audit services	R30 808 000
Total audit services	R30 808 000
Tax compliance	R2 808 000
Tax consulting services	R1 820 000
Other non-audit advisory services	R7 111 000
Total non-audit services	R11 739 000
Total audit and non-audit services	R42 547 000

The Audit Committee annually assesses the independence of the external auditor, PwC. At the meeting on 18 August 2017, 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;
- 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

Audit and Risk Committee Report (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

- 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 2016 and that more than one half of the members remain in 2017;
 - (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 re-nominates PwC as independent external auditor for the 2017/18 financial year with Mr MC Hamman performing the functions of the designated external audit partner, until the 2018 annual general meeting of Shoprite Holdings. Shareholders are therefore requested to re-elect PwC as independent external auditor for the 2017/18 financial year at the annual general meeting on 30 October 2017 with Mr Hamman as the designated audit partner.

The Independent Regulatory Board for Auditors has issued a rule prescribing that auditors of public interest entities in South Africa must comply with mandatory audit firm rotation with effect from 1 April 2023. The Group will have to comply with this rule after such effective date. Until this rule becomes effective, the Group will continue to consider the reappointment of PwC annually as external auditors and will only consider a change in external auditors before the effective date when and if such change is in the best interest of the Group and its various stakeholders.

Financial statements and accounting practices

During the reporting period, the Audit Committee reviewed the interim and annual financial reports of the Group and recommended the acceptance and approval thereof to the Board.

During the review of the financial reports the Audit Committee considered:

- the accounting policies and financial statements, in order to ensure compliance with International Financial Reporting Standards and relevant requirements of the Companies Act and the JSE Listings Requirements;
- the JSE's latest report on the pro-active monitoring of financial statements for compliance with IFRS and has taken appropriate actions to apply the findings; and
- the audit report issued by the external auditors.

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 2017 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 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.

Governance of risk

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.

The Group's systems of internal control are designed and implemented to support the identification, evaluation and management of risks affecting the Group. These include controls in respect of the financial reporting process but extend across all areas of operations.

During the reporting period an internal review was performed to assess the effectiveness of the Group's system of internal controls and risk management procedures. This assessment formed the basis for the Audit Committee's recommendation in this regard to the Board.

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.

During 2016 the Group initiated a process to review the Group's formal Enterprise Risk Management (ERM) Policy and Framework that aligns risk management to the strategic objectives of the Group. The ERM policy and framework articulates the principles and requirements for effective risk management as part of the Group's overall corporate governance. Periodic risk evaluations are performed in all business units across the Group and the most significant risks, the Top 20 risks, with key mitigating controls, are reported to the Audit Committee on a periodic basis.

A combined assurance model has been adopted by the Group as the basis for risk management governance and oversight. This line-of-defense based model highlights the different role players' responsibilities for internal controls and risk management and summarises accountability for the oversight of risks and independent assurance.

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

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 and risk controls. No material breakdowns in the internal and financial controls came to the attention of management of the Group that required reporting.

The Group recognises the significant threat that cybersecurity presents and how successful cybersecurity attacks can cause significant damage to a company'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.

The Audit Committee is satisfied that, during the course of the 2016/17 financial year, executive management was aware of and is addressing the material risks affecting their respective business units and the Group as a whole.

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.

During the reporting period the Audit Committee:

- reviewed and agreed the internal audit charter and annual audit plan and evaluated the independence, effectiveness, performance of the internal audit function and compliance with its charter;
- considered the reports of internal audit on the Group's systems of internal control;
- reviewed significant issues raised by the internal audit process and the adequacy of corrective actions taken in response to findings; and
- formed an opinion that adequate, objective internal audit standards and procedures exist within the Group and that the internal audit department has complied with the required legal, regulatory and other responsibilities as stipulated in their charter during the period under review.

Governance of information technology (IT)

In executing the Board's mandate for IT governance, the Audit Committee successfully built on the foundations set in previous years under the direction of the General Manager IT.

During the financial year, the Audit Committee reviewed the implementation of relevant IT governance mandates, policies, processes and control frameworks. Furthermore, the Audit Committee also provides assurance to the Board on IT related matters, including significant IT investments, by engaging with both internal and external assurance providers. This assurance forms part of the Group's combined assurance framework.

The Group's IT governance framework is formalised in an IT governance charter and policies were formulated and implemented. The charter and policies outline the decision making rights and accountability framework for IT governance within the Group. During the reporting period, the Audit Committee reviewed and agreed to certain amendments to the IT governance charter.

Compliance

The Audit Committee is also responsible to review any major breach of relevant legal and regulatory requirements. In this regard it is satisfied that there has been no material non-compliance with laws and regulations.

Evaluation of the expertise and experience of financial director and Group financial function

As required by JSE Listings Requirement 3.84(h), the Audit Committee, through a formal process, has satisfied itself that the financial director, Mr M Bosman, has the appropriate expertise and experience to act in this capacity. Mr Bosman's curriculum vitae appears on page 27 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.

Recommendation to the Board

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

JF Basson
Chairman

18 August 2017

Independent Auditor's Report

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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 2 July 2017, 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 (IFRS) 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 12 – 72, comprise:

- the Group and Company statements of financial position as at 2 July 2017;
- the Group and Company statements of comprehensive income for the year then ended;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company 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.

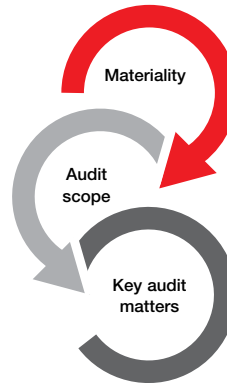
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

- R380,750,000, 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:

- Recognition of supplier rebates
- Valuation of supermarkets inventory
- Recoverability of furniture trade receivables

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 judgments; 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.

Group 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 financial statements.

Based on our professional judgment, 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 Group 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 consolidated financial statements as a whole.

Overall Group materiality	R380,750,000
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 taking into consideration the sufficiency of work planned to be performed over material line items in the financial statements. We identified only one financially significant component in the Group, namely Shoprite Checkers Proprietary Limited. We 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. 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 the audit evidence we needed for our 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 of the current period.

Key audit matter

Recognition of supplier rebates

Refer to the accounting policies note 1.1.1.2 (Assumptions and estimates) 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 a reduction in cost of sales as a result of amounts receivable from suppliers.

In some instances the rebates are linked to targets that the Group is obligated to meet in order to earn the rebates which are material to the Group.

We regarded this to be a matter of most significance to the audit as there is a risk that rebates may be materially misstated due to the significant magnitude thereof, the varying terms with the suppliers and also the judgments 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.

In instances where rebate agreements do not fully coincide with the period-end, the key judgment that we focused on was the estimate of rebates to be accrued as at the period end.

How our audit addressed the key audit matter

We tested the inputs used in calculating the supplier rebates. For a sample of rebates we obtained 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 calculated the rebate for the year and compared this to the accounting records. Our calculation did not differ materially from that of management.

The systems used to calculate rebates as well as the controls implemented to ensure the accurate calculation of rebates were assessed with the assistance of our Information Technology (IT) specialists.

The basis for management's judgments applied in accruing for supplier rebates as at year-end was understood and evaluated; and we compared the prior year estimates to the actual results in relation to the prior year as well as budgets for the remainder of the calendar year. Our tests did not identify material variances.

Independent Auditor's Report (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Key audit matter

Valuation of supermarkets inventory

Refer to the accounting policies note 1.1.1.1 (Use of judgments, assumptions and estimates), note 10 (Inventories) and note 41 (Restatement).

The carrying value of supermarkets inventory was determined to be a matter of most significance in the audit due to the fact that the Group values trading inventories by use of the retail inventory method as an approximation of weighted average cost. Judgment is required in the application thereof, as far as it relates to gross margin percentages, the level of provisions required for estimated inventory losses related to shrinkage and obsolescence and deductions for unearned rebates and settlement discounts (as the stock related to those rebates and discounts has yet to be sold).

As the stock is counted by the Group on a cyclical basis, rather than a full stock count at the period end date, the shrinkage provision as at 2 July 2017 contains a degree of estimation.

The obsolescence provision is determined by applying a judgmental percentage to the year-end inventory levels. This judgment is formed by using historical data on the levels of obsolescence as well as management's view of the inventory profile and age (especially for non-food and general merchandising products).

Distribution centre costs are also included in inventory to the extent that they are incurred for the purposes of bringing inventory to their final destination.

The Group has reconsidered its accounting treatment with regard to advertising rebates: Advertising rebates were previously incorrectly recognised by the Group, net of advertising expenses, with its other operating income in the statement of comprehensive income. In terms of the correction of the accounting policy, advertising rebates are recognised as a reduction of the purchase price of inventory, which will result in a reduction of cost of sales when inventory is sold. The correction in accounting policy has resulted in a restatement of the comparative 2016 and 2015 figures on the statement of financial position.

Recoverability of furniture trade receivables

Refer to the accounting policies note 1.1.1.1 (Use of judgments, assumptions and estimates) and note 11 (Trade and other receivables).

Management recognised a provision of R336 million against the Furniture debtor's book as at 2 July 2017 of R1.8 billion.

We determined this to be a matter of most significance to the audit due to the economic pressure facing consumers and the stakeholder and regulatory focus on unsecured lending in the retail environment.

There are also significant judgments made by management in assessing the recoverability of retail debtors.

The key assumptions in determining future cash flows include assessing current and future payment profiles and considering the consumer's economic conditions.

How our audit addressed the key audit matter

We recalculated the valuation of inventory to assess whether inventory was measured net of rebates and discounts. We performed this assessment by recalculating the amount of rebates included in inventory with reference to the profile of the year-end inventory and the trends of rebates received in relation to purchases. This recalculation was performed without identifying material differences.

We tested a sample of the distribution costs included in inventory which are directly attributable to bringing inventory to its final destination to supporting documentation, without exception.

Gross margin percentages applied in the retail inventory method were assessed for the accurate application thereof and were found to be in line with prior years and expectations for the respective departments. To further assess the appropriateness of the actual department gross margins and gross margin expectations, we compared them to management information per the accounting system. The system and reports used in our testing of the valuation of inventory were assessed with the assistance of IT specialists.

For a sample of sites we assessed the shrinkage assumptions determined by the count procedures by comparing them to historical data and considered the impact, if any, of business developments that may directly impact these assumptions. The historical data included the results of the recent counts at each location, and our procedures did not identify any significant unusual fluctuations in the data.

The obsolescence provision was tested by assessing the accuracy of the historical data, assessing material changes to the estimates and the application thereof to the current inventory profile. The recalculation of the provision was performed without identifying material exceptions.

We tested the unearned rebates and discounts deduction by verifying the inputs of the calculation and methodology behind the provision to supporting documentation and schedules and did not identify material differences.

We assessed the appropriateness of the restatement in terms of the requirements of IFRS. We concurred with management that the advertising rebates paid by suppliers should be treated as a reduction of the cost of inventory as it does not relate to a distinct good or service. We tested the accuracy and assessed the disclosure relating to the restatement and considered this to be in line with the requirements of IFRS.

As part of our testing of the regulatory requirements that are relevant to our consideration of the amount of furniture trade receivables recognised in the financial statements, we evaluated and tested relevant controls pertaining to the credit granting sub-process, for example by scrutinising agreements and supporting documentation on affordability.

The independent model used by our internal actuarial experts to assess management's provision is based on historical rundown of outstanding balances (with an explicit adjustment to allow for write-offs) in order to project future cash flows on the current outstanding balance. We agreed a sample of the input data to supporting documentation. This projection is performed using the Basic Chain Ladder method, which infers future development of balances based on their historical development. The projection of future cash flows considers consumers' most recent repayment behaviour, and therefore includes an implicit allowance for recent economic conditions. Management's judgments and assumptions were compared, on a country-by-country basis, to the actuarial valuation obtained by the audit team, using data from management on historical transactions, without material exception.

Other information

The directors are responsible for the other information. The other information comprises the Certificate of the Company Secretary, Directors' Report, and the Audit and Risk Committee's Report as required by the Companies Act of South Africa, the Statement of Responsibility by the Board of Directors, Currency of the Annual Financial Statements, Value-added Statement and the Shareholder Analysis, which we obtained prior to the date of this auditor's report, and the Shoprite Integrated Report, 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 judgment 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 35 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: MC Hamman

Registered Auditor

Cape Town
21 August 2017

Statement of Financial Position

Shoprite Holdings Ltd and its Subsidiaries as at 2 July 2017

Company			Group		
2016	2017		2017	Restated	Restated
Rm	Rm	Notes	Rm	2016	2015
				Rm ⁺	Rm ⁺
Assets					
5 913	7 916	Non-current assets	24 572	20 633	18 586
—	—	Property, plant and equipment	3	16 908	15 374
5 906	7 909	Investments in subsidiaries	4	—	—
6	6	Equity accounted investments	5	95	178
—	—	Held-to-maturity investments	6	1 311	—
—	—	Loans and receivables	7	599	547
1	1	Deferred income tax assets	8	698	569
—	—	Intangible assets	9	1 857	1 458
—	—	Trade and other receivables	11	476	460
2 014	6 147	Current assets	31 032	27 351	25 053
—	—	Inventories	10	17 794	13 321
—	4	Trade and other receivables	11	5 096	4 568
—	—	Derivative financial instruments	12	1	—
1	—	Current income tax assets		146	44
1 852	5 576	Amounts owing by subsidiaries	4	—	—
—	—	Loans and receivables	7	270	59
161	567	Cash and cash equivalents		6 784	7 061
—	—	Assets held for sale		17	13
7 927	14 063	Total assets	55 723	48 001	43 652
Equity					
Capital and reserves attributable to owners of the parent					
650	681	Share capital	13	650	650
4 029	8 585	Share premium		4 029	4 029
—	—	Treasury shares	13	(760)	(759)
3 237	4 781	Reserves	15	17 155	14 905
7 916	14 047			21 074	18 825
—	—	Non-controlling interest		65	68
7 916	14 047	Total equity	27 749	21 139	18 893
Liabilities					
Non-current liabilities					
—	—	Borrowings	16	1 492	5 659
—	—	Deferred income tax liabilities	8	102	4 305
—	—	Provisions	17	128	187
—	—	Fixed escalation operating lease accruals		267	321
—	—			995	846
11	16	Current liabilities	26 482	25 370	19 100
11	11	Trade and other payables	18	16 590	17 432
—	—	Borrowings	16	5 022	567
—	—	Derivative financial instruments	12	32	2
—	5	Current income tax liabilities		574	960
—	—	Provisions	17	187	136
—	—	Bank overdrafts		2 965	3
11	16	Total liabilities	27 974	26 862	24 759
7 927	14 063	Total equity and liabilities	55 723	48 001	43 652

* The 2015 and 2016 figures have been restated for the change in accounting treatment of advertising rebates and for the reclassification of prepaid land leases from current to non-current assets. Refer to notes 41 and 42 for more detail.

Statement of Comprehensive Income

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company			Group		
53 weeks 2016 Rm	52 weeks 2017 Rm		Notes	52 weeks 2017 Rm	Restated 53 weeks 2016 Rm ⁺
—	—	Sale of merchandise		141 000	130 028
—	—	Cost of sales		(107 174)	(99 372)
—	—	Gross profit		33 826	30 656
2 612	4 325	Other operating income	19	2 615	2 444
—	—	Depreciation and amortisation	20	(2 176)	(2 025)
—	—	Operating leases	21	(3 819)	(3 486)
—	—	Employee benefits	22	(10 498)	(9 499)
(16)	(18)	Other operating expenses	24	(11 821)	(10 809)
2 596	4 307	Trading profit		8 127	7 281
—	—	Exchange rate losses		(236)	(46)
—	—	Items of a capital nature	25	(166)	(11)
2 596	4 307	Operating profit	26	7 725	7 224
2	19	Interest received		226	174
—	—	Finance costs	27	(340)	(498)
—	—	Share of profit/(loss) of equity accounted investments	5	4	(52)
2 598	4 326	Profit before income tax		7 615	6 848
(13)	(28)	Income tax expense	28	(2 180)	(1 998)
2 585	4 298	Profit for the year		5 435	4 850
—	—	Other comprehensive income, net of income tax		(933)	(579)
—	—	Items that will not be reclassified to profit or loss			
—	—	Re-measurements of post-employment medical benefit obligations		3	1
—	—	Items that may subsequently be reclassified to profit or loss			
—	—	Foreign currency translation differences	15	(822)	(680)
—	—	Share of foreign currency translation differences of equity accounted investments	15	(103)	76
—	—	For the period		(103)	122
—	—	Reclassified to profit for the period		—	(46)
—	—	(Losses)/gains on effective cash flow hedge	15	(11)	24
2 585	4 298	Total comprehensive income for the year		4 502	4 271
2 585	4 298	Profit attributable to:			
—	—	Owners of the parent		5 428	4 844
—	—	Non-controlling interest		7	6
2 585	4 298			5 435	4 850
2 585	4 298	Total comprehensive income attributable to:			
—	—	Owners of the parent		4 495	4 265
—	—	Non-controlling interest		7	6
2 585	4 298			4 502	4 271
		Basic earnings per share (cents)	29	999.8	906.0
		Diluted earnings per share (cents)	29	984.8	901.3

* The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.

Statement of Changes in Equity

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Rm	Notes	Total equity	Non-controlling interest	Attributable to owners of the parent					
				Total	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings
Group									
Balance at 28 June 2015									
As previously stated		19 160	68	19 092	650	4 029	(759)	1 005	14 167
Effect of adjusted treatment of advertising rebates (note 41)		(267)		(267)					(267)
As restated		18 893	68	18 825	650	4 029	(759)	1 005	13 900
Total comprehensive income		4 271	6	4 265	—	—	—	(580)	4 845
Profit for the year – as restated		4 850	6	4 844					4 844
As previously stated		4 847	6	4 841					4 841
Effect of adjusted treatment of advertising rebates (note 41)		3		3					3
Recognised in other comprehensive income									
Re-measurements of post-employment medical benefit obligations		1		1					1
Foreign currency translation differences	15	(604)		(604)				(604)	
Gains on effective cash flow hedge	15	33		33				33	
Income tax effect of gains on effective cash flow hedge	15	(9)		(9)				(9)	
Share-based payments – value of employee services	15	140		140				140	
Modification of cash bonus arrangement transferred from provisions	17	7		7				7	
Purchase of treasury shares	13	(28)		(28)			(28)		
Treasury shares disposed		9		9			9		
Realisation of share-based payment reserve	15	—		—			18	(18)	
Dividends distributed to shareholders		(2 153)	(9)	(2 144)					(2 144)
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		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

Statement of Changes in Equity (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Rm	Notes	Total equity	Non-controlling interest	Attributable to owners of the parent					
				Total	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings
Company									
Balance at 28 June 2015		7 617		7 617	650	4 029	—	2	2 936
Total comprehensive income									
Profit for the year		2 585		2 585					2 585
Dividends distributed to shareholders		(2 286)		(2 286)					(2 286)
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

Statement of Cash Flows

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company			Group	
2016	2017		2017	Restated 2016
Rm	Rm	Notes	Rm	Rm*
307	1 546	Cash flows from operating activities	3 339	1 443
2 596	4 307	Operating profit	7 725	7 224
(2 601)	(4 309)	Less: investment income	(189)	(111)
—	—	Non-cash items	3 089	2 681
1	(4)	Changes in working capital	(2 278)	(3 334)
(4)	(6)	Cash generated from/(utilised by) operations	8 347	6 460
2	63	Interest received	399	258
—	—	Interest paid	(416)	(426)
2 601	4 265	Dividends received	16	27
(2 285)	(2 754)	Dividends paid	(2 595)	(2 152)
(7)	(22)	Income tax paid	(2 412)	(2 724)
(150)	(1 407)	Cash flows utilised by investing activities	(6 985)	(4 733)
—	—	Investment in property, plant and equipment and intangible assets to expand operations	(3 836)	(3 304)
—	—	Investment in property, plant and equipment and intangible assets to maintain operations	(1 331)	(1 448)
—	—	Proceeds on disposal of property, plant and equipment and intangible assets	40	85
—	—	Payments for held-to-maturity investments	(1 370)	—
—	—	Amounts paid to Resilient Africa (Pty) Ltd	(612)	(208)
—	—	Amounts received from Resilient Africa (Pty) Ltd	136	—
—	—	Other investing activities	(2)	(55)
(3 128)	(4 173)	Amounts paid to subsidiaries	—	—
3 879	4 769	Amounts received from subsidiaries	—	—
(901)	(2 003)	Investment in subsidiaries	—	—
—	—	Proceeds on disposal of investment in associate	—	197
—	—	Cash outflow on disposal of investment in subsidiary	(9)	—
—	—	Acquisition of subsidiary	(1)	—
(2)	267	Cash flows from/(utilised by) financing activities	2 826	10
—	—	Purchase of treasury shares	(59)	(28)
—	—	Proceeds from treasury shares disposed	4	9
—	267	Proceeds from ordinary shares issued	—	—
(2)	—	Redemption of Shoprite Holdings Ltd preference share capital	—	(2)
—	—	Convertible bonds settled at maturity date	(108)	—
—	—	Increase in borrowing from ABSA Bank Ltd	1 361	—
—	—	Increase in borrowing from Barclays Bank Mauritius Ltd	1 224	—
—	—	Increase in borrowing from Standard Chartered Bank (Mauritius) Ltd	476	216
—	—	Repayment of borrowing from Standard Bank de Angola, S.A.	(111)	(201)
—	—	Increase in other borrowings	39	16
155	406	Net movement in cash and cash equivalents	(820)	(3 280)
6	161	Cash and cash equivalents at the beginning of the year	3 819	7 058
—	—	Effect of exchange rate movements on cash and cash equivalents	(290)	41
161	567	Cash and cash equivalents at the end of the year	2 709	3 819
161	567	Consisting of:		
—	—	Cash and cash equivalents	7 767	6 784
—	—	Bank overdrafts	(5 058)	(2 965)
161	567		2 709	3 819

* The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.

Notes to the Annual Financial Statements

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

1. Accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below and are consistent with those applied in the previous year, except as stated in note 41.

The Group's consolidated and Company's separate financial statements were authorised for issue by the board of directors on 21 August 2017. 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 2 July 2017 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 2 July 2017, compared to 53 weeks in the previous financial year.

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the South African Companies Act (Act No 71 of 2008) as amended. The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments to fair value. The financial statements are prepared on a going concern basis.

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) **Valuation of inventory:** Trading inventories are valued by use of the retail inventory method as an approximation of weighted average cost. Significant judgment is required in the application thereof, specifically as far as it relates to gross margin percentages, accrual rates for rebates and settlement discounts and shrinkage rates applied.
- b) **Classification of cash and bank balances in Angola and Nigeria:** Local currency cash and short-term deposits held in 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 and Nigeria, albeit with some restrictions over their use, still qualifies to be classified as cash and cash equivalents.
- c) **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.
- d) **Determination of cash-generating units:** The Group has determined each store as a separate cash generating unit for impairment testing.
- e) **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 year is subject to a special resolution by shareholders approving the specific repurchase of shares.

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

Until such time as the shareholders' approval for the specific repurchase of shares has been obtained, the Company has an unconditional right to avoid settling the Put Option in cash. Accordingly, no financial liability has been recognised. As and when shareholder approval is obtained, a financial liability will need to be recognised for the repurchase of the shares from Dr Basson.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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

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, 9 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, 9 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 8.
- 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 11.
- 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.

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 2/2015: 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. Accounting policies (continued)

1.2 Consolidation and equity accounting

1.2.1 Subsidiaries

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

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

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

1.2.2 Joint arrangements

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

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

1.2.3 Associates

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

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

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.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

1. Accounting policies (continued)

1.3 Foreign currency translation (continued)

1.3.3 Foreign operations

The results and the financial position of all Group subsidiaries, joint arrangements and associates 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).

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.

1.4 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.

1.4.1 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.

1.4.2 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.

1. Accounting policies (continued)

1.5 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.

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.

1.6 Intangible assets

1.6.1 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.

1.6.2 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.

Useful lives:

Software	.3 to 7 years
Trademarks	.16 to 20 years
Customer relationships	.10 years

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

1. Accounting policies (continued)

1.6 Intangible assets (continued)

1.6.2 Software, trademarks and customer relationships (continued)

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.

1.7 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.

1.8 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.

1.9 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.

1.10 Compound financial instruments

Compound financial instruments issued by the Group comprise of convertible bonds that can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

1. Accounting policies (continued)

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.

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 weighted average cost formula is determined by applying the retail inventory method. 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. The retail method approximates the weighted average cost and is determined by reducing the sales value of the inventory by the appropriate gross margin percentage. The percentage used takes into account inventory that has been marked down below original selling price. An average percentage per retail department is used. Net realisable value is the estimated selling price in the ordinary course of business.

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 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.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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 Share capital

Ordinary shares and non-convertible, non-participating 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.

Preference shares, which carry non-discretionary dividend obligations, are classified as non-current liabilities at amortised cost. Amortised cost is calculated using the effective interest yield method. The dividends on these preference shares are recognised in the statement of comprehensive income as finance costs.

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.

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.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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.

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 are 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.

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. Convertible debt and full share grants have dilutive potential. The convertible debt and full share grants are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense of the convertible debt less the tax effect. The full share grants have 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 2/2015 issued by the South African Institute of Chartered Accountants as required by the JSE Listings Requirements.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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.

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 are measured 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 2 July 2017

The Group has considered the following new standards, and interpretations and amendments to existing standards, which are not yet effective as at 2 July 2017:

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
IFRS 15	Revenue from Contracts with Customers	2019
IFRS 16	Leases	2020
Amendments to IAS 7	Disclosure Initiative	2018
Amendments to IAS 12	Recognition of Deferred Tax Assets	2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2019

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 on the following pages.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

1. Accounting policies (continued)

1.36 Standards, interpretations and amendments that are not yet effective at 2 July 2017 (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	<p>The Group has yet to undertake a detailed assessment of the classification and measurement of financial assets.</p> <p>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.</p> <p>Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.</p> <p>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.</p> <p>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. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.</p> <p>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. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.</p> <p>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.</p>
Mandatory application date/ Date of adoption by Group	<p>IFRS 9 must be applied for financial years commencing on or after 1 January 2018.</p> <p>Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.</p> <p>The Group does not intend to adopt IFRS 9 before its mandatory date.</p>

1. Accounting policies (continued)

1.36 Standards, interpretations and amendments that are not yet effective at 2 July 2017 (continued)

Title of standard	IFRS 15 Revenue from Contracts with Customers
Nature of change	<p>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.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.</p> <p>The standard permits either a full retrospective or a modified retrospective approach for the adoption.</p>
Impact	<p>Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:</p> <ul style="list-style-type: none"> ■ 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. ■ Rights 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. <p>At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.</p>
Mandatory application date/ Date of adoption by Group	<p>IFRS 15 must be applied for financial years commencing on or after 1 January 2018.</p> <p>The Group does not intend to adopt IFRS 15 before its mandatory date.</p>
Title of standard	IFRS 16 Leases
Nature of change	<p>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, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low-value leases.</p> <p>The accounting for lessors will not significantly change.</p>
Impact	<p>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 R19.4 billion (refer to note 33.2). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.</p> <p>Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.</p>
Mandatory application date/ Date of adoption by Group	<p>IFRS 16 must be applied for financial years commencing on or after 1 January 2019.</p> <p>At this stage, the Group does not intend to adopt the standard before its effective date.</p>

1.37 Standards, interpretations and amendments effective at 2 July 2017

The following new standards, and interpretations and amendments to existing standards, that are effective as at 2 July 2017 had no significant effect on the Group's operations:

Number	Title
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendment to IAS 27	Equity Method in Separate Financial Statements
Various	Annual Improvements 2012 – 2014 cycle

1.38 Comparative figures

Where necessary, comparative figures have been restated for the change in accounting treatment of advertising rebates and for the reclassification of prepaid land leases from current to non-current assets, with disclosure of the restatements detailed in notes 41 and 42.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

2 Operating segment information

2.1 Analysis per reportable segment

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

	Restated 2016*				
	Supermarkets RSA Rm	Supermarkets Non-RSA Rm	Furniture Rm	Other operating segments Rm	Consolidated Rm
Sale of merchandise					
External	94 167	22 246	5 207	8 408	130 028
Inter-segment	3 936	17	—	28	3 981
	98 103	22 263	5 207	8 436	134 009
Trading profit	5 828	1 227	91	135	7 281
Interest income included in trading profit	62	5	316	28	411
Depreciation and amortisation	1 737	413	96	42	2 288
Total assets	29 985	11 489	3 965	2 562	48 001

* The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.

2.2 Geographical analysis

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

	Restated 2016**		
	South Africa Rm	Outside South Africa Rm	Consolidated Rm
Sale of merchandise – external	105 603	24 425	130 028
Non-current assets*	14 274	4 967	19 241

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

** The 2016 figures have been restated for the reclassification of prepaid land leases from current to non-current assets. Refer to note 42 for more detail.

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 28 June 2015	1 292	3 902	8 034	2 146	15 374
Cost	1 292	4 230	14 286	2 519	22 327
Accumulated depreciation and impairment	—	(328)	(6 252)	(373)	(6 953)
Additions	48	612	2 916	458	4 034
Borrowing costs capitalised (note 3.2)	—	20	—	5	25
Reclassification	(9)	8	—	1	—
Disposal	(1)	(2)	(128)	(5)	(136)
Proceeds on disposal	(1)	(3)	(80)	(1)	(85)
Profit/(loss) on disposal and scrapping	—	1	(48)	(4)	(51)
Depreciation	—	(60)	(1 870)	(63)	(1 993)
Impairment (note 3.4)	—	—	(5)	—	(5)
Reversal of impairment (note 3.4)	—	—	21	—	21
Exchange rate differences	(6)	(55)	(132)	(219)	(412)
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 3.2)	—	44	—	—	44
Transfer to assets held for sale (note 3.3)	(39)	(80)	—	—	(119)
Acquisition of subsidiary	—	—	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 3.4)	—	—	(8)	(11)	(19)
Exchange rate 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)

* Includes aircraft with a carrying value of R136 million (2016: R112 million) and vehicles with a carrying value of R1.1 billion (2016: R938 million). An aircraft with a carrying value of R33 million (2016: N/A) is pledged as security for the loan from The Standard Bank of South Africa Ltd (refer to note 16.7).

3.2 Borrowing costs capitalised

Borrowing costs were capitalised against qualifying items of property, plant and equipment during the year under review. The weighted average borrowings rate was 9.81% (2016: 9.85%).

3.3 Transfer to assets held for sale

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

3.4 Impairment/reversal of 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 (2016: 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.

The reversal of impairment in the previous financial year was due to improvements in the economic environment in which subsidiaries, where assets were previously impaired, operate. The original impairment charge as well as the reversal is included in the statement of comprehensive income as items of a capital nature. This impairment originated in the Supermarkets RSA operating segment.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company			Group	
2016	2017		2017	2016
Rm	Rm		Rm	Rm
		4		
		Interests in subsidiaries		
5 906	7 909	Investments in ordinary shares		
1 852	5 576	Amounts owing by subsidiaries		
7 758	13 485		—	—
		Analysis of total interests in subsidiaries		
5 906	7 909	Non-current		
1 852	5 576	Current		
7 758	13 485		—	—

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% (2016: 7.80%) during the year under review. All other amounts owing by subsidiaries are interest-free.

		5		
		Equity accounted investments		
6	6	Associates (note 5.1)	—	75
—	—	Joint ventures (note 5.2)	(57)	(36)
6	6		(57)	39
—	—	Joint venture liability included in trade and other payables (note 18)	84	56
6	6		27	95

5.1 Associates

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

		% Owned by the Group				
		2017	2016			
6	6	Resilient Africa (Pty) Ltd	39%	39%	—	75
—	—	Resilient Africa Managers (Pty) Ltd	39%	39%	—	—
6	6				—	75

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

	2017	2016
	Rm	Rm

5 Equity accounted investments (continued)

5.1 Associates (continued)

Summary financial information of Resilient Africa (Pty) Ltd

Statement of financial position

Total assets	1 818	1 845
Current assets	95	100
Non-current assets	1 723	1 745
Total liabilities	1 702	1 592
Current liabilities	32	34
Non-current liabilities	1 670	1 558
Net assets	116	253
Attributable to other owners of Resilient Africa (Pty) Ltd	(2)	115
Attributable to the Shoprite Holdings Ltd Group	(26)	75
Non-controlling interest	144	63

Statement of comprehensive income

Revenue	114	69
Profit/(loss) for the year	61	(13)
Attributable to other owners of Resilient Africa (Pty) Ltd	38	(22)
Attributable to the Shoprite Holdings Ltd Group	25	(14)
Non-controlling interest	(2)	23
Other comprehensive (loss)/income for the year	(348)	173
Attributable to other owners of Resilient Africa (Pty) Ltd	(196)	102
Attributable to the Shoprite Holdings Ltd Group	(126)	65
Non-controlling interest	(26)	6
Total comprehensive (loss)/income for the year	(287)	160
Attributable to other owners of Resilient Africa (Pty) Ltd	(158)	80
Attributable to the Shoprite Holdings Ltd Group	(101)	51
Non-controlling interest	(28)	29

The information disclosed reflects the amounts presented in the consolidated management accounts of Resilient Africa (Pty) Ltd and not the Group's share of those amounts. The information has been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments made at the time of acquisition and modifications for differences in accounting policies.

Reconciliation to carrying amount:

Net assets attributable to the Group at the beginning of the year	75	24
Profit/(loss) for the year attributable to the Group	25	(14)
Other comprehensive (loss)/income for the year attributable to the Group	(126)	65
Net (liabilities)/assets attributable to the Group at the end of the year	(26)	75
Unrecognised share of other comprehensive loss at the end of the year	26	—
Carrying amount at the end of the year	—	75

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. The Group disposed of its interest in Winhold Ltd during the previous year.

Reconciliation of the Group's interests in individually immaterial associates that are accounted for using the equity method:

Carrying value at the beginning of the year	—	153
Share of total comprehensive income	—	5
Share of post-acquisition losses	—	(3)
Share of other comprehensive income	—	8
Disposal	—	(172)
Proceeds on disposal of investment in associate	—	(197)
Profit on disposal of investment in associate	—	25
Exchange rate differences	—	14
Carrying value at the end of the year	—	—

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm
5 Equity accounted investments (continued)			
5.2 Joint ventures			
		(36)	1
		(24)	(32)
		(21)	(36)
		(3)	4
		3	(5)
—	—	(57)	(36)

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	
	2017	2016
Hungry Lion Fast Foods (Pty) Ltd	50%	50%
Hungry Lion (Mauritius) Ltd	50%	50%

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

6 Held-to-maturity investments			
—	—	AOA, USD Index Linked, Angola Government Bonds	1 311 —

The AOA, USD Index Linked, Angola Government Bonds earn interest at an average rate of 7.0% p.a. and are repayable over 36 months. Accrued interest is payable bi-annually. These bonds are denominated in Angola kwanza and no allowance for impairment has been made. The maximum exposure to credit risk at the reporting date is the carrying value. The Group does not hold any collateral as security.

The fair value of Angola Government Bonds included in held-to-maturity investments amounted to R1.3 billion (2016: N/A) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.0% (2016: N/A) and is within level 2 of the fair value hierarchy.

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm
7 Loans and receivables			
		953	503
		102	225
		266	140
		—	1
—	—	1 321	869
Analysis of total loans and receivables			
		1 110	599
		211	270
—	—	1 321	869

7.1 Amounts owing by associate

953 503

The Group is committed to provide a shareholder loan to Resilient Africa (Pty) Ltd to a maximum of R1.457 billion (2016: R1.457 billion).

The ZAR denominated shareholder loan of R367 million (2016: R503 million) owing by Resilient Africa (Pty) Ltd earns interest at an average rate of 6.6% (2016: 6.6%) p.a. and is repayable on demand, subject to certain conditions. An impairment loss of R26 million (2016: Nil) was recognised for the shareholder loan due to the negative net asset value of Resilient Africa (Pty) Ltd. The recoverable amount of the loan has been based on the net asset value of the underlying entity. The maximum exposure to credit risk at the reporting date is the carrying value, which approximates fair value. The Group does not hold any collateral as security for this amount.

The USD denominated amount of R586 million (2016: N/A) owing by Resilient Africa (Pty) Ltd earns interest at an average rate of 3.0% p.a. and is repayable after seven years, subject to certain conditions. No allowance for impairment has been made. The maximum exposure to credit risk at the reporting date is the carrying value. Share pledges and cession agreements are held in the underlying subsidiaries of Resilient Africa (Pty) Ltd as collateral for this amount.

The fair value of USD denominated amounts owing by Resilient Africa (Pty) Ltd amounted to R586 million (2016: N/A) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 3.0% (2016: N/A) and is within level 2 of the fair value hierarchy.

7.2 Amounts owing by employees

102 225

The amounts owing by employees earned interest at an average rate of 6.5% (2016: 6.5%) p.a. and were repayable on 30 June 2017. The majority of the loans were repaid during the year and the remaining balance is repayable on 29 September 2017. Accrued interest was payable bi-annually on 3 April and 3 October. The loans are denominated in ZAR and no allowance for impairment has been made. These loans were granted on commercial terms with full recourse. The maximum exposure to credit risk at the reporting date is the carrying value. Shoprite Holdings Ltd shares to the value of R137 million (2016: Shoprite Investments Ltd 6.5% convertible bonds to the value of R202 million) are held as collateral for these loans.

The fair value of amounts owing by employees amounted to R102 million (2016: R217 million) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 10.5% (2016: 10.5%) and is within level 2 of the fair value hierarchy.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company			Group	
2016	2017		2017	Restated 2016
Rm	Rm		Rm	Rm ⁺
7 Loans and receivables (continued)				
7.3 Amounts owing by franchisees				
		Gross amount	274	146
		Accumulated impairment	(8)	(6)
—	—		266	140
<p>The weighted average variable interest rate (linked to the South African prime rate) on these amounts was 10.4% (2016: 10.4%) p.a. and the amounts are repayable between one and five years. 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. 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 R257 million (2016: R155 million) are held as collateral for these amounts.</p>				
Reconciliation of accumulated impairment				
		Balance at the beginning of the year	6	6
		Allowance for impairment for the year	2	—
—	—	Balance at the end of the year	8	6
<p>The allowance for impairment relates to the following amounts owing by franchisees:</p>				
		Receivable in the next year	4	3
		Receivable between 1 and 3 years	8	7
		Receivable between 3 and 5 years	3	10
—	—		15	20
<p>Amounts owing by franchisees relate to a wide-spread number of franchisees which are individually insignificant.</p> <p>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 R1.9 million (2016: R2.3 million) was accrued on these balances during the year under review. All balances that were past due were considered for impairment.</p>				
8 Deferred income tax				
1	1	Deferred income tax assets (note 8.1)	859	698
—	—	Deferred income tax liabilities (note 8.2)	(96)	(128)
1	1	Net deferred income tax assets	763	570
The movement in the net deferred income tax assets is as follows:				
1	1	Carrying value at the beginning of the year	570	382
—	—	Charge to profit for the year	236	229
—	—	Provisions and accruals	227	201
—	—	Allowances on property, plant and equipment	(71)	(75)
—	—	Fixed escalation operating lease accruals	46	48
—	—	Allowances on intangible assets	27	30
—	—	Unrealised exchange rate differences	11	13
—	—	Tax losses	(4)	12
—	—	Charged to other comprehensive income	(1)	—
—	—	Exchange rate differences	(42)	(41)
1	1	Carrying value at the end of the year	763	570

⁺ The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.

Company			Group	
2016	2017		2017	Restated 2016
Rm	Rm		Rm	Rm ⁺
		8 Deferred income tax (continued)		
		8.1 Deferred income tax assets		
1	1	Provisions and accruals	1 028	845
—	—	Allowances on property, plant and equipment	(532)	(492)
—	—	Fixed escalation operating lease accruals	347	274
—	—	Allowances on intangible assets	(98)	(55)
—	—	Unrealised exchange rate differences	86	91
—	—	Tax losses	28	35
1	1		859	698
		Net taxable temporary differences to be settled after more than 12 months	(511)	(555)
—	—	Net deductible temporary differences to be recovered within 12 months	1 370	1 253
1	1		859	698
		8.2 Deferred income tax liabilities		
		Provisions and accruals	(16)	(50)
		Allowances on property, plant and equipment	137	144
		Fixed escalation operating lease accruals	(7)	(31)
		Allowances on intangible assets	3	74
		Unrealised exchange rate differences	(8)	—
		Tax losses	(13)	(9)
—	—		96	128
		Net taxable temporary differences to be settled after more than 12 months	142	160
		Net deductible temporary differences to be recovered within 12 months	(46)	(32)
—	—		96	128
		8.3 Net calculated income tax losses and net deductible temporary differences		
		Calculated income tax losses and net deductible temporary differences at year-end	5 351	4 188
		Applied in the provision for deferred income tax	(2 997)	(1 712)
—	—		2 354	2 476
<p>The utilisation of the income tax relief on net calculated income tax losses, to the value of R519 million (2016: R537 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.</p> <p>The carry forward of all gross calculated income tax losses is indefinite, except for certain African countries, as set out below:</p>				
Expiry date of income tax relief				
		2017 Financial year-end	—	26
		2018 Financial year-end	10	14
		2019 Financial year-end	4	7
		2020 Financial year-end	10	7
		2021 Financial year-end	5	2
		2022 Financial year-end	11	—
—	—		40	56
		Calculated temporary differences on consolidation associated with investments in subsidiaries for which deferred income tax liabilities have not been created	191	199
—	—		191	199

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

9 Intangible assets

9.1 Reconciliation of carrying values

Group Rm	Goodwill	Software	Trademarks	Customer relationships	Total
Carrying value at 28 June 2015	265	1 133	36	24	1 458
Gross amount	429	1 751	194	54	2 428
Accumulated amortisation and impairment losses	(164)	(618)	(158)	(30)	(970)
Additions	—	396	—	—	396
Internally generated	—	322	—	—	322
Borrowing costs capitalised (note 9.2)	—	47	—	—	47
Loss on disposal and scrapping	—	(7)	—	—	(7)
Amortisation	—	(287)	(3)	(5)	(295)
Impairment (note 9.4)	—	(66)	—	—	(66)
Exchange rate differences	2	—	—	—	2
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 9.2)	—	72	—	—	72
Disposal	—	(13)	—	—	(13)
Proceeds on disposal	—	(10)	—	—	(10)
Loss on disposal and scrapping	—	(3)	—	—	(3)
Amortisation	—	(302)	(4)	(5)	(311)
Impairment (note 9.4)	—	(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)

9.2 Borrowing costs capitalised

Borrowing costs were capitalised against qualifying items of software during the year under review. The weighted average borrowings rate was 9.81% (2016: 9.85%).

9.3 Software not yet in use

Included in the gross amount of software is R1.5 billion (2016: R754 million) that relates to costs 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.

9 Intangible assets (continued)

9.4 Impairment of intangible assets

9.4.1 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 Other (2016: Supermarkets RSA) operating segments. This impairment was the result of components of SAP merchandising software becoming obsolete.

9.4.2 Impairment of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs). The recoverable amount of a CGU is determined based on value-in-use calculations. 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 5.8% (2016: 5.0%). This does not exceed the long term average growth rate for the business in which the CGUs operate. The following represent significant assumptions on which management based cash flow projections.

	2017	2016
Supermarket operations	%	%
Operating margin*	4.6	5.8
Growth rate**	5.8	5.0
Pre-tax discount rate***	12.7	11.1
Other operations	%	%
Operating margin*	2.5	2.8
Growth rate**	5.8	5.0
Pre-tax discount rate***	12.7	11.1

* 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		Group	
2016	2017	2017	Restated 2016
Rm	Rm	Rm	Rm*
10 Inventories			
–	–	17 794	15 055
Trading goods			
* The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.			
11 Trade and other receivables			
Instalment sales			
		1 789	1 836
		(336)	(266)
		(89)	(90)
–	–	1 364	1 480
–	–	1 715	1 748
–	4	1 431	1 116
–	–	739	910
–	–	359	318
–	4	5 608	5 572
Analysis of total trade and other receivables			
–	–	503	476
–	4	5 105	5 096
–	4	5 608	5 572

Certain trade and other receivables, previously classified as current, were reclassified as non-current in the current year. This mainly comprises prepaid operating land leases. The relevant comparative figures were restated to conform to changes in presentations made in the current year (note 42).

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm
11 Trade and other receivables (continued)			
11.1 Instalment sales			
<p>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 22.1% (2016: 23.9%) 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.</p>			
Instalment sale receivables			
Future minimum instalment payments receivable under non-cancellable instalment sale agreements			
		1 215	1 043
		574	793
–	–	1 789	1 836

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

11.2 Accumulated impairment			
Reconciliation of accumulated impairment			
		266	219
		167	146
		(102)	(118)
		15	20
		(2)	(1)
		(8)	–
–	–	336	266

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		Balance of contract arrears	
	2017	2016	2017	2016
	Rm	Rm	Rm	Rm
30 days	48	42	149	146
60 days	35	29	73	71
90 days	28	22	56	54
120 days	23	18	45	40
150 days	19	15	37	32
180 days	16	12	30	26
+ 180 days	107	82	265	208
	276	220	655	577

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 R336 million (2016: R266 million) was calculated taking into account the actual arrears of R276 million (2016: R220 million) and an amount of R655 million (2016: R577 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		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm
11 Trade and other receivables (continued)			
11.3 Trade receivables			
		1 864	1 908
		(149)	(160)
–	–	1 715	1 748

Analysis of total trade receivables

Receivables from franchisees	874	782
Gross amount	906	819
Accumulated impairment	(32)	(37)
Receivables from medical aid schemes, pharmacies and doctors	250	436
Gross amount	275	451
Accumulated impairment	(25)	(15)
Buying aid societies and other receivables	591	530
Gross amount	683	638
Accumulated impairment	(92)	(108)

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. 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 R882 million (2016: R991 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.

Reconciliation of accumulated impairment

Balance at the beginning of the year	160	150
Allowance for impairment for the year	41	44
Receivables written off during the year as uncollectible	(33)	(35)
Exchange rate differences	(6)	4
Unused amounts reversed	(13)	(3)
–	–	149
Balance at the end of the year	149	160

The provision for impairment relates to trade receivables of R184 million (2016: R179 million) receivable within the next 12 months.

These individually impaired amounts relate mostly to franchisees experiencing unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. Interest of R1.7 million (2016: R2.8 million) was accrued on these balances during the year under review.

Trade receivables of R234 million (2016: R142 million) that were past due for more than 30 days of statement date were not impaired. These amounts relate to a number of debtors for whom there is no recent history of default.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company			Group	
2016	2017		2017	Restated 2016
Rm	Rm		Rm	Rm
		11 Trade and other receivables (continued)		
—	4	11.4 Other receivables	1 431	1 116
		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.		
—	—	11.5 Amounts owing by joint ventures	359	318
		These amounts owing are payable on demand and earn interest at an average of 7.6% (2016: 6.9%) p.a. A guarantee to the value of R162 million (2016: R62 million) is held as collateral for these amounts. The maximum exposure to credit risk at the reporting date is the carrying value. The amounts are mainly denominated in ZAR and no allowance for impairment has been made.		
		12 Derivative financial instruments		
		Forward foreign exchange rate contracts (note 38.1.1)		
—	—	Current assets	1	—
—	—	Current liabilities	—	32
		As at the statement of financial position date the settlement dates on open forward contracts were for six (2016: ranged between one and four) months. The local currency amounts to be received and contractual exchange rates of the Group's outstanding contracts were:		
		US dollar rand equivalent at rates averaging		
		R1 = \$0.0763 (2016: R1 = \$0.0645)		
		Outflow	(165)	(834)
		Inflow	165	798
		Euro rand equivalent at rates averaging		
		R1 = N/A (2016: R1 = €0.0576)		
		Outflow	—	(101)
		Inflow	—	96

Company

2016 2017
Rm Rm

Group

2017 2016
Rm Rm

13 Share capital and treasury shares**13.1 Ordinary share capital**

Authorised:
650 000 000 (2016: 650 000 000) ordinary shares of 113.4 cents each

Issued:
650 681 600 021 829 (2016: 572 871 960) ordinary shares of 113.4 cents each 681 650

Reconciliation of movement in number of ordinary shares issued:

	Number of shares	
	2017	2016
Balance at the beginning of the year	572 871 960	572 871 960
Shares issued during the year	27 149 869	—
Balance at the end of the year	600 021 829	572 871 960

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	
	2017	2016
Issued ordinary share capital	600 021 829	572 871 960
Treasury shares (note 13.3)	(36 166 544)	(38 246 183)
	563 855 285	534 625 777

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.

13.2 Deferred share capital

Authorised:
360 000 000 (2016: 360 000 000) non-convertible, non-participating no par value deferred shares

Issued:
— — 305 621 601 (2016: 291 792 794) non-convertible, non-participating no par value deferred shares — —

Reconciliation of movement in number of deferred shares issued:

	Number of shares	
	2017	2016
Balance at the beginning of the year	291 792 794	291 792 794
Shares issued during the year	13 828 807	—
Balance at the end of the year	305 621 601	291 792 794

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.

650 681

681 650

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm

13 Share capital and treasury shares (continued)

13.3 Treasury shares

—	—	36 166 544 (2016: 38 246 183) ordinary shares	446	760
---	---	---	-----	-----

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

	Number of shares	
	2017	2016
Balance at the beginning of the year	38 246 183	38 221 703
Shares purchased during the year	300 439	194 916
Shares disposed during the year	(19 259)	(57 503)
Shares utilised for settlement of equity-settled share-based payment arrangements	(2 360 819)	(112 933)
Balance at the end of the year	36 166 544	38 246 183
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)	729 972	2 809 611
	36 166 544	38 246 183

14 Share-based compensation plans

14.1 Cash-settled share-based payments

The Group has granted cash-settled share-based payments to directors and management. The rights to cash-settled share-based payments entitle the participants 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 number of shares on which the rights are based as well as the strike prices and the exercise and expiry dates are set out below. The Group has recognised the liability in respect of the cash-settled share-based payments and included it in payables (refer note 18).

Refer 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 year.	Weighted average strike price per share		Number of shares on which rights are based	
	2017	2016	2017	2016
Balance at the beginning and end of the year	R6.50	R6.50	1 000 000	1 000 000

Rights to cash-settled share-based payments outstanding at year-end are currently exercisable.

Cash-settled share-based payments issued to directors:	Director	Expiry date	Exercise date	Strike price per share	Number of shares on which rights are based	
					2017	2016
	CH Wiese*	5 Sep 2022	Currently exercisable	R6.50	1 000 000	1 000 000

* The right to the cash-settled share-based payments have been granted via a management company.

14 Share-based compensation plans (continued)

14.2 Equity-settled share-based payments

14.2.1 Executive share plan

The Group operates an executive share plan. In terms of the executive share plan, the Group has granted shares to directors and management in the form of forfeitable retention share awards and forfeitable co-investment share awards. The rights to the shares granted entitle the participants to receive Shoprite Holdings Ltd ordinary shares at a grant price of R156.96 per share. Full share grants awarded in terms of the executive share plan are conditional on the employee completing three years' service and co-investment share awards are further subject to the participant investing in the Group's convertible bonds and retaining their investment for the entire vesting period. The full share grants may be forfeited if participants fail to meet the vesting conditions. 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 granted in terms of the executive share plan meet 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.

In terms of the executive share plan, the Company issued 2 292 500 new shares to the value of R360 million to its main trading subsidiary, Shoprite Checkers (Pty) Ltd, during 2014 for the benefit of the participants. 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. All grants issued for which vesting conditions were met by participants vested on 15 June 2017.

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

Movements in the number of full share grants awarded in terms of the executive share plan:	Weighted average price per share on date of the grant		Number of shares	
	2017	2016	2017	2016
Balance at the beginning of the year	R156.96	R156.96	2 252 500	2 282 500
Shares vested during the year	R156.96	—	(2 242 500)	—
Shares forfeited during the year	R156.96	R156.96	(10 000)	(30 000)
Balance at the end of the year	—	R156.96	—	2 252 500

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

Director	Grant date	Award grant price	Number of shares		
			2017	Exercised during the year	2016
JAL Basson	15 June 2014	R0.00	—	(40 000)	40 000
M Bosman	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 2 July 2017

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 other long term incentives through participation in the virtual option plan and a deferred 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 plan and deferred bonus plan benefits earned in respect of the previous year in restricted shares, governed by the executive share plan rules. As a result, the Group has granted shares to management in the form of forfeitable retention share awards. This led to a modification of a cash bonus arrangement to a share-based payment arrangement as a portion of incentive bonuses previously allocated to management in terms of the virtual option and deferred 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 and deferred 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 300 439 (2016: 194 916) 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 2017 and 30 September 2021 and are set out below.

Refer 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 weighted average market price of a Shoprite Holdings Ltd share achieved when Shoprite Checkers (Pty) Ltd purchased these shares in the market and determined at R196.94 per share. The following assumptions were used in calculating the fair value:

	2017
Total number of full share grants awarded	300 439
Grant date	3 November 2016
Vesting date	30 September 2019 – 2021
Weighted average share price of shares purchased	R196.94
Exercise price	R0.00
Forfeiture rate	5.0%

Movements in the number of full share grants awarded in terms of the incentive bonus share allocation scheme:	Weighted average price per share on date of the grant		Number of shares	
	2017	2016	2017	2016
Balance at the beginning of the year	R155.66	R160.76	557 111	488 228
Shares granted during the year	R196.94	R145.89	300 439	194 916
Shares vested during the year	R160.60	R160.70	(118 319)	(112 933)
Shares forfeited during the year	R182.54	R156.72	(9 259)	(13 100)
Balance at the end of the year	R171.51	R155.66	729 972	557 111

The market price of full share grants vested during the year was R183.43 (2016: R159.12) per share.

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

30 September 2016	R0.00	R160.76	—	114 107
30 September 2017	R160.76	R160.76	122 724	127 541
30 September 2018	R154.15	R154.26	143 248	145 630
30 September 2019	R173.62	R151.85	203 360	106 200
30 September 2020	R176.89	R145.89	162 152	63 633
30 September 2021	R196.94	—	98 488	—
	R171.51	R155.66	729 972	557 111

Company			Group	
2016	2017		2017	Restated 2016
Rm	Rm		Rm	Rm*
		15 Reserves		
3 235	4 779	Retained earnings	19 807	16 601
2	2	Other reserves (note 15.1)	(969)	554
3 237	4 781		18 838	17 155

* The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.

		15.1 Other reserves		
2	2	Capital redemption reserve	2	2
—	—	Share-based payments reserve	64	290
—	—	Equity component of convertible bonds	—	361
—	—	Foreign currency translation reserve	(1 048)	(123)
—	—	Cash flow hedging reserve	13	24
2	2		(969)	554

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 28 June 2015	161	361	481	—	2
Share-based payments – value of employee services	140				
Modification of cash bonus arrangement transferred from provisions	7				
Realisation of share-based payment reserve	(18)				
Foreign currency translation differences			(604)		
Group			(680)		
Equity accounted investments			76		
Gains on effective cash flow hedge, net of income tax				24	
Gains on effective cash flow hedge				33	
Related income tax				(9)	
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

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm
	16	Borrowings	
		Consisting of:	
		Convertible bonds (note 16.1)	4 655
		ABSA Bank Ltd (note 16.2)	1 304
		Barclays Bank Mauritius Ltd (note 16.3)	1 173
		Standard Chartered Bank (Mauritius) Ltd (note 16.4)	652
		Standard Bank de Angola, S.A. (note 16.5)	—
		First National Bank of Namibia Ltd (note 16.6)	134
		The Standard Bank of South Africa Ltd (note 16.7)	11
		Other borrowings (note 16.8)	—
			21
			3 274
			5 124
		Analysis of total borrowings	
		Non-current	102
		Current	3 274
			5 022
			3 274
			5 124
	16.1	Convertible bonds	
		The Group has issued 6.5% convertible bonds for a principal amount of R4.7 billion (2016: R4.7 billion). The bonds matured on 3 April 2017 at their nominal value. Bondholders had the option to convert their convertible bonds at the maturity date at the rate of 5 919.26 shares per R1 million. The values of the liability component and the equity conversion component were determined at issuance of the bonds.	
		The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond at initial recognition. The residual amount, representing the value of the equity conversion option, was initially included in shareholders' equity in other reserves, net of income taxes, and transferred to retained earnings upon conversion and redemption.	
		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	—
			4 511
			—
			—
			449
			(305)
			4 655
		The fair value of the liability component of the convertible bonds amounted to R4.7 billion at the previous statement of financial position date. The fair value was calculated using cash flows discounted at a rate based on the borrowings rate of 9.5% and was within level 2 of the fair value hierarchy.	
	16.2	ABSA Bank Ltd	1 304
		This loan is denominated in US dollar, unsecured, payable within 12 months and bears interest at an average of 1.82% (2016: N/A) p.a.	—
	16.3	Barclays Bank Mauritius Ltd	1 173
		This loan is denominated in US dollar, unsecured, payable within 12 months and bears interest at an average of 2.16% (2016: N/A) p.a.	—
	16.4	Standard Chartered Bank (Mauritius) Ltd	652
		This loan is denominated in US dollar, unsecured, payable within 12 months and bears interest at an average of 2.47% (2016: 2.65%) p.a.	222

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm
16 Borrowings (continued)			
16.5	Standard Bank de Angola, S.A.	–	121
This loan was denominated in US dollar, unsecured, repaid during the year and carried interest at an average of 10.78% (2016: 10.02%) p.a.			
16.6	First National Bank of Namibia Ltd	134	105
This loan is denominated in ZAR, unsecured, payable on demand and bears interest at an average of 9.75% (2016: 9.75%) p.a.			
16.7	The Standard Bank of South Africa Ltd	11	–
This loan is denominated in ZAR, payable within the next 12 months and bears interest at an average of 8.85% (2016: N/A) p.a. An aircraft with a carrying value of R33 million (2016: N/A) is pledged as security for this loan (refer to note 3.1).			
16.8	Other borrowings	–	21
This loan was payable to a minority shareholder of a subsidiary of the Group, denominated in ZAR, unsecured, payable on demand and carried interest at an average of 7.89% (2016: 7.14%) p.a.			
17 Provisions			
	Provision for post-employment medical benefits	33	35
	Provision for onerous lease contracts	39	87
	Provision for outstanding claims	9	11
	Provision for long term employee benefits	202	164
	Reinstatement provision	103	157
		386	454
–	–		

Reconciliation of carrying values

Group	Post-employment medical benefits	Onerous lease contracts	Outstanding claims	Long term employee benefits	Reinstatement provision	Total
Rm						
Balance at 28 June 2015	35	93	4	163	162	457
Additional provisions	–	61	7	41	7	116
Unused amounts reversed	–	(54)	–	(1)	(7)	(62)
Re-measurements recognised directly in other comprehensive income	(1)	–	–	–	–	(1)
Utilised during the year	(2)	(19)	–	(46)	(8)	(75)
Accretion of discount	3	9	–	14	–	26
Modification of cash bonus arrangement transferred to share-based payments reserve	–	–	–	(7)	–	(7)
Exchange rate differences	–	(3)	–	–	3	–
Balance at 3 July 2016	35	87	11	164	157	454

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

17 Provisions (continued) Reconciliation of carrying values (continued)

Group Rm	Post- employment medical benefits	Onerous lease contracts	Outstanding claims	Long term employee benefits	Reinstatement provision	Total
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)
Exchange rate differences	—	(3)	—	(1)	(2)	(6)
Balance at 2 July 2017	33	39	9	202	103	386
Analysis of total provisions						
2016						
Non-current	35	67	—	114	51	267
Current	—	20	11	50	106	187
	35	87	11	164	157	454
2017						
Non-current	33	21	—	142	36	232
Current	—	18	9	60	67	154
	33	39	9	202	103	386
Discount rates used						
2016	10%	11%	N/A	10%	11%	
2017	10%	13%	N/A	10%	13%	

Company		Group	
2016 Rm	2017 Rm	2017 Rm	2016 Rm

18 Trade and other payables

—	—	Trade payables	10 141	10 205
11	11	Other payables and accruals	5 120	4 220
—	—	Employee benefit accruals	1 246	1 157
—	—	Indirect taxes payable	284	384
—	—	Insurance contract allowances		
—	—	- Unearned premiums (note 18.1)	226	230
—	—	Amounts owing to joint ventures (note 18.2)	12	45
—	—	Joint venture liability (note 5)	84	56
—	—	Fixed escalation operating lease accruals	108	111
—	—	Cash-settled share-based payment accrual (note 14.1)	193	182
11	11		17 414	16 590

18.1 Analysis of allowance for unearned premiums

		Balance at the beginning of the year	230	236
		Change in allowance for unearned premiums	(4)	(6)
		Premiums written during the year	380	410
		Amortisation charged to income (note 19)	(384)	(416)
—	—	Balance at the end of the year	226	230

18.2 Amounts owing to joint ventures

—	—	12	45
---	---	----	----

These loans are unsecured, payable on demand and bear interest at an average of 7.1% (2016: 2.8%) p.a.

Company			Group	
2016	2017		2017	2016
Rm	Rm		Rm	Rm
		19 Other operating income		
—	—	Finance income earned	325	327
2 601	4 309	Investment income (note 19.1)	189	111
—	—	Franchise fees received	75	65
—	—	Operating lease income (note 19.2)	435	426
—	—	Commissions received	811	784
—	—	Premiums earned (note 18.1)	384	416
11	16	Other income	396	315
2 612	4 325		2 615	2 444
		19.1 Investment income		
—	44	Interest received from subsidiaries	—	—
—	—	Interest received from joint ventures	23	13
—	—	Interest received from associates	40	28
—	—	Interest received other	110	43
2 601	4 265	Dividends – subsidiaries	—	—
—	—	Dividends – unlisted investments	16	27
2 601	4 309		189	111
		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 (2016: 1 and 10 years). Rental comprises mainly minimum monthly payments. Rental escalations vary, but average at a rate of 7.7% (2016: 7.6%) p.a.		
		20 Depreciation and amortisation		
		Property, plant and equipment	2 146	1 993
		Intangible assets	311	295
			2 457	2 288
		Disclosed as cost of sales	(281)	(263)
—	—		2 176	2 025
		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 (2016: 5 and 10 years) with renewal options averaging a further 3 to 20 years (2016: 3 to 20 years). Rental comprises minimum monthly payments and contingent payments based on turnover levels. Turnover rentals, where applicable, average 1.92% (2016: 1.89%) of turnover. Rental escalations vary, but average at a rate of 6.31% (2016: 6.65%) p.a.		
		Operating lease payments – property	3 956	3 573
		Operating lease payments – equipment	159	144
			4 115	3 717
		Disclosed as cost of sales	(296)	(231)
—	—		3 819	3 486
		Consisting of:		
		Minimum lease payments	3 811	3 444
		Contingent lease payments	304	273
—	—		4 115	3 717

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm
22 Employee benefits			
		10 841	9 661
		171	140
		4	3
		547	552
		11 563	10 356
		(1 065)	(857)
–	–	10 498	9 499
22.1 Share-based payment arrangements			
		33	–
		138	140
–	–	171	140
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% (2016: 28%).			
		16	14
		6	9
–	–	22	23
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.			
		226	286
23 Directors' remuneration			
138	93		
3	3		
141	96	–	–
(138)	(93)		
3	3	–	–
The only prescribed officers of the Group are the Shoprite Holdings Ltd directors and alternate directors, as listed on the next page.			
For details of equity and cash-settled share-based payment instruments issued to directors refer note 14.			
Refer note 40 for details of amounts owing by directors at the end of the reporting period.			

23 Directors' remuneration (continued)

R'000	2017					2016				
	Remu- neration	Short term Perfor- mance bonus	Retirement and medical benefits	Other benefits	Total	Remu- neration	Perfor- mance bonus	Retirement and medical benefits	Other benefits	Total
Executive directors and alternates										
JW Basson*	49 656	—	64	394	50 114	49 656	50 000	58	386	100 100
JAL Basson	2 189	2 360	300	332	5 181	1 878	1 394	321	200	3 793
M Bosman	2 601	2 216	487	259	5 563	2 354	2 063	539	195	5 151
PC Engelbrecht	9 713	4 324	685	527	15 249	4 096	2 997	755	274	8 122
CG Goosen	206	293	194	803	1 496	1 142	602	213	28	1 985
B Harisunker	3 339	1 572	—	2 418	7 329	3 199	1 617	—	363	5 179
AE Karp (resigned 1/2/2017)	1 178	933	275	79	2 465	4 101	1 444	857	227	6 629
EL Nel	3 452	2 185	—	301	5 938	3 249	2 134	—	299	5 682
BR Weyers (retired 30/6/2017)	—	—	—	162	162	656	383	—	—	1 039
	72 334	13 883	2 005	5 275	93 497	70 331	62 634	2 743	1 972	137 680

R'000	2017		2016	
	Fees	Total	Fees	Total
Non-executive directors				
JF Basson	499	499	423	423
JJ Fouché	364	364	337	337
EC Kieswetter	324	324	441	441
JA Louw	570	570	528	528
ATM Mokgokong	270	270	238	238
JG Rademeyer (retired 19/10/2015)	—	—	150	150
JA Rock	364	364	337	337
CH Wiese**	570	570	463	463
	2 961	2 961	2 917	2 917

Gains made on the exercise of equity-based awards are disclosed in note 14.2.1 for shares allotted in terms of the Executive Share Plan.

* 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 will therefore receive a guaranteed pay until 30 September 2017. From 1 January 2017, Pieter Engelbrecht assumed the role of CEO.

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

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company			Group	
2016	2017		2017	Restated 2016
Rm	Rm		Rm	Rm ⁺
		24 Other operating expenses		
—	—	Advertising	2 244	2 150
—	—	Cleaning	697	633
—	—	Commission paid	658	578
—	—	Electricity and water	2 756	2 538
6	8	Fees for professional services	521	524
—	—	Motor vehicle expenses	844	747
—	—	Repairs and maintenance	1 591	1 430
—	—	Security services	1 386	1 254
10	10	Other expenses	2 332	2 032
16	18		13 029	11 886
—	—	Disclosed as cost of sales	(1 208)	(1 077)
16	18		11 821	10 809
<p>⁺ The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.</p>				
		25 Items of a capital nature		
		Profit on disposal and scrapping of property (note 3)	—	1
		Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 9)	(79)	(59)
		(Impairment)/reversal of impairment of property, plant and equipment (note 3)	(19)	16
		Impairment of intangible assets (note 9)	(70)	(66)
		Insurance claims receivable	5	25
		Profit on disposal of investment in associate	—	71
		(Loss)/profit on other investing activities	(3)	1
—	—		(166)	(11)
		26 Operating profit		
		Determined after taking into account the following:		
		Fair value (gains)/losses on financial instruments	(33)	30
		Policyholder claims and benefits paid	31	40
		– claims paid	33	33
		– movement in accumulated outstanding claims (note 17)	(2)	7
		27 Finance costs		
		Interest on convertible bonds	187	449
		Interest paid	269	120
		Interest paid to joint ventures	—	1
		Borrowing costs capitalised	(116)	(72)
—	—		340	498
		27.1 Interest paid per cash flow statement:		
		Finance costs expense	340	498
		Borrowing costs capitalised	116	72
		Interest on convertible bonds amortised	(40)	(144)
—	—		416	426

Company			Group	
2016	2017		2017	2016
Rm	Rm		Rm	Rm
28 Income tax expense				
28.1 Classification				
13	28	South African income tax	1 750	1 495
—	—	Foreign income tax	430	503
13	28		2 180	1 998
28.2 Consisting of:				
13	33	Current income tax	2 285	2 340
—	(5)	Prior year income tax	52	(119)
—	—	Withholding income tax	79	6
13	28		2 416	2 227
—	—	Deferred income tax	(236)	(229)
13	28		2 180	1 998
28.3 Reconciliation of income tax				
727	1 211	South African current income tax at 28% (2016: 28%)	2 132	1 917
(714)	(1 183)	Net adjustments	48	81
(728)	(1 194)	Dividend income	(5)	—
—	—	Exempt income	(282)	(284)
14	16	Non-deductible expenses	66	138
—	—	Income tax allowances	(6)	(6)
—	—	Deferred income tax asset previously not recognised	3	(66)
—	(5)	Prior year income tax	52	(119)
—	—	Effect of foreign income tax rates	115	84
—	—	Withholding income tax	79	6
—	—	Deferred income tax asset not recognised	26	328
13	28	Income tax	2 180	1 998
0.5%	0.6%	Effective tax rate	28.6%	29.2%

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

29 Earnings per share

Rm	2017		
	Gross	Income tax effect	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 9)	79	(20)	59
Impairment of property, plant and equipment (note 3)	19	(2)	17
Impairment of intangible assets (note 9)	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
	Restated 2016 ⁺		
Rm	Gross	Income tax effect	Net
Profit attributable to owners of the parent			4 844
Profit on disposal and scrapping of property (note 3)	(1)	—	(1)
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 9)	59	(14)	45
Reversal of impairment of property, plant and equipment (note 3)	(16)	6	(10)
Impairment of intangible assets (note 9)	66	(18)	48
Insurance claims receivable	(25)	7	(18)
Profit on disposal of investment in associate	(71)	1	(70)
Profit on other investing activities	(1)	—	(1)
Re-measurements included in share of loss of equity-accounted investments	2	(1)	1
Headline earnings	13	(19)	4 838
		2017	2016
Number of ordinary shares		'000	'000
– In issue		563 855	534 626
– Weighted average		542 927	534 636
– Weighted average adjusted for dilution		564 814	537 423
Reconciliation of weighted average number of ordinary shares in issue during the year:			
Weighted average number of ordinary shares		542 927	534 636
Adjustments for dilutive potential of full share grants and convertible bonds		21 887	2 787
Weighted average number of ordinary shares for diluted earnings per share		564 814	537 423
Earnings per share		Cents	Restated Cents ⁺
– Basic earnings		999.8	906.0
– Diluted earnings		984.8	901.3
– Basic headline earnings		1 023.2	905.0
– Diluted headline earnings		1 007.4	900.3

⁺ The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.

Company			Group	
2016	2017		2017	2016
Cents	Cents		Cents	Cents
30 Dividends per share				
30.1 Dividends per share paid				
		No 135 paid 12 September 2016 (2016: No 133 paid 14 September 2015)		
243.0	296.0		296.0	243.0
156.0	180.0	No 136 paid 20 March 2017 (2016: No 134 paid 22 March 2016)	180.0	156.0
399.0	476.0		476.0	399.0
30.2 Dividends per share declared				
		No 137 payable 11 September 2017 (2016: No 135 paid 12 September 2016)		
296.0	324.0		324.0	296.0
Rm	Rm		Rm	Restated Rm*
31 Cash flow information				
31.1 Non-cash items				
		Depreciation of property, plant and equipment	2 146	1 993
		Amortisation of intangible assets	311	295
		Net fair value (gains)/losses on financial instruments	(33)	30
		Exchange rate losses	236	46
		Profit on disposal and scrapping of property	—	(1)
		Loss on disposal and scrapping of plant and equipment and intangible assets	79	59
		Impairment/(reversal of impairment) of property, plant and equipment	19	(16)
		Impairment of intangible assets	70	66
		Profit on disposal of investment in associate	—	(71)
		Movement in provisions	(52)	5
		Movement in cash-settled share-based payment accrual	11	(10)
		Movement in share-based payment reserve	139	140
		Movement in fixed escalation operating lease accruals	163	145
—	—		3 089	2 681
31.2 Changes in working capital				
—	—	Inventories	(3 237)	(1 998)
—	(4)	Trade and other receivables	(164)	(588)
1	—	Trade and other payables	1 123	(748)
1	(4)		(2 278)	(3 334)
* The 2016 figures have been restated for the change in accounting treatment of advertising rebates. Refer to note 41 for more detail.				
31.3 Dividends paid				
(6)	(7)	Shareholders for dividends at the beginning of the year	(9)	(8)
(2 286)	(2 754)	Dividends distributed to equity holders	(2 586)	(2 144)
—	—	Dividends distributed to non-controlling interest	(10)	(9)
7	7	Shareholders for dividends at the end of the year	10	9
(2 285)	(2 754)		(2 595)	(2 152)
31.4 Income tax paid				
7	1	(Payable)/prepaid at the beginning of the year	(428)	(916)
(13)	(28)	Per statement of comprehensive income	(2 416)	(2 227)
—	—	Income tax effect of losses/(gains) on effective cash flow hedge charged to other comprehensive income	4	(9)
(1)	5	Payable/(prepaid) at the end of the year	428	428
(7)	(22)		(2 412)	(2 724)

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	Rm
32 Contingent liabilities			
32.1			
Amounts arising in the ordinary course of business relating to property and other transactions from which it is anticipated that no material liabilities will arise.		85	146
32.2			
At the end of the previous year, Shoprite Holdings Ltd and its main trading subsidiary, Shoprite Checkers (Pty) Ltd, have irrevocably and unconditionally guaranteed all amounts payable by the issuer, Shoprite Investments Ltd, in respect of convertible bonds (refer note 16.1).			
32.3			
The National Credit Regulator referred Shoprite Insurance Company Ltd and Shoprite Investments Ltd to the National Consumer Tribunal in October 2015 for allegedly selling unnecessary insurance to pensioners and allegedly granting credit recklessly to consumers. The Group has obtained legal advice from senior counsel and the matter was expected to be heard by the Tribunal in May 2017. The allegations against Shoprite Insurance Company Ltd were withdrawn during the year under review.			
The maximum exposure that Shoprite Investments Ltd can be liable for is an administrative fine of 10% of annual turnover of Shoprite Investments Ltd. However, at this reporting date there is insufficient information to accurately determine the potential liability amount and to assess whether it is probable that the Group will be liable to pay.			
33 Commitments			
33.1 Capital commitments			
Contracted for property, plant and equipment		1 771	1 646
Contracted for intangible assets		36	36
Authorised by directors, but not contracted for		3 306	4 119
–	–	5 113	5 801
Total capital commitments			
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		3 465	3 215
– Later than one year not later than five years		10 924	10 880
– Later than five years*		5 013	6 136
		19 402	20 231
Less: fixed escalation operating lease accruals		(1 272)	(1 106)
–	–	18 130	19 125
* In the prior year, certain operating lease commitments included multiple renewal periods. The comparative figure has been restated to exclude such multiple renewal options in line with Group policy.			
33.3 Operating lease receivables			
Future minimum lease payments receivable under non-cancellable operating leases:			
– Not later than one year		316	257
– Later than one year not later than five years		536	416
– Later than five years		69	85
		921	758
Less: fixed escalation operating lease accruals		(43)	(37)
–	–	878	721

Company		Group	
2016	2017	2017	2016
Rm	Rm	Rm	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 66.0% (2016: 52.9%) of employees and 7.7% (2016: 7.0%) 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:

547 552

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	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
Rm	2016		
Gross amounts of recognised financial assets	3 843	12 871	16 714
Gross amounts of recognised financial liabilities set off in the statement of financial position	(2 095)	(6 087)	(8 182)
Net amounts of financial assets presented in the statement of financial position	1 748	6 784	8 532
Related amounts not set off in the statement of financial position*			
Financial instruments	(102)	—	(102)
Net amounts	1 646	6 784	8 430

* 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.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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	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
Rm	2016		
Gross amounts of recognised financial liabilities	12 300	9 052	21 352
Gross amounts of recognised financial assets set off in the statement of financial position	(2 095)	(6 087)	(8 182)
Net amounts of financial liabilities presented in the statement of financial position	10 205	2 965	13 170
Related amounts not set off in the statement of financial position*			
Financial instruments	(102)	–	(102)
Net amounts	10 103	2 965	13 068

* 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 disclosures

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 Group's derivatives – being forward foreign exchange rate contracts – are measured at fair value and classified at level 2.

There were no transfers between levels 1 and 2 during the year.

The nominal value less estimated credit adjustments of trade and other receivables (refer to note 11) and trade and other payables (refer to note 18) are assumed to approximate their fair values. The fair value is based on discounted cash flows and is within level 3 of the fair value hierarchy.

The fair value of Angola Government Bonds included in held-to-maturity investments (refer to note 6) amounted to R1.3 billion (2016: N/A) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.0% (2016: N/A) and is within level 2 of the fair value hierarchy.

The fair value of USD denominated amounts owing by Resilient Africa (Pty) Ltd included in loans and receivables (refer to note 7.1) amounted to R586 million (2016: N/A) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 3.0% (2016: N/A) and is within level 2 of the fair value hierarchy.

37 Fair value disclosures (continued)

The fair value of amounts owing by employees included in loans and receivables (refer to note 7.2) amounted to R102 million (2016: R217 million) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 10.5% (2016: 10.5%) and is within level 2 of the fair value hierarchy.

The fair value of the liability component of the convertible bonds included in borrowings (refer to note 16.1) amounted to R4.7 billion at the previous statement of financial position date. The fair value was calculated using cash flows discounted at a rate based on the borrowings rate of 9.5% and was within level 2 of the fair value hierarchy.

The book value of all other financial assets and liabilities approximate the fair values thereof.

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.

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

Company			Group	
2016	2017		2017	2016
Rm	Rm		Rm	Rm
161	567	South Africa rand	(1 023)	998
—	—	US dollar	612	684
—	—	Angola kwanza	2 229	1 202
—	—	Nigeria naira	61	92
—	—	Other currencies	830	843
161	567	Net cash and cash equivalents	2 709	3 819

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 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. At 3 July 2016 the total possible increase in Group post-tax profit, calculated for all estimated currency movements, was R261 million with the AON/USD exchange rate (with an expected 19.5% incline) contributing R142 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.

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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.

Foreign currency	Group	
	2017 Rm	2016 Rm
Angola kwanza	2 517	1 413
Euro	(262)	(342)

Net investment hedge

The Group's US dollar denominated borrowing amounting to R121 million (\$8 million) at the end of the previous year was designated as a hedge of a proportion of the net investment in the Group's US dollar denominated subsidiary. The borrowing was repaid during the year under review. The fair value of the borrowing at the previous statement of financial position date approximated its book value (refer to note 16.5). The foreign exchange loss of R170 118 (2016: R89.4 million) on translation of the borrowing at the settlement date (2016: reporting date) is recognised in other comprehensive income and accumulated in the foreign currency translation reserve, in shareholders' equity. No ineffectiveness was recognised in the statement of comprehensive income.

Cash flow hedges

The Group has 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 are hedged. The payments are expected to be made in the 2018 (2016: 2017) calendar year as indicated below:

	Group	
	2017 \$	2016 \$
Second deposit – First quarter of 2018 (2016: First quarter of 2017)	250 000	250 000
Third deposit – First quarter of 2018 (2016: First quarter of 2017)	1 000 000	1 000 000
Final deposit – Fourth quarter of 2018 (2016: Fourth quarter of 2017)	7 400 000	7 400 000
	8 650 000	8 650 000

At the statement of financial position date, the Group held R113 million [\$ 8.65 million] (2016: R129 million [\$ 8.65 million]) in a customer foreign currency account. This total comprises of three individual designations which are designated as hedges of the three expected future payments, for which the Group has firm commitments. The fair value of the customer foreign currency account at the statement of financial position date approximates its book value.

The foreign exchange loss of R15 million (2016: gain of R33 million) on translation of the customer foreign currency account at the reporting date is recognised in other comprehensive income and accumulated in the cash flow hedging reserve, in shareholders' equity. 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 and bank overdrafts. These 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 8.1% (2016: 7.3%).

The interest rate on individual instalment sale receivables (refer note 11) is fixed and exposes the Group to fair value interest rate risk which is mitigated by charging appropriate margins and the fact that the maximum term of these contracts are 24 months.

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

- Held-to-maturity investments: note 6
- Loans and receivables: note 7
- Amounts owing by joint ventures: note 11
- Borrowings: note 16
- Amounts owing to joint ventures: note 18

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)

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 2 July 2017 the total possible decrease in Group post-tax profit, calculated for all estimated interest rate movements, was R11.7 million. 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. At 3 July 2016 the total possible increase in Group post-tax profit, calculated for all estimated interest rate movements, was R9.4 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 R9.2 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. Accounts receivable comprise a wide-spread client base and 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. These policies include reviewing the Group's own credit history with the customer, verifying the credit history with an external credit bureau, as well as a formalised application process where the creditworthiness of the customer is assessed. The Group also obtains security from its franchisees.

The Company has guaranteed various revolving credit facilities of R15.9 billion (2016: R12.3 billion). At the end of the previous year, it also guaranteed convertible bonds of R5.0 billion in Shoprite Investments Ltd. 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 R15.9 billion (2016: R17.3 billion).

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

- Held-to-maturity investments: note 6
- Loans and receivables: note 7
- Trade and other receivables: note 11
- Trade and other payables: note 18

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	
2016	2017		2017	2016
Rm	Rm		Rm	Rm
		Rating		
161	567	P-1	4 978	5 819
—	—	P-2	—	104
—	—	No rating available	2 427	572
—	—	Cash on hand and in transit	362	289
161	567	Total cash and cash equivalents	7 767	6 784

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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 (2017: R3.1 billion; 2016: R3.6 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 Group's derivative financial instruments that will be settled on a gross basis are detailed in note 12. The amounts disclosed are the contractual undiscounted cash flows. All balances are due within 12 months and equal their carrying values, as the impact of discounting is not significant.

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.

Group	Book value	Total	Not later than one year
Non-derivative financial liabilities			
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
Rm	2016		
Borrowings*	5 124	5 469	5 469
Reinstatement provision	157	157	157
Trade payables	10 205	10 205	10 205
Other payables and accruals excluding taxes payable and employee benefit accruals	4 220	4 220	4 220
Amounts owing to joint ventures	45	45	45
Bank overdrafts	2 965	2 965	2 965
Financial commitment	—	954	954
	22 716	24 015	24 015

* Liquidity risk resulting from the settlement of the 6.5% convertible bonds was considered to be acceptable at the end of the previous year as these bonds were expected to be converted into ordinary shares which would most likely not lead to cash outflows. However, as conversion was at the option of the holders, the table above reflects the contractual cash flows the Group would have had to pay if all the bonds were not converted.

38 Financial risk management (continued)

38.1 Financial risk factors (continued)

38.1.3 Liquidity risk (continued)

Company	Book value	Total	Not later than one year
Non-derivative financial liabilities			
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
Rm	2016		
Other payables and accruals excluding taxes payable and employee benefit accruals	11	11	11
Financial guarantees	—	17 315	17 315
	11	17 326	17 326

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 11.82% (2016: 23.94%) on the statement of financial position date.

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

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

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 terms of an employment agreement concluded between Shoprite Holdings Ltd, Shoprite Checkers (Pty) Ltd and Dr JW Basson on 11 December 2003, Dr Basson is entitled to put all Shoprite Holdings Ltd shares directly or indirectly held by him against the Company whilst still in the employment of the Company ("Put Option"). Subject to the provisions of the Memorandum of Incorporation of the Company, the Companies Act, No. 71 of 2008 (as amended) and the JSE Limited Listings Requirements, where applicable, the Company is obliged to repurchase such shares at the middle market price of the shares on the date of exercise of the Put Option ("Middle Market Price"). Dr Basson, in his personal capacity and as a duly authorised director of Bassgro, of which the Wellwood Basson Familietrust is the ultimate shareholder, formally notified the Company of the exercising of the Put Option on 2 May 2017 whereby a specific repurchase of 8 683 327 Shoprite Holdings Ltd shares was proposed at the Middle Market Price of R211.01 per share. Subsequently the purchase price of each Put Option share was reduced to R201.07, being the 30-day VWAP of the ordinary shares up to and including 2 May 2017. The general shareholders meeting, where shareholders are required to approve this transaction, will be held on 5 September 2017.

At the end of the previous year Shoprite Holdings Ltd and Shoprite Checkers (Pty) Ltd have irrevocably and unconditionally given their guarantee to the Trustee for the benefit of the bondholders for all amounts payable by Shoprite Investments Ltd in respect of the convertible bonds that matured on 3 April 2017 (refer note 16.1).

Non-executive director, CH Wiese, is a director and indirect beneficial shareholder of Titan Share Dealers (Pty) Ltd, which exercised an option to purchase R1.7 billion in nominal amount of convertible bonds issued by Shoprite Investments Ltd from Rand Merchant Bank, a division of FirstRand Bank Ltd, during the year under review. The option strike price was the principal amount plus any accrued interest outstanding for the period. The option was exercisable at any time until maturity of the convertible bonds in April 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 R9.9 million (2016: R10.3 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, no par value deferred shares of the Company are provided in the Directors' Report.

Directors, alternate directors and key management participants to the executive share plan held Shoprite Investments Ltd convertible bonds which they purchased from Shoprite Checkers (Pty) Ltd using financing from Shoprite Investments Ltd. These transactions were concluded at market-related prices. The terms and conditions of the schemes under the executive share plan are set out in the Remuneration Report contained in the Integrated Report. The repayment terms of amounts owing to Shoprite Investments Ltd are disclosed in note 7.2.

The number of Shoprite Investments Ltd 6.5% convertible bonds held by directors, alternate directors and key management and the year-end balances relating to amounts owing by directors and key management at the end of the reporting period in terms of the executive share plan are set out below:

	Number of convertible bonds		Loans and receivables	
	2017	2016	2017 Rm	2016 Rm
Directors and key management				
JAL Basson	—	440	9	5
M Bosman	—	560	11	7
PC Engelbrecht	—	890	18	10
AE Karp (resigned 1/2/2017)	—	670	—	8
Other key management personnel	—	14 240	64	166
	—	16 800	102	196
Key management personnel compensation				
Short term employee benefits			234	276
Post-employment benefits			12	15
Share-based payments			75	78
Directors' fees			3	3
			324	372

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.

40 Related party information (continued)

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 JW Basson, CH Wiese, EL Nel and JA Louw, or their direct family members, have a significant influence. These transactions were concluded at what management believe to be market-related prices and are insignificant in terms of the Group's total operations for the year.

	Group	
	2017	2016
These transactions and related balances were as follows:	Rm	Rm
Purchase of merchandise	429	420
Services rendered by the Group	—	1
Utilisation of services	18	21
Interest paid by the Group	2	1
Year-end balances owed to the Group	1	7
Year-end balances owed by the Group	45	55

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

The Group has a 39% interest in Resilient Africa (Pty) Ltd and Resilient Africa Managers (Pty) Ltd (refer note 5.1).

	Group	
	2017	2016
The following transactions took place between the Resilient Africa associates and the Group during the year under review:	Rm	Rm
Rent paid to the associates	24	—
Interest received by the Group	40	28

The year-end balances relating to loans receivable from Resilient Africa (Pty) Ltd are disclosed in note 7.1.

The Group has a 50% interest in the Hungry Lion joint venture (refer note 5.2). The other 50% is indirectly held by alternate non-executive director JAL Basson.

	Group	
	2017	2016
The following transactions took place between the Hungry Lion joint venture and the Group during the year under review:	Rm	Rm
Sale of merchandise to the joint venture	445	345
Operating expenses recovered by the Group	14	17
Administration fees received by the Group	6	8
Administration fees paid to the joint venture	2	—
Interest received by the Group	23	13
Interest paid to the joint venture	—	1

The year-end balances relating to the transactions with the joint venture are disclosed in notes 11.5 and 18.2.

Details of the Company's interests in subsidiaries are provided in note 4 and Annexure A.

The Company paid dividends of R169 million (2016: R141 million) to Shoprite Checkers (Pty) Ltd during the year under review.

	Company	
	2017	2016
The Company received the following from its subsidiaries:	Rm	Rm
Annual administration fee received from Shoprite Checkers (Pty) Ltd	2	2
Dividends received from Shoprite Checkers (Pty) Ltd	4 115	2 451
Dividends received from Shoprite Insurance Company Ltd	150	150
Guarantee fee received from Shoprite International Ltd	9	5
Interest received from Shoprite Investments Ltd	44	—

Notes to the Annual Financial Statements (continued)

Shoprite Holdings Ltd and its Subsidiaries for the year ended 2 July 2017

41 Restatement

During the year, the Group reconsidered its accounting policy with respect to the treatment of advertising rebates. Although nothing has changed in "IAS 2 Inventories", "IFRS 15: Revenue from contracts with customers" has provided a principle that management believes can be applied when determining which rebates should be deducted in determining the costs of purchase in accordance with paragraph 11 of IAS 2. IFRS 15 provides more clarity on how the supplier should treat the payment of rebates to its customers: "An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity."

As a result of reconsidering the accounting policy, the Group concluded that it previously incorrectly classified these rebates, net of advertising expenses, with its other operating income in the statement of comprehensive income. It was concluded that the Group's inventory accounting policy should be changed in accordance with "IAS 8: Accounting policies, changes in accounting estimates and errors".

In terms of IAS 2 paragraph 11, the Group now considers whether the good/service provided to the supplier in exchange for the advertising rebates is distinct from the purchase of the goods/services from the supplier. The Group's advertising rebates result from the process of negotiating the best product price with the supplier and therefore the Group does not provide distinct goods or services to its suppliers in exchange for the rebates.

The correction to the accounting policy is effective for the year ended 2 July 2017 and has been applied retrospectively. This has therefore resulted in a restatement of the comparative 2016 and 2015 figures on the statement of financial position. The aggregate effect of the restatement for these periods is as follows:

	2016			2015		
	Previously reported Rm	Effect of change Rm	Restated Rm	Previously reported Rm	Effect of change Rm	Restated Rm
41.1 Impact on statement of financial position						
Deferred income tax assets	599	99	698	469	100	569
Inventories	15 420	(365)	15 055	13 689	(368)	13 321
Total assets	48 267	(266)	48 001	43 920	(268)	43 652
Reserves	17 419	(264)	17 155	15 172	(267)	14 905
Deferred income tax liabilities	130	(2)	128	188	(1)	187
Total equity and liabilities	48 267	(266)	48 001	43 920	(268)	43 652

41 Restatement (continued)

	2016		Restated Rm
	Previously reported Rm	Effect of change Rm	
41.2 Impact on statement of comprehensive income			
Cost of sales	(102 792)	3 420	(99 372)
Gross profit	27 236	3 420	30 656
Other operating income	3 711	(1 267)	2 444
Other operating expenses	(8 659)	(2 150)	(10 809)
Trading profit	7 278	3	7 281
Profit for the year	4 847	3	4 850
Total comprehensive income for the year	4 268	3	4 271
Basic earnings per share (cents)	905.4	0.6	906.0
Diluted earnings per share (cents)	900.7	0.6	901.3
Basic headline earnings per share (cents)	904.4	0.6	905.0
Diluted headline earnings per share (cents)	899.7	0.6	900.3

	2016		Restated Rm
	Previously reported Rm	Effect of change Rm	
41.3 Impact on statement of cash flows			
Operating profit	7 221	3	7 224
Changes in working capital	(3 331)	(3)	(3 334)
Net movement in cash and cash equivalents	(3 280)	—	(3 280)

42 Reclassification of disclosure items

Certain reclassifications of statement of financial position items in the current year resulted in changes to the relevant comparative information to ensure accurate comparability with the current year information. The affected line items are detailed below.

Reclassification of fixed escalation operating lease accruals to trade and other receivables and reclassification of prepaid land leases from current trade and other receivables to non-current. These reclassifications ensured that all operating lease receivables are classified together and that current and non-current trade and other receivables are reflected appropriately.

	2016 Rm	2015 Rm
Decrease in fixed escalation operating lease accruals	28	9
Increase in trade and other receivables	476	460
Increase in non-current assets	448	451
Decrease in trade and other receivables	448	451
Decrease in current assets	448	451
Total assets	—	—

Annexure A – Interests in Subsidiaries

Shoprite Holdings Ltd and its Subsidiaries as at 2 July 2017

	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	
				2017 Rm	2016 Rm	2017 Rm	2016 Rm
Direct subsidiaries							
Shoprite Checkers (Pty) Ltd	South Africa	1 129	100	174	174	1 748	1 847
Shoprite Investments Ltd	South Africa	400	100	400	100	3 819	-
Shoprite International Ltd	Mauritius	7 314	100	7 315	5 612	9	5
Shoprite Insurance Company Ltd	South Africa	20	100	20	20	-	-
				7 909	5 906	5 576	1 852
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*	56	100				
Retail Holdings Botswana (Pty) Ltd	Botswana*	165	100				
Retail Supermarkets Nigeria Ltd	Nigeria*	883	100				
Senra Namibia Ltd	Namibia*	6	100				
Shophold (Mauritius) Ltd	Mauritius*	189	100				
Shoprite (Mauritius) Ltd	Mauritius*	266	100				
Shoprite Angola Imobiliaria Lda	Angola*	569	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*	191	100				
Shoprite Namibia (Pty) Ltd	Namibia*	—	100				
Shoprite RDC SPRL	DRC*	82	100				
Shoprite Supermercados Lda	Angola*	105	100				
Shoprite Trading Ltd	Malawi*	127	100				

* Investments in subsidiaries outside South Africa 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 R2.3 billion (2016: R1.3 billion) are held in Angola and Nigeria (2016: 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.

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 2 July 2017

Shareholder spread	No of Shareholdings	%	No of Shares	%
1 - 1 000 shares	22 524	79.27	6 495 369	1.08
1 001 - 10 000 shares	4 652	16.37	13 279 305	2.21
10 001 - 100 000 shares	914	3.22	29 325 759	4.89
100 001 - 1 000 000 shares	244	0.86	77 850 511	12.98
Over 1 000 001 shares	79	0.28	473 070 885	78.84
Totals	28 413	100.00	600 021 829	100.00

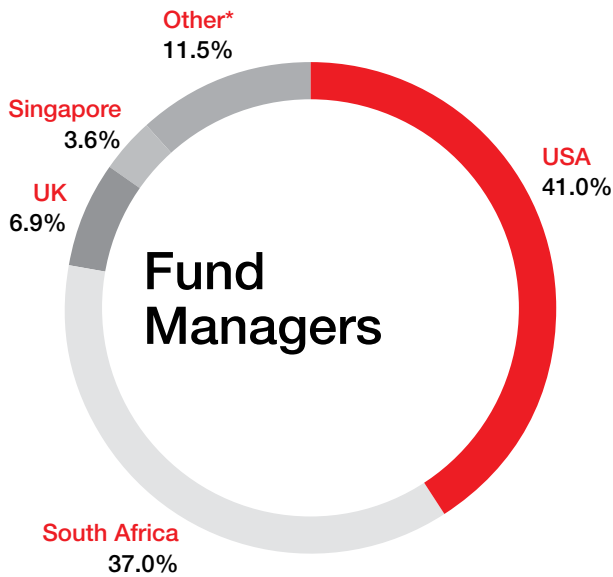
Distribution of shareholders	No of Shareholdings	%	No of Shares	%
Banks/Brokers	274	0.95	229 195 901	38.21
Close Corporations	204	0.72	914 171	0.15
Endowment Funds	194	0.68	5 501 011	0.92
Individuals	21 457	75.52	18 666 067	3.11
Insurance Companies	76	0.27	12 858 340	2.14
Investment Companies	13	0.05	1 796 747	0.30
Medical Aid Schemes	42	0.15	443 508	0.07
Mutual Funds	463	1.63	58 656 876	9.78
Other Corporations	162	0.57	203 662	0.03
Private Companies	688	2.42	85 591 423	14.26
Public Companies	19	0.07	964 838	0.16
Retirement Funds	439	1.55	102 803 546	17.13
Treasury Shares	5	0.02	35 436 572	5.91
Trusts	4 377	15.40	46 989 167	7.83
Totals	28 413	100.00	600 021 829	100.00

Public/non-public shareholders	No of Shareholdings	%	No of Shares	%
Non-Public Shareholders	60	0.21	149 380 827	24.90
Directors of the Company	55	0.19	113 944 255	18.99
Treasury Shares	5	0.02	35 436 572	5.91
Public Shareholders	28 353	99.79	450 641 002	75.10
Totals	28 413	100.00	600 021 829	100.00

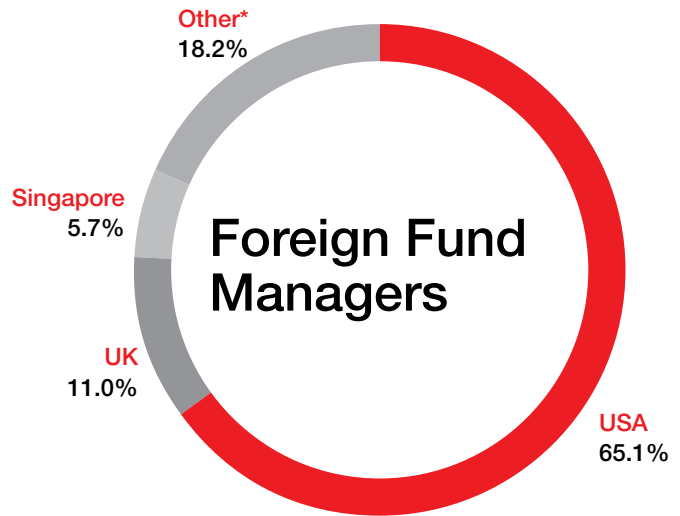
Beneficial shareholders holding 1% or more	No of Shares	%
Wiese, CH	101 315 275	16.89
Government Employees Pension Fund	67 307 859	11.22
Shoprite Checkers (Pty) Ltd	35 436 572	5.91
Capital Group	24 423 097	4.07
Lazard	20 924 506	3.49
Vanguard	14 753 296	2.46
GIC Private Limited	13 971 292	2.33
Namibian Government Institutions Pension Fund	11 538 118	1.92
Oppenheimer Funds	12 683 437	2.11
BlackRock	11 475 904	1.91
Basson, JW	9 104 122	1.52
T. Rowe Price	8 936 531	1.49
Le Roux, JF	8 487 281	1.41
Government Pension Fund - Norway	8 447 963	1.41
Totals	348 805 253	58.14

Shareholders

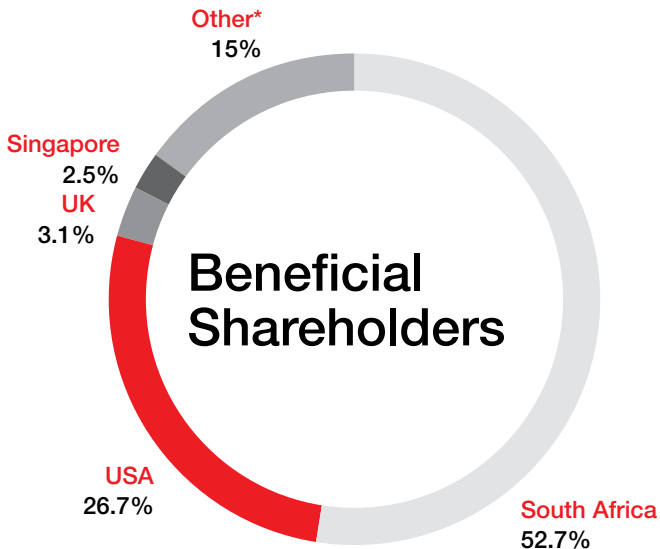
Country Classification



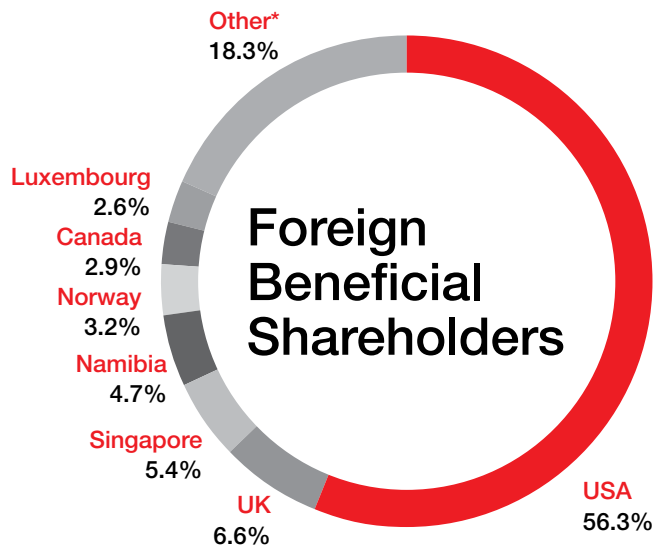
*Other: Japan, Luxembourg, Namibia, Canada, Australia, Germany, UAE, Netherlands, Switzerland, China, France, Sweden, Denmark, Ireland, Norway, Belgium, Austria, South Korea, SA, Italy, Mauritius, Taipei, Cayman Islands, Spain



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



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



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