



**We are pleased to
present the Annual
Financial Statements
for Shoprite Holdings
Ltd and its subsidiaries
for the year ended
28 June 2020**

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The annual financial statements for the year ended 28 June 2020 have been audited by PricewaterhouseCoopers Incorporated, in compliance with the applicable requirements of the South African Companies Act, 71 of 2008. The preparation of the audited annual financial statements was supervised by the Chief Financial Officer (CFO), Mr A de Bruyn, CA(SA).

Currency of the annual financial statements

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

	2020	2019
United States dollar	17.141	14.174
Pound sterling	21.308	17.960
Euro	19.234	16.106
Angola kwanza	0.029	0.041
Botswana pula	1.464	1.338
DRC franc	0.009	0.009
Ghana cedi	2.925	2.587
Kenya shilling	0.161	0.138
Madagascar ariary	0.004	0.004
Malawi kwacha	0.023	0.018
Mozambique metical	0.246	0.226
Nigeria naira	0.044	0.039
Uganda shilling	0.005	0.004
Zambia kwacha	0.946	1.095



Statement of directors' responsibility

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 28 June 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

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

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

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

The directors also confirm that the Company is in compliance with the provisions of the Companies Act or relevant laws of establishment, specifically relating to its incorporation and operates in compliance with its Memorandum of Incorporation (MOI).

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 9 to 15. 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 30 September 2020 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 28 June 2020, 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

30 September 2020

Directors' report

Nature of business

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

Shoprite Holdings comprises of the following main subsidiaries

Shoprite Checkers (Pty) Ltd

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

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

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

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

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

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

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

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

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

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

Shoprite Investments Ltd

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

Computicket (Pty) Ltd

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

Shoprite International Ltd

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

Shoprite Insurance Company Ltd

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

Shoprite DTMC (Pty) Ltd

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

Other Group subsidiaries

The interests of Shoprite Holdings in other subsidiaries are set out on page 104 of the annual financial statements.

Financial review

The Group's diluted headline earnings per share amounts to 755.7 cents for the year (2019*: 698.5 cents). Details of the profit of Shoprite Holdings and its subsidiaries are contained in the statement of comprehensive income on page 17 with reference to the operating segment information on pages 40 to 41. The financial position of Shoprite Holdings and its subsidiaries are recorded in the statement of financial position on page 16. Further details are furnished in the notes to the annual financial statements on pages 41 to 103. The Group's net asset value per share as at 28 June 2020 was 3 592 cents (2019*: 3 987 cents).

* Restated for the change in accounting policy. Refer to note 42 of the annual financial statements for more detail.

Distribution to shareholders

Ordinary dividends

An interim cash dividend (no 142) of 156 cents per share was paid on 16 March 2020. A final dividend (no 143) of 227 cents per share, is payable on 5 October 2020, bringing the total dividend for the year to 383 cents (2019: 319 cents) per ordinary share.

Stated capital

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

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

Going concern

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

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

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

Borrowings

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

The Group's borrowings increased from R11.7 billion to R12.0 billion during the financial year under review.



Special resolutions

At the annual general meeting of Shoprite Holdings held on 4 November 2019, shareholders approved the following special resolutions:

- **Special resolution number 1:** Remuneration payable to non-executive directors;
- **Special resolution number 3:** General authority to repurchase shares; and
- **Special resolution number 4:** Approval of amendment to clause 1 of the 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

Refer to note 26 of the annual financial statements for a list of directors of the Company for the 2020 financial year. The Company Secretary is Mr PG du Preez.

In terms of the MOI, no less than one third of the non-executive directors shall retire by rotation at each annual general meeting.

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

The Board supports the re-election of these directors.

Directors' and alternate directors' interests in ordinary shares

Non-executive directors	Total 2019	Direct beneficial	Indirect beneficial	Total 2020	Encumbered 2020
CH Wiese	63 247 189	—	63 110 920	63 110 920	60 000 000
JF Basson	1 000	1 000	—	1 000	—
AM le Roux	—	14 000	—	14 000	—
ATM Mokgokong	—	—	—	—	—
JA Rock	—	8 300	—	8 300	—
SA Zinn*	—	—	—	n/a	n/a
JD Wiese**	14 674	—	14 674	14 674	—

* Resigned as non-executive director on 6 November 2019

** Alternate director

Executive directors	Total 2019	Direct beneficial	Indirect beneficial	Total 2020	Encumbered 2020
PC Engelbrecht	629 594	446 307	316 039	762 346	140 000
A de Bruyn	15 554	51 423	1 700	53 123	—
B Harisunker	407 379	437 379	—	437 379	255 518

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

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

	Total 2019	Total 2020
CH Wiese through Thibault Square Financial Services (Pty) Ltd	305 621 601	305 621 601

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

Corporate governance

Statements of the Board's application of the codes of good corporate governance will be set out in the forthcoming Integrated Annual Report.

Board committees

The reports of the various board committees will be included in the forthcoming Integrated Annual Report.

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 28 June 2020 to the date of this report.

Holding company

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

Litigation statement

Save for the disclosures as stated in note 36 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 months, a material effect on the Group's financial position.

Audit and Risk Committee report

Introduction

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

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

During the 2019/20 financial year, the Audit Committee conducted its affairs in accordance with the charter and has performed its responsibilities as required.

Audit Committee members, meeting attendance and assessment

Membership

The Audit Committee consists of three independent non-executive directors of the Group and is chaired by Johan Basson who is a chartered accountant. The other Audit Committee members are Joseph Rock and Alice Le Roux. The Group has embarked on a process to reconstitute the Board and as part of the process additional board members will be appointed to the Audit Committee. All the Audit Committee members are suitably skilled and experienced.

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

Meetings

The charter requires a minimum of four Audit Committee meetings each year. During the 2019/20 financial year, the Audit Committee met five times. In addition, a special Audit Committee meeting was held on 16 August 2019 to approve the 2019 annual financial statements of the Group.

The attendance of the Audit Committee members is recorded below:

Audit Committee members	12 August 2019	16 August 2019 (Special)	1 November 2019	13 February 2020 (Special)	21 February 2020	22 May 2020
Johan Basson (Chairman)	x	x	x	x	x	x
Joseph Rock	x	x	x	x	x	x
Alice le Roux	x	x	x	x	x	x

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

Audit Committee evaluation

As part of the annual self-evaluation, the performance of the Audit Committee and its members were assessed and found to be in alignment with the Audit Committee’s responsibilities set out in the Audit Committee charter. In addition, members were assessed against the independence requirements of King IV and the Companies Act to encourage independent judgement and an effective balance of power within the Audit Committee. The assessments found that all members of the Audit Committee are independent. Although Johan Basson (the Chairman) and Joseph Rock were previously employed by PricewaterhouseCoopers Incorporated (PwC), the Group’s appointed external auditors, in both cases, their employment ended more than 11 years ago.

Responsibilities and functions

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

Internal control framework

Internal financial controls

During the 2019/20 financial year, the Audit Committee reviewed reports on the Group’s systems of internal financial controls. No material breakdowns in the internal and financial controls were identified that required reporting.

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

Finance function

Anton de Bruyn was appointed as Chief Financial Officer (CFO) from 2 July 2018. The Audit Committee is satisfied, having undertaken a formal assessment process, that he has the appropriate expertise and experience for his role.

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

Risk assessment and management

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

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

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

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

The Group Risk Forum, which is a management committee chaired by the CFO, that comprises various members of the senior management team, met eight times during the 2019/20 financial year. During these meetings, significant risks affecting the Group and its business units were discussed to ensure the executive management team's awareness of those risks and how they are being monitored and managed. Minutes of these meetings are submitted to the Audit Committee for consideration.

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

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

The following risks remained high priority for the Group for the 2019/20 financial year:

- COVID-19;
- Weakness in general macroeconomic fundamentals;
- Cyber and information security;
- Injury to employees, contractors, customers and other third parties;
- Business continuity management and disaster recovery;
- Deterioration of trade union relationships and risk of third-party supplier employee strike actions;
- Food safety;
- Brand deterioration and reputational risk;
- Internal fraud;
- Regulatory risk; and
- Loss of distribution centre facilities due to fire risk.

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

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

An automated internal operational risk loss database, which forms part of the Group's risk identification and assessment tools, is being developed for future use to quantify losses at a granular level in real time and highlight internal control failures. This is in addition to the other fully embedded risk identification and assessment tools, namely: process mapping, internal audit reports and external audit reports.

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

The Audit Committee engaged Ernst & Young towards the latter half of 2019 to perform a review of the effectiveness of the group risk management function. The findings of this review have been discussed by the Audit Committee and the suggested enhancements highlighted by the review are being addressed by the Audit Committee and management.

At the meeting of the Audit Committee held on 22 May 2020, various members of management responsible for risk management in certain critical areas of the business presented their portfolio risk management strategies and processes.

Compliance governance

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

Each business unit has a unique regulatory universe, which has been categorised and risk rated as critical, high, medium or low for its likelihood and impact on the business.

The constantly changing regulatory landscape is carefully observed to ensure that important regulatory changes to existing laws and the promulgation of new laws and any significant compliance matters are escalated to the relevant management and executive teams. If required, management engages regulators, directly or through the Consumer Goods Council South Africa, to discuss legal and regulatory reform and requirements.

Group compliance management functions are monitored to ensure that they operate effectively.

Internal audit does limited compliance monitoring as part of its internal audit plan.

Compliance monitoring occurs in various forms, from substantive monitoring to management self-assessments. The business is assessed to verify its compliance and to measure the effectiveness and adequacy of the implemented controls, thereby mitigating the risk of regulatory non-compliance. Significant findings are reported to the Audit Committee. The Audit Committee reviews the effectiveness and adequacy of compliance risk management control measures in the business through Risk Forum minutes and reports from the Group Risk and Compliance Manager on regulatory updates, material consumer complaints and regulatory inspections, fines and breaches.

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

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

The following regulatory areas were identified as key for the 2019/20 financial year:

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

Audit and Risk Committee report (continued)

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

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

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

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

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

During the reporting period, the Audit Committee attended a presentation by Werksmans Attorneys where it was updated on the most recent amendments to the Competition Act.

Governance of information and technology

The Board's terms of reference and the Audit Committee charter define their respective responsibilities for governing information and technology, as well as reporting lines and reporting requirements.

The Board's responsibilities include ensuring the responsible use of information and technology (IT) including overseeing effective risk and opportunity management for the Group's information assets and its technology environment that supports the business model. Within the charter:

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

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

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

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

During the 2019/20 financial year, the Audit Committee received and considered feedback on the implementation of relevant information and technology governance mandates, policies, processes and control frameworks. Furthermore, the Audit Committee oversees all IT-related matters on behalf of the Board, including significant information and technology investments, by engaging both internal and external assurance providers. This assurance forms part of the Group's combined assurance framework.

In addition, the Audit Committee focused on the following key areas during the 2019/20 financial year:

■ Information security

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

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

■ Business recovery

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

Assessment and management of fraud risk

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

Ethics

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

Combined assurance

Combined assurance model

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

The Group's assurance activities include:

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

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

Internal audit

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

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

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

During the 2017/18 financial year, a formal, independent quality review of the Internal Audit function was undertaken. The review highlighted areas where the effectiveness of the Internal Audit function could be improved. The Group Internal Audit Executive is implementing plans to address those areas and to align the internal audit plan with the Group's combined assurance framework.

External audit

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

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

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

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

In consultation with the Group's executive management, the Audit Committee agreed to the terms of the PwC audit engagement letter, audit plan and budgeted audit fees for the 2019/20 financial year.

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

A breakdown of audit, audit-related and non-audit fees paid to PwC in the 2019/20 financial year is summarised as follows:

Description	Amount
Audit services	R43 449 532
Audit-related assurance services	R2 789 229
Total audit and audit-related services	R46 238 761
Tax advisory and compliance services	R3 659 000
Other non-audit services	R3 169 581
Total non-audit services	R6 828 581
Total	R53 067 342

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

- PwC does not receive any remuneration or benefits from the Group other than the fees for services as external auditors and permitted non-audit services;
- The quantum and nature of non-audit services performed;
- The existence of an existing audit partner rotation process that is in line with legal and regulatory requirements. Thinus Hamman was the designated audit partner for the 2019/20 financial year;
- The nature of the aspects that were reported to the Audit Committee by PwC;
- The quality of the discussions with PwC regarding audit, accounting and reporting matters at Audit Committee meetings;
- The direct line of communication between the Chairman of the Audit Committee and the designated external audit partner; and
- PwC's confirmation that they:
 - (i) are not precluded from re-appointment due to any impediment as listed in section 90(2)(b) of the Companies Act;
 - (ii) comply with section 91(5) of the Companies Act;
 - (iii) remain independent as required by section 94(8) of the Companies Act and the relevant provision in the JSE Listings Requirements; and
 - (iv) comply with the criteria specified by the Independent Regulatory Board for Auditors and internal regulatory bodies.

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

On the basis of PwC's independence and considering the need for audit firm rotation from 1 April 2023, the Audit Committee re-nominates PwC as the Group's independent external auditor for the 2020/21 financial year with Thinus Hamman as the designated external auditor partner until the 2021 annual general meeting of Shoprite Holdings. Shareholders are therefore requested to approve PwC's reappointment as the Group's independent external auditor for the 2021 financial year at the annual general meeting on 16 November 2020 with Thinus 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 Audit Committee in conjunction with management and PwC have developed a plan for the effective implementation of the mandatory audit firm rotation requirement. This plan will be implemented over the next two financial years to ensure a smooth transition from one auditor to the other without exposing the Group to unnecessary risks and inefficiencies. In broad, the plan entails the identification of one or more firms of auditors that will have the necessary capacity, retail experience and geographical presence to meet the requirements for the Group's audit. After a process of evaluation, a preferred firm of auditors will be nominated and gradually involved with the existing auditors to get to

Audit and Risk Committee report (continued)

know the Group. At the annual general meeting after completion of the 2021/22 financial year, the selected firm of auditors will be nominated for approval by shareholders at that meeting. In order to ensure a smooth transition, the existing auditors may still be engaged to audit certain non-core parts of the Group's business and/or parts of the Group's operations in certain geographical areas for an agreed period.

Reporting

Financial statements and accounting practices

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

The Audit Committee considered the following significant matters in relation to the 2019/20 annual financial statements:

■ Risk to investment in Angola

The Audit Committee discussed the Group's investment in Angola and the associated risk. The Audit Committee is satisfied that the associated risks are adequately addressed within the current regulatory framework.

■ Hyperinflation in Angola

IAS 29: *Financial Reporting in Hyperinflationary Economies* requires that financial statements of entities operating in a hyperinflationary economy fully account for the effects of inflation using a "current purchasing power" approach. The Audit Committee considered the applicability of this standard for the Group's investment in Angola and the impact of applying IAS 29 and the disclosures required in the financial statements.

■ Classification of cash and bank balances in Angola

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

■ Valuation of inventory

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

■ Measurement of financial assets

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

■ Provisions

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

■ Impairments

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

■ Taxes

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

■ Leases and financial instruments

The Audit Committee discussed the impact of implementing IFRS 16: *Leases* on the financial statements of the Group at a special meeting during which the Audit Committee considered:

- IFRS 16 requirements;
- Process followed to calculate IFRS 16 entries;
- Key IFRS assumptions;
- Internal review process; and
- External audit work performed.

Integrated and sustainability reporting

In the context of assisting the Board with its governance oversight responsibilities in relation to ensuring the integrity of the Group's external reports, the Audit Committee has reviewed the non-financial information disclosures contained in the 2020 Sustainability Report and the 2020 Integrated Annual Report, including assessing the consistency of the content of these reports with operational and other information known to the Audit Committee members, and with the Group's 2019/20 annual financial statements.

In addition, on behalf of the Board in relation to the 2020 Integrated Annual Report, the Audit Committee is satisfied that it has applied its collective mind to the preparation and presentation of the report and that the report is presented in accordance with the <IR> Framework.

Going concern status

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

Future focus areas

For the 2020/21 financial year, the Audit Committee will continue to focus on further enhancing the Group's risk and compliance management, information and technology management and the combined assurance framework. The Audit Committee will also consider obtaining independent assurance over the integrity of the Integrated Annual Report, and in particular its non-financial information.

Recommendation to the Board

The Audit Committee has reviewed and considered the 2020 Integrated Annual Report and the 2019/20 annual financial statements as set out above, and has recommended their approval by the Board.



Johan Basson
Chairman

30 September 2020



Independent auditor's report

To the shareholders of Shoprite Holdings Ltd

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 Ltd (the Company) and its subsidiaries (together the Group) as at 28 June 2020, 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.

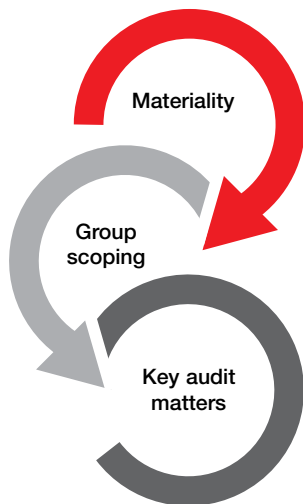
What we have audited

Shoprite Holdings Ltd's consolidated and separate financial statements set out on pages 16 to 104 comprise:

- the consolidated and separate statements of financial position as at 28 June 2020;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our audit approach

Overview



Overall Group materiality

- R325 000 000 which represents 5% of consolidated profit before income tax adjusted for non-recurring impairments of non-financial assets as disclosed in note 7 to the consolidated financial statements – Impairment of non-financial assets.

Group audit scope

- A combination of audits, reviews and specified audit procedures were performed for components that were considered to be financially significant and components scoped in based on indicators such as their contribution to consolidated revenue and consolidated profit before income tax. Analytical procedures were performed over the remaining insignificant components.

Key audit matters

- Impairment of non-financial assets;
- Recognition of supplier rebates;
- IFRS 9: *Financial Instruments* expected credit losses ("ECL") on instalment sale receivables;
- Adoption of IFRS 16: *Leases*; and
- Investment in subsidiaries and amounts receivable from subsidiaries.

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 corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).

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

Independent auditor's report (continued)

Materiality

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

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

Overall Group materiality R325 000 000.

How we determined it	5% of consolidated profit before income tax adjusted for non-recurring impairments of non-financial assets as disclosed in note 7 to the consolidated financial statements – Impairment of non-financial assets.
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Rationale for the materiality benchmark applied	We chose consolidated profit before income 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. The consolidated profit before income tax was adjusted to exclude impairments of non-financial assets which were considered to be a non-recurring charge for the current year. The impairment charges resulted from a significant reduction in the future expected sales of merchandise in certain subsidiaries that own the assets, due to further currency devaluations experienced in key markets where the Group trades, as well as the uncertainty regarding the recovery of the lower commodity prices experienced in the commodity dependent regions. In addition, these impairments will be added back to Headline earnings per share (HEPS) which is a key indicator used by the stakeholders of the Group.
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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 components as well as the sufficiency of work planned to be performed over material financial statement line items. We identified only one financially significant component based on its contribution to the consolidated profit before income tax in the Group, namely Shoprite Checkers (Pty) Ltd. We also included a number of other components (that included components with operations outside South Africa) in the scope of our Group audit, based on indicators such as their contribution to consolidated revenue and consolidated profit before income tax. We performed analytical procedures over the remaining insignificant components.

For the financially significant component we performed a full scope audit and for the in scope components we performed a combination of full scope audits, reviews and specified audit procedures. This, together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us sufficient appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

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

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



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of non-financial assets</p> <p>This key audit matter relates to the consolidated financial statements.</p> <p>Refer to the accounting policies note 1.1.1.2(b) (Assumptions and estimates – Impairment of assets), accounting policies note 1.10 (Impairment of non-financial assets), note 3 (Property, plant and equipment), note 5 (Right-of-use assets) and note 7 (Impairment of non-financial assets) to the consolidated financial statements.</p> <p>We considered the impairment of non-financial assets to be a matter of most significance to our audit because of the judgement applied by management in determining the impairment charge.</p> <p>Due to a weakening in the general economic conditions in which some of Group's stores operate, a significant reduction in the future expected sales of merchandise in certain subsidiaries that own the assets, due to further currency devaluations experienced in key markets where the Group trades, as well as the uncertainty regarding the recovery of the lower commodity prices experienced in the commodity dependent regions, resulted in the significant increase in impairments during the current year.</p> <p>The Group's Furniture division also noted significant impairments as a result of loss-making or low profit making stores.</p> <p>As a result of the above mentioned conditions, property, plant and equipment was impaired by R732 million in the current year, relating mainly to machinery, equipment and vehicles. Furthermore, right-of-use assets were impaired by R468 million in the current year, which related to property and land leases.</p> <p>The Group considers each store to be a separate cash generating unit ("CGU") for purposes of its impairment assessment, and has calculated the recoverable amount of each CGU to be the higher of its value-in-use and its fair value less costs of disposal.</p> <p>Value-in-use is based on discounted future cash flow forecasts, requiring management to make judgements on certain key inputs, including expected trading profit growth rates, risk-adjusted pre-tax discount rates and long-term growth rates.</p>	<p>Our audit addressed this key audit matter as follows:</p> <p>We obtained management's impairment assessments which included a list of loss-making stores, and approved budgets per store which formed the basis of our audit work.</p> <p>With regard to management's value-in-use calculations, our audit procedures included an assessment of the reasonableness of management's discounted cash flow models, discount rates and long-term growth rates by performing the following procedures:</p> <ul style="list-style-type: none"> ■ We tested the mathematical accuracy of management's calculations; ■ We assessed the completeness of the stores included in management's assessment by considering whether all stores which generated revenue were included in the assessment; ■ Evaluated the appropriateness and completeness of information included in the impairment models based on our cumulative knowledge of the business, driven by our assessment of trading plans, together with our wider retail industry knowledge; ■ We assessed the reasonableness of management's cash flow models by agreeing prior year forecasts to actual results; and ■ We utilised our valuation expertise in order to test the reasonability of the discount rates, long-term growth rates and trading profit growth rates with reference to industry reports and historic performance. <p>Based on the results of our procedures, we accepted the assumptions used by management in the impairment models.</p>

Independent auditor's report (continued)

Key audit matter

IFRS 9 ECL on instalment sale receivables

This key audit matter relates to the consolidated financial statements.

Refer to the accounting policies note 1.13.5 (Impairment), note 14.2 (Instalment sale receivables from contracts with customers) and note 40.4.1 and 40.4.1(c) (Credit risk) to the consolidated financial statements.

We considered the ECL on instalment sale receivables referred to below to be a matter of most significance to our current year audit due to the following:

- the degree of judgement and estimation applied by management in determining the ECL, which included impacts of the COVID-19 pandemic on the ECL of instalment sale receivables; and
- the magnitude of the ECL.

The Group recognised an ECL on instalment sale receivables amounting to R324 million for the period.

The Group has elected to apply the simplified model to measure ECL on instalment sale receivables. Under this model ECL is measured at an amount equal to the lifetime ECL of the receivable. The lifetime ECL is determined by applying a probability-weighted basis to the expected future cash flows and discounting these at the effective interest rate that includes initiation fees.

In calculating the ECL, the key areas of significant management judgement and estimation applied included:

- The Group calculates the probability-weighted cash flows using the receivable book population's payment behaviour in combination with a transition matrix. The transition matrix predicts the population's behaviour and the probability of the account being in a particular payment state and transitioning into future payment states.
- The Group has assessed the impact of COVID-19 on the ECL through the use of a macroeconomic model. GDP forecasts have been considered in determining what information after year-end provided further evidence on the conditions that existed at year-end.
- Determining and weighting of assumptions used in the forward-looking economic model (economic overlay). Three forward-looking scenarios are probability-weighted by management to determine the ECL (upside, base and downside scenario). These assumptions, combined with statistical modelling inform the direction and magnitude of the economic overlay.

How our audit addressed the key audit matter

Utilising our actuarial expertise, we performed the following procedures to address the key areas of significant judgement and estimation in determining the ECL on financial assets:

The calibration of ECL statistical model components was tested as follows, noting no aspects which required further consideration, as well as no material exceptions:

- We assessed the appropriateness of the methodology applied by management in their IFRS 9 model documentation, which forms the basis of the ECL calculation, against the requirements of IFRS 9;
- We tested the reasonability of the key assumptions, i.e. effective interest rate, probability-weighted cash flows and forward-looking information (economic overlay) applied in the ECL calculation through independent recalculation with reference to independent sources of information obtained where applicable; and
- We tested the accuracy of the methodology applied by management's experts in their calculation of the ECL by performing an independent recalculation of the ECL values as at 28 June 2020.

Based on the results of the following procedures, we accepted the forward-looking information and macroeconomic variables included by management in their calculation of the ECL:

- We compared the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the macroeconomic variables considered, as well as the macroeconomic outlook assumed, to our own actuarial analysis and independent market data; and
- We assessed the reasonableness of the economic stresses used by management in estimating the impact of COVID-19 on forward-looking information by considering available GDP projections at the reporting date. In addition, we assessed the upside, base and downside scenarios based on various GDP projections as part of our sensitivity analysis and noted that no material adjustments were required to the ECL as a result of these assumed stresses.

Key audit matter	How our audit addressed the key audit matter
<p>Adoption of IFRS 16: Leases</p> <p>This key audit matter relates to the consolidated financial statements.</p> <p>The disclosures required by the standard for these balances are contained in the accounting policies note 1.1.1.1(b) (Use of judgements, assumptions and estimates – Lease term), note 1.1.1.1(c) (Use of judgements, assumptions and estimates – Discount rate used to calculate the lease liability), accounting policies note 1.11 (Leases), note 5 (Right-of-use assets), note 18 (Lease liabilities) and note 42.2 (Change in accounting policy – Adoption of IFRS 16: Leases) to the consolidated financial statements.</p> <p>The impact of adopting IFRS 16: Leases is disclosed in note 42.2 (Change in accounting policy – Adoption of IFRS 16: Leases).</p> <p>The Group adopted IFRS 16: Leases (“IFRS 16”) for the accounting period commencing 1 July 2019.</p> <p>We considered the adoption of IFRS 16 to be a matter of most significance to our current year audit due to the following:</p> <ul style="list-style-type: none"> ■ the degree of judgement and estimation applied by management in determining the lease term and discount rate (incremental borrowing rate) used to determine the right-of-use asset and lease liability. The lease term may include future lease periods for which the Group has extension options which it is reasonably certain to exercise; ■ the magnitude of the right-of-use asset and lease liability due to the high volume of leases; ■ the potential risk of the lease data used in the calculation being incomplete or inaccurate; and ■ IFRS 16 was implemented using the full retrospective approach that resulted in comparative information being restated. 	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> ■ Making use of our valuation expertise, we assessed the discount rates used to calculate the lease obligation. This included independently sourcing base rates for each currency and lease origination date, usually linked to inter-bank or sovereign bond rates, and adding a historically adjusted credit spread specific to the Group. Additional adjustments were made to cater for lease term, as well as the requirement for a collateralised incremental borrowing rate in IFRS 16; ■ Verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other underlying information, and checked the integrity and arithmetical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment; ■ Tested the completeness of the lease data by reconciling a sample of the Group’s existing lease commitments to the lease data underpinning the IFRS 16 model and also by comparing rental payments made during the period to the lease data underpinning the IFRS 16 model; ■ Performed an independent recomputation and compared the results to that of management; and ■ Evaluated the lease terms for reasonability, including the renewal periods, where appropriate, by inspecting the underlying contracts and assessing management’s judgements for the lease periods applied in the lease calculation. <p>We assessed the completeness and accuracy of disclosures with reference to the requirements of IFRS 16: Leases.</p>
<p>Recognition of supplier rebates</p> <p>This key audit matter relates to the consolidated financial statements.</p> <p>Refer to the accounting policies note 1.1.1.2(a) (Assumptions and estimates – Rebates from suppliers) and note 1.22 (Rebates from suppliers) to the consolidated financial statements.</p> <p>The Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group reduces cost of sales as a result of amounts receivable from suppliers. We considered the recognition of supplier rebates to be a matter of most significance to the audit due to the magnitude of supplier rebates and, the potential risk that rebates may be materially misstated due to the varying terms with the suppliers and judgements made relating to the level of fulfilment of the Group’s obligations under the supplier agreements.</p>	<p>Making use of our information technology expertise, we obtained an understanding of the systems used to calculate supplier rebates, as well as controls implemented to ensure the accuracy of supplier rebates recognised.</p> <p>We tested a sample of the inputs used in calculating the supplier rebates by performing, among other, the following procedures for a sample of rebates:</p> <ul style="list-style-type: none"> ■ We obtained the supplier contracts and agreed key terms such as discounts, allowances and fulfilment levels per the contracts to management’s rebate schedules; ■ We agreed the monetary values of the purchases made and allowances per management’s calculation to underlying schedules and documentation. We also obtained supplier confirmations for a sample of purchase values; and ■ We independently recalculated the supplier rebate for the year and compared this to the accounting records of the Group. No material differences were noted.

Independent auditor's report (continued)

Key audit matter

Investment in subsidiaries and amounts receivable from subsidiaries

This key audit matter relates to the separate financial statements.

Refer to the accounting policies note 1.14 (Investments in subsidiaries), accounting policies note 1.13 (Other financial instruments) and note 8 (Interest in subsidiaries) to the separate financial statements.

Investments in subsidiaries and amounts receivable from subsidiaries, comprises 91% of the total assets in the separate statement of financial position of the Company.

The carrying amounts of the Company's investments in subsidiaries are measured at cost, less impairment losses. Management performs an annual impairment test on the recoverability of the carrying amounts of investments where impairment indicators exist as required by International Accounting Standard, IAS 36: *Impairment of Assets*. The identification of impairment indicators is subjective in nature due to judgements required in respect of the future performance of the subsidiaries.

IFRS 9 requires entities to recognise ECL for all financial assets held at amortised cost, including amounts receivable from subsidiaries.

Due to the magnitude in the context of the parent company financial statements and the potential risk of impairment due to certain subsidiary companies recording an impairment on non-financial assets, we considered the measurement of investments in and amounts receivable from subsidiaries to be a matter of most significance to our audit of the separate financial statements of the Company.

How our audit addressed the key audit matter

Our audit procedures included:

- We obtained an understanding of the approach followed by management in identifying whether any impairment indicators existed at year-end.
- We assessed the reasonableness of the carrying amount of the investments in the subsidiaries by evaluating whether the fair value less cost of disposal of the net assets of the underlying subsidiaries were in excess of their carrying amount. No impairments were noted.
- We assessed the reasonability of the ECL on loans made to subsidiaries by assessing whether the borrower has highly liquid assets to repay the outstanding loan if repayment was demanded at the reporting date. We found that the borrowers have highly liquid assets to repay the outstanding loan if the loan was demanded at the reporting date and the probability of default would be close to 0%. This is consistent with management's assessment.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Shoprite Holdings Ltd Annual Financial Statements for the year ended 28 June 2020", which includes the directors' report, the Audit and Risk Committee Report and the Certificate of the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the document titled "Shoprite Holdings Ltd Integrated Annual Report 2020", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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



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

We also:

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 Ltd for 38 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: MC Hamman

Registered Auditor

Cape Town

30 September 2020

Statements of financial position

Shoprite Holdings Ltd and its subsidiaries as at 28 June 2020

Company		Group				
2019 Rm	2020 Rm		Notes	2020 Rm	Restated* 2019 Rm	Restated* 2018 Rm
Assets						
9 377	10 752	Non-current assets		42 789	46 240	45 856
—	—	Property, plant and equipment	3	18 265	21 444	21 218
—	—	Right-of-use assets	5	17 156	15 741	16 354
—	—	Intangible assets	6	2 955	3 077	2 994
9 369	10 744	Investments in subsidiaries	8	—	—	—
6	6	Equity accounted investments	9	—	—	—
—	—	Government bonds and bills	10	62	2 516	—
—	—	Loans receivable	11	1 953	1 664	—
—	—	Held-to-maturity investments		—	—	2 090
—	—	Loans and receivables		—	—	1 318
2	2	Deferred income tax assets	12	2 184	1 629	1 717
—	—	Trade and other receivables	14	214	169	165
3 002	2 330	Current assets		39 937	34 742	32 334
—	—	Inventories	13	18 845	20 889	17 959
4	14	Trade and other receivables	14	4 106	4 156	4 775
—	—	Current income tax assets		147	480	120
2 625	1 199	Amounts receivable from subsidiaries	8	—	—	—
—	—	Government bonds and bills	10	2 440	500	—
—	—	Loans receivable	11	229	196	—
—	—	Held-to-maturity investments		—	—	1 600
—	—	Loans and receivables		—	—	231
373	1 117	Cash and cash equivalents		12 114	7 707	7 465
3 002	2 330			37 881	33 928	32 150
—	—	Assets held for sale	4	2 056	814	184
12 379	13 082	Total assets		82 726	80 982	78 190
Equity						
Capital and reserves attributable to owners of the parent						
7 516	7 516	Stated capital	15	7 516	7 516	7 516
—	—	Treasury shares	15	(806)	(605)	(554)
4 843	5 505	Reserves	17	13 141	15 190	17 134
12 359	13 021			19 851	22 101	24 096
—	—	Non-controlling interest		143	106	82
12 359	13 021	Total equity		19 994	22 207	24 178
Liabilities						
Non-current liabilities						
—	—	Lease liabilities	18	20 168	19 158	18 795
—	—	Borrowings	19	8 826	9 044	1 371
—	—	Deferred income tax liabilities	12	824	538	679
—	—	Provisions	20	341	279	255
20	61	Current liabilities		32 573	29 756	32 912
14	12	Trade and other payables	21	20 157	19 325	19 903
—	—	Contract liabilities	22	864	791	578
—	—	Lease liabilities	18	3 103	2 320	2 254
—	—	Borrowings	19	3 183	2 662	5 606
6	49	Current income tax liabilities		1 148	423	481
—	—	Provisions	20	112	111	95
—	—	Bank overdrafts		2 095	4 124	3 995
20	61			30 662	29 756	32 912
—	—	Liabilities directly associated with assets classified as held for sale	32	1 911	—	—
20	61	Total liabilities		62 732	58 775	54 012
12 379	13 082	Total equity and liabilities		82 726	80 982	78 190

* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.



Statements of comprehensive income

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company				Group	
52 weeks 2019 Rm	52 weeks 2020 Rm		Notes	52 weeks 2020 Rm	Restated* 52 weeks 2019 Rm
—	—	Sale of merchandise	23	156 855	147 478
—	—	Cost of sales		(119 323)	(113 028)
—	—	Gross profit		37 532	34 450
1 957	2 533	Other operating income	23	2 326	2 467
52	56	Interest revenue	23	598	742
—	—	Depreciation and amortisation	24	(5 031)	(4 971)
—	—	Employee benefits	25	(12 585)	(11 845)
—	—	Credit impairment (losses)/reversals	40.4.1	(480)	23
(29)	(37)	Other operating expenses	27	(14 189)	(13 417)
—	—	Net monetary gain		—	947
1 980	2 552	Trading profit		8 171	8 396
—	—	Exchange rate gains/(losses)		566	(110)
—	—	Profit on lease modifications		69	—
—	—	Items of a capital nature ¹	28	(1 055)	(419)
1 980	2 552	Operating profit	29	7 751	7 867
13	59	Interest received from bank account balances	23	443	272
—	—	Finance costs	30	(2 910)	(2 599)
—	—	Share of loss of equity accounted investments	9	(38)	—
1 993	2 611	Profit before income tax		5 246	5 540
(39)	(63)	Income tax expense	31	(1 783)	(1 715)
1 954	2 548	Profit from continuing operations		3 463	3 825
—	—	Loss from discontinued operations (attributable to owners of the parent)	32	(87)	(345)
1 954	2 548	Profit for the year		3 376	3 480
—	—	Other comprehensive loss, net of income tax		(3 683)	(2 653)
—	—	Items that will not be reclassified to profit or loss			
—	—	Re-measurements of post-employment medical benefit obligations		2	3
—	—	Items that may subsequently be reclassified to profit or loss			
—	—	Foreign currency translation differences including hyperinflation effect from continuing operations	17	(3 373)	(2 622)
—	—	Foreign currency translation differences from discontinued operations	17	(40)	(34)
—	—	Share of foreign currency translation differences of equity accounted investments	17	38	—
—	—	Loss on effective net investment hedge, net of income tax	17	(310)	—
1 954	2 548	Total comprehensive (loss)/income for the year		(307)	827
1 954	2 548	Profit attributable to:		3 376	3 480
1 954	2 548	Owners of the parent		3 356	3 468
—	—	Non-controlling interest		20	12
1 954	2 548	Total comprehensive (loss)/income attributable to:		(307)	827
1 954	2 548	Owners of the parent		(327)	815
—	—	Non-controlling interest		20	12
1 954	2 548	Total comprehensive (loss)/income attributable to owners of the parent arises from:		(327)	815
1 954	2 548	Continuing operations		(200)	1 194
—	—	Discontinued operations		(127)	(379)
		Earnings per share for profit from continuing operations attributable to owners of the parent:			
		Basic earnings per share from continuing operations (cents)	33	622.6	687.6
		Diluted earnings per share from continuing operations (cents)	33	621.6	686.9
		Earnings per share for profit attributable to owners of the parent:			
		Basic earnings per share (cents)	33	606.9	625.3
		Diluted earnings per share (cents)	33	606.0	624.7

* Restated for the adoption of IFRS 16: Leases and discontinued operations in accordance with IFRS 5 as well as the reclassification of interest revenue previously included in other operating income. Refer to note 42 for details of these changes in accounting policies and note 43 for the reclassification of interest revenue.

¹ Refer to note 1.1.2 for an explanation of what constitutes items of a capital nature.

Statements of changes in equity

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Rm	Notes	Total equity	Non-controlling interest	Attributable to owners of the parent				
				Total	Stated capital	Treasury shares	Other reserves	Retained earnings
Group								
Balance at 1 July 2018 as previously reported		27 477	91	27 386	7 516	(554)	(1 620)	22 044
Effect of adopting IFRS 16: <i>Leases</i> (note 42)		(3 299)	(9)	(3 290)			(41)	(3 249)
Restated balance at 1 July 2018		24 178	82	24 096	7 516	(554)	(1 661)	18 795
Effect of adopting IFRS 9: <i>Financial Instruments</i> during the prior year using a modified retrospective approach		(383)	(2)	(381)				(381)
Restated balance at 2 July 2018		23 795	80	23 715	7 516	(554)	(1 661)	18 414
Total comprehensive income		827	12	815	—	—	(2 656)	3 471
Profit for the year*		3 480	12	3 468				3 468
Recognised in other comprehensive loss								
Re-measurements of post-employment medical benefit obligations		4		4				4
Income tax effect of re-measurements of post-employment medical benefit obligations		(1)		(1)				(1)
Foreign currency translation differences including hyperinflation effect*	17	(2 656)		(2 656)			(2 656)	
Share-based payments – value of employee services	17	75		75			75	
Modification of cash bonus arrangement transferred from provisions	20	16		16			16	
Purchase of treasury shares	15	(115)		(115)		(115)		
Treasury shares disposed	15	13		13		14		(1)
Realisation of share-based payment reserve	17	—		—		50	(50)	
Non-controlling interest on acquisition of subsidiary		25	25	—				
Dividends distributed to shareholders		(2 429)	(11)	(2 418)				(2 418)
Restated balance at 30 June 2019		22 207	106	22 101	7 516	(605)	(4 276)	19 466
Total comprehensive loss		(307)	20	(327)	—	—	(3 685)	3 358
Profit for the year		3 376	20	3 356				3 356
Recognised in other comprehensive loss								
Re-measurements of post-employment medical benefit obligations		2		2				2
Foreign currency translation differences	17	(3 375)		(3 375)			(3 375)	
Loss on effective net investment hedge	17	(406)		(406)			(406)	
Income tax effect of loss on effective net investment hedge	17	96		96			96	
Share-based payments – value of employee services	17	101		101			101	
Modification of cash bonus arrangement transferred from provisions	20	16		16			16	
Purchase of treasury shares	15	(272)		(272)		(272)		
Treasury shares disposed	15	5		5		8		(3)
Realisation of share-based payment reserve	17	—		—		63	(63)	
Non-controlling interest on acquisition of subsidiary		28	28	—				
Dividends distributed to shareholders		(1 784)	(11)	(1 773)				(1 773)
Balance at 28 June 2020		19 994	143	19 851	7 516	(806)	(7 907)	21 048
* Restated for the adoption of IFRS 16: <i>Leases</i> . Refer to note 42 for details of this change in accounting policy.								
Company								
Balance at 1 July 2018		12 977		12 977	7 516	—	—	5 461
Total comprehensive income								
Profit for the year		1 954		1 954				1 954
Dividends distributed to shareholders		(2 572)		(2 572)				(2 572)
Balance at 30 June 2019		12 359		12 359	7 516	—	—	4 843
Total comprehensive income								
Profit for the year		2 548		2 548				2 548
Dividends distributed to shareholders		(1 886)		(1 886)				(1 886)
Balance at 28 June 2020		13 021		13 021	7 516	—	—	5 505



Statements of cash flows

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group	
2019 Rm	2020 Rm	Notes	2020 Rm	Restated* 2019 Rm
(617)	693	Cash flows from/(utilised by) operating activities	10 989	2 904
1 980	2 552	Operating profit	7 728	7 740
(1 915)	(2 477)	Less: investment income and finance income earned	(599)	(764)
—	—	Non-cash items	6 161	5 620
(2)	(11)	Changes in working capital	2 565	(3 528)
63	64	Cash generated from operations	15 855	9 068
65	115	Interest received	1 073	1 020
—	—	Interest paid	(3 006)	(2 684)
1 863	2 421	Dividends received	1	22
(2 573)	(1 887)	Dividends paid	(1 786)	(2 430)
(35)	(20)	Income tax paid	(1 148)	(2 092)
978	51	Cash flows (utilised by)/from investing activities	(389)	(4 717)
—	—	Investment in property, plant and equipment and intangible assets to expand operations	(2 140)	(3 709)
—	—	Investment in property, plant and equipment and intangible assets to maintain operations	(1 077)	(1 571)
—	—	Investment in assets held for sale	(13)	—
—	—	Prepayments for right-of-use assets	(14)	(24)
—	—	Proceeds on disposal of property, plant and equipment and intangible assets**	1 233	265
—	—	Proceeds on disposal of assets held for sale	793	184
—	—	Payments for government bonds and bills	—	(1 017)
—	—	Proceeds from government bonds and bills	924	1 444
—	—	Loans advanced to Resilient Africa (Pty) Ltd	(165)	(51)
—	—	Other loans receivable advanced	(208)	(437)
—	—	Other loans receivable repaid	257	204
(1 567)	(9 373)	Amounts paid to subsidiaries	—	—
3 040	10 799	Amounts received from subsidiaries	—	—
(495)	(1 375)	Investment in subsidiaries	—	—
—	—	Cash inflow on disposal of investment in subsidiary	36	—
—	—	Acquisition of subsidiaries and operations	(15)	(5)
—	—	Cash flows (utilised by)/from financing activities	(3 992)	2 152
—	—	Repayment of lease liability obligations	(2 585)	(2 245)
—	—	Purchase of treasury shares	(272)	(115)
—	—	Proceeds from treasury shares disposed	6	13
—	—	Repayment of borrowings	(5 995)	(4 271)
—	—	Borrowings raised	4 854	8 770
361	744	Net movement in cash and cash equivalents	6 608	339
12	373	Cash and cash equivalents at the beginning of the year	3 583	3 470
—	—	Effect of exchange rate movements and hyperinflation on cash and cash equivalents	(172)	(226)
373	1 117	Cash and cash equivalents at the end of the year	10 019	3 583
373	1 117	Consisting of:		
—	—	Cash and cash equivalents	12 114	7 707
—	—	Bank overdrafts	(2 095)	(4 124)
373	1 117		10 019	3 583

* Restated for the adoption of IFRS 16: *Leases*. Refer to note 42 for details of this change in accounting policy.

** Proceeds on disposal of property, plant and equipment and intangible assets includes R1.1 billion relating to the Group's commercial vehicle fleet previously included in machinery, equipment and vehicles, which were sold under a sale and leaseback arrangement during the current year.

Notes to the annual financial statements

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

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 where the Group has applied new accounting policies or adopted new accounting standards effective for year-ends starting on or after 1 January 2019.

The Group has adopted IFRS 16: *Leases* (IFRS 16) on 1 July 2019. The impact of the adoption of this standard is disclosed in note 42. Refer to note 1.11.1 for the accounting policy for leases where the Group is the lessee.

The Group secured long-term financing during the year under review by entering into a sale and leaseback transaction on its commercial vehicle fleet. The accounting policy for sale and leaseback transactions is disclosed in note 1.12.

The Group designated its US dollar denominated lease liabilities as a hedge of a proportion of the net investment in the Group's US dollar denominated subsidiary and applied hedge accounting during the reporting period. Refer to note 1.6 for the accounting policy of the Group's hedging activities.

It is the Group's intention to dispose of a majority stake in its Nigeria subsidiary, Retail Supermarkets Nigeria Ltd. During the year, the Group has embarked on a process to actively identify a strategic partner and consequently classified its Nigeria subsidiary as discontinued operations in accordance with IFRS 5: *Non-Current Assets Held for Sale and Discontinued Operations*. The accounting policy for non-current assets held for sale and discontinued operations are disclosed in note 1.9.

The Group's consolidated and Company's separate financial statements were authorised for issue by the Board of Directors on 30 September 2020. 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 28 June 2020 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 28 June 2020, compared to 52 weeks in the previous financial year.

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

The Angolan economy had been considered to be hyperinflationary in the corresponding periods. Accordingly, the comparative results, cash flows and financial position of the Group's subsidiaries in Angola have been expressed in terms of the measuring unit current at the end of the corresponding periods presented. For the 52 weeks ended 28 June 2020, the Angolan economy was assessed not to be hyperinflationary. Although no further hyperinflationary adjustments were required for the current reporting period, the statement of financial position at the reporting date still includes cumulative hyperinflation adjustments as a result of the application of IAS 29: *Financial Reporting in Hyperinflationary Economies* up to 30 June 2019. These cumulative hyperinflation adjustments, included in property, plant and equipment, right-of-use assets and inventories, are written off to the statement of comprehensive income, together with the related deferred income tax effect, in accordance with the Group's accounting policies for the respective items.

1.1.1 Use of judgements, assumptions and estimates

1.1.1.1 Judgements

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

- a) **Classification of cash and bank balances:** Local currency cash and short-term deposits held in Angola (2019: Angola) are subject to onerous local exchange control regulations, which provide restrictions on exporting capital from the country, other than through normal dividends. In order to determine how restricted funds should be classified in the cash flow statement, it should be considered whether the restricted funds meet the definition of cash and cash equivalents or whether the funds are restricted in a manner such that the definition is not met. Significant judgement is required in this assessment. Management assessed the economic substance of the restrictions in each case by taking into consideration the facts and circumstances of the specific restrictions and how management intends to use the deposits. It was concluded that restricted funds that are available for use in the short-term in Angola (2019: Angola), albeit with some restrictions over their use, still qualify to be classified as cash and cash equivalents.



1 Accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.1 Use of judgements, assumptions and estimates (continued)

1.1.1.1 Judgements (continued)

- b) **Lease term:** In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of distribution centres and retail stores, the following factors are normally the most relevant:

- The Group considers extension options only for stores with a trading history of three full years or more. The number of extension options included in the initial measurement of the lease liability will depend on the return on investment of the leased property.
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including the costs and business disruption required to replace the leased asset.

Most extension options in rental contracts for offices and the commercial vehicle fleet have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an extension option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. Extension options are generally exercised six to 12 months before the end of the lease term. When the lease term is adjusted as a result of exercising an extension option not included in the initial measurement of the lease liability, the lease liability is reassessed and adjusted against the right-of-use asset. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances that is within the control of the lessee occurs and affects this assessment.

- c) **Discount rate used to calculate the lease liability:** Incremental borrowing rates used to calculate lease liabilities at the inception of the lease are determined monthly and depend on the term, country, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country specific risk adjustment; an adjustment for the term of the lease; and an entity specific adjustment where the entity risk profile is different to that of the Group.
- d) **Determination of whether a sale and leaseback transaction qualifies as a sale:** A sale and leaseback is a transaction in which the owner of an asset sells the asset and leases it back from the buyer. The IFRS 16 treatment of a sale and leaseback transaction hinges on whether the transaction is considered to be a sale or not. Where the Group acts as a seller-lessee in this transaction, it must determine if the transaction qualifies as a sale for which revenue is recognised, or whether the transaction is a collateralised borrowing.

The assessment of whether the transaction is a sale depends on whether it satisfies the requirements of IFRS 15, in which the buyer-lessee obtains control of the asset. Judgement is thus required in analysing whether the transaction constitutes a transfer of control and thus a sale in terms of IFRS 15.

In terms of IFRS 15, a performance obligation is satisfied by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. In determining whether control has transferred to the buyer-lessee, management considers all qualitative facts and prepares a quantitative assessment considering the proportion of the fair value retained.

- e) **Classification of non-current assets to be sold within 12 months after the reporting date:** The Group holds a portfolio of distribution centres and associated undeveloped land which will be sold and subsequently leased back from the buyer-lessee (subject to certain conditions) within 12 months from the reporting date. In terms of IFRS 5, an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Management applied their judgement and concluded that the carrying value of the distribution centres will be recovered principally through continuing use rather than through a sale as the Group retains a large percentage of the fair value of the underlying assets. The property portfolio is therefore still classified as non-current assets and included within property, plant and equipment at the reporting date.
- f) **Segment reporting:** IFRS 8 requires an entity to identify its operating segments. Once an entity has completed its assessment, 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 as they have similar average gross margins and similar expected growth rates; therefore it has elected to aggregate the segments as disclosed in note 2.

- g) **Determination of cash-generating units:** The Group has determined each store as a separate cash-generating unit for impairment testing.
- h) **Use of exchange rates:** All foreign currency translations and foreign currency transactions are translated using the official exchange rate in line with the requirements of IFRS and foreign exchange regulations in individual countries.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.1 Use of judgements, assumptions and estimates (continued)

1.1.1.1 Judgements (continued)

- i) **Hyperinflation:** The Group exercises judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its subsidiaries, joint arrangements and associates is the currency of a hyperinflationary economy.

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

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

Management exercises judgement in determining when a restatement of the financial statements of a Group entity becomes necessary.

The economy of Angola was reassessed and found to be no longer hyperinflationary. The hyperinflation accounting was ceased for the year ended 28 June 2020 and the cumulative hyperinflation adjustments up to 30 June 2019 will unwind over time. The Group will continue to monitor the hyperinflationary nature of Angola.

The hyperinflation impact increased the Group's profit after tax with R776 million during the prior year.

The general price indices, as published by the National Institute of Statistics of Angola, were used in adjusting the historic cost local currency results and financial positions of the Group's Angolan subsidiaries in the corresponding period. The general price index as at the end of the prior year was 247.5. An average adjustment factor for the corresponding reporting period of 1.2 was applied to restate the results of the Angolan subsidiaries of the Group for the 52 weeks ended 30 June 2019. As at 28 June 2020, the cumulative three-year inflation rate was 71.4% (2019: 82.4%).

- j) **Agent versus principal assessment of drop-shipments:** The IFRS 15 principles dictate that revenue is recognised as and when the control over goods and services is transferred to customers. OK Franchise members may order goods for direct delivery in terms of a drop-shipment arrangement with suppliers, which are pre-approved by the Group, at prices which are negotiated between the Group and the suppliers. The Group has assessed its drop-shipment sales and concluded that the fact that the Group has a contractual relationship with the suppliers, negotiates prices on behalf of its members and pays the swell allowance for quality issues to the member, indicates that it is acting as principal in these arrangements. The Group's drop-shipment sales will therefore continue to be recognised on a gross basis having satisfied the requirements of principal accounting under IFRS 15.

1.1.1.2 Assumptions and estimates

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

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

Management assesses its performance against the obligations conditional on earning the rebate, with the rebate 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 rebate earned relates to inventories which are held by the Group at period ends, the rebate is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories. Management views that the cost of inventories sold (which is inclusive of rebates) provides a consistent and complete measure of the income statement impact of the overall supplier relationships.

- b) **Impairment of assets:** The Group performs a review of loss-making stores and considers the need for the impairment of assets under these circumstances. This determination requires significant judgement. The Group evaluates amongst other things, the duration and extent of the losses, the near-term business outlook for the store, and the possible redeployment of the assets between stores. Refer to note 7.
- c) **Useful lives of assets:** In determining the depreciation and amortisation charge for property, plant and equipment and intangible assets, management applies judgement in estimating the useful lives and residual values of these different asset classes. Refer to notes 3, 6 and 24.
- d) **Income taxes:** The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide accrual for income taxes. The Group recognises liabilities for anticipated uncertain income tax positions based on estimates of potential additional taxes due. With regards to deferred income tax assets for unutilised income tax losses, judgement is also required to determine whether sufficient future taxable income will be available against which these losses can be utilised. Refer to notes 1.24 and 12.

1 Accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.1 Use of judgements, assumptions and estimates (continued)

1.1.1.2 Assumptions and estimates (continued)

- e) **Allowance for expected credit losses (ECL) on financial assets:** The Group assesses on a forward-looking basis the ECL associated for all debt instruments not held at fair value through profit or loss and the Group recognises an allowance for ECL for these financial assets. The measurement of the ECL allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. The ECL allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 40.4.1.
- f) **Employee benefit accruals and provisions:** Various assumptions are applied in determining the valuations of post-employment medical benefits, share-based payment accruals and long-term employee benefits as set out in notes 1.17, 1.18, 16 and 20.

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: impairment of assets; income taxes; allowances for doubtful debts and employee benefit allowances.

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

1.1.2 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, profit or loss on lease modifications 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 1/2019: *Headline Earnings*. The principal items that will be included under this measure are: gains and losses on disposal and scrapping of property, plant and equipment, intangible assets and assets held for sale; impairments or reversal of impairments; any non-trading items such as gains and losses on disposal of investments, operations and subsidiaries.
- c) Interest received on the face of the statement of comprehensive income, being only interest received on call and operating bank account balances.

1.2 Consolidation and equity accounting

1.2.1 Subsidiaries

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

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

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.2 Consolidation and equity accounting (continued)

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 Cell captive insurance contracts

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

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

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

1.4 Foreign currency translation

1.4.1 Functional and presentation currency

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

1.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the average exchange rates for the relevant month. These average exchange rates approximate the spot rate at the date of the transaction. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at closing rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

1.4.3 Foreign operations

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

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



1 Accounting policies (continued)

1.4 Foreign currency translation (continued)

1.4.3 Foreign operations (continued)

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

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

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

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

1.5 Hyperinflation

In the prior year, the functional currency of subsidiaries in Angola was a currency of a hyperinflationary economy. The results and the financial position, including comparative amounts, of Group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit current at the end of the reporting period.

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

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

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

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

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

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

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

1.6 Hedging activities: net investment hedging

In accordance with IFRS 9, certain foreign currency denominated financial liabilities are designated as hedges of a net investment in a foreign operation. The Group uses non-derivative financial liabilities to reduce exposure to fluctuations in foreign currency exchange rates resulting from the Group's net investments in certain foreign operations.

The Group documents, at the inception of the hedging transaction, the economic relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

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 FCTR in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

The Group discontinues hedge accounting prospectively when a hedging instrument expires or is sold, when a hedge no longer meets the criteria for hedge accounting, or when the designation is revoked. Gains and losses accumulated in the FCTR at that time remains in equity and are reclassified to profit or loss when the foreign operation is partially disposed of or sold. Refer to note 1.4.3.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.7 Property, plant and equipment

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

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

Useful lives

Buildings	20 years
Machinery	5 to 10 years
Racking	15 years
Vehicles	5 to 10 years
Trolleys	3 to 5 years
Equipment	4 to 10 years
Safes	20 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.

1.8 Intangible assets

1.8.1 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.

1.8.2 Software, trademarks and customer relationships

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

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

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

1 Accounting policies (continued)

1.8 Intangible assets (continued)

1.8.2 Software, trademarks and customer relationships (continued)

Useful lives

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

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

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

1.9 Non-current assets held for sale and discontinued operations

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 costs of disposal if their carrying amount will be recovered principally through a sale transaction rather than through continued use and this sale is considered highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resell. The results of discontinued operations are presented separately in the statement of comprehensive income.

1.10 Impairment of non-financial assets

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

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

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.11 Leases

1.11.1 Leases where the Group is the lessee

a) Leasing activities and how they are accounted for

The Group leases various offices, distribution centres, retail stores, vehicles and equipment. Rental contracts are typically entered into for fixed periods, with extension options as follows:

- **Properties:** five to 10 years, with extension options for a further two to 20 years.
- **Commercial vehicle fleet:** four to 10 years, with an option to renew.
- **Multifunctional printers:** three years, with no extension options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Non-lease components are expensed as they become due.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

A right-of-use asset and a corresponding lease liability are recognised at the date at which the leased asset is available for use by the Group. They are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Lease payments to be made under reasonably certain extension options.

The Group's current rental portfolio does not include termination penalties. However, should these become relevant in the future, such payments will also be included in the initial measurement of the lease liability.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The Group discounts lease payments for its commercial vehicle fleet using the interest rate implicit in the lease. All other lease payments are discounted using the incremental borrowing rate.

To determine the incremental borrowing rate, the Group:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the lessee, which does not have recent third-party financing; and
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease liabilities are subsequently measured at amortised cost using the effective interest rate method. Lease payments are allocated between principal and finance costs. Finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease prepayments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the underlying asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets (with a cost price below R75 000) are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group applies the IFRS 16 exemption which provides lessees with timely relief from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications. The optional exemption allows lessees to account for such rent concessions as if they were not lease modifications. Therefore, COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2021 are recognised as income when rent payments become due. During the pandemic, the Group recognised rent concessions of R30.8 million as income to the reporting date.



1 Accounting policies (continued)

1.11 Leases (continued)

1.11.1 Leases where the Group is the lessee (continued)

b) Variable lease payments

Some property leases (2020: 50.4%; 2019: 52.7%) contain variable payment terms that are linked to sales generated from a store. Turnover rentals, where applicable, average 2.0% (2019: 2.1%) of turnover. Variable payment terms are used for a variety of reasons, including minimising the fixed cost base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

A 10% increase in sales across all stores in the Group with such variable lease contracts would increase total lease payments by approximately R27.7 million (2019: R26.6 million).

c) Extension and termination options

The lease term includes any non-cancellable periods and reasonably certain termination or extension option periods. Extension and termination options are included in a number of property and commercial vehicle fleet leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The average lease term of the Group's portfolio of qualifying leases are as follows:

	2020	2019
Properties	8.3 years	9.0 years
Commercial vehicle fleet	5.0 years	N/A
Multifunctional printers	3.0 years	3.0 years

1.11.2 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.

1.12 Sale and leaseback transactions

A sale and leaseback transaction is where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. A sale occurs when control of the underlying asset passes to the buyer. This accounting policy thus applies in instances where the Group, as the seller-lessee, has transferred control of the asset to the buyer-lessor in terms of an IFRS 15 sale.

As the Group is the lessee in the subsequent arrangement, a lease liability is recognised, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the previous carrying value of the asset relating to the right-of-use retained. The gain (or loss) that the seller-lessee recognises is limited to the proportion of the total gain (or loss) that relates to the rights transferred to the buyer-lessor. Any difference between the sale consideration and the fair value of the asset is either a prepayment of lease payments (if the purchase price is below market terms) or an additional financing (if the purchase price is above market terms). Any gain or loss that relates to the rights transferred to the buyer-lessor is recorded within items of a capital nature.

In other instances, where there is no transfer of control, the transaction amounts to a collateralised borrowing, which is covered by the existing accounting policies pertaining to financial liabilities as described in note 1.13.

1.13 Other financial instruments

1.13.1 Initial recognition and measurement

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

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

1.13.2 Derecognition

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.13 Other financial instruments (continued)

1.13.3 Offsetting

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

1.13.4 Classification and subsequent measurement

Financial assets

The Group classifies its debt investments as subsequently measured at amortised cost.

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

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

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

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

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

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

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

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

1 Accounting policies (continued)

1.13 Other financial instruments (continued)

1.13.4 Classification and subsequent measurement (continued)

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, using the effective interest rate method. The effective interest rate amortisation is recognised in the statement of comprehensive income as finance costs.

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

- e) **Borrowings:** Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Refer to note 1.21 for the Group's accounting policy with regards to the capitalisation of borrowing costs.
- f) **Trade and other payables:** Trade and other payables mainly comprise trade payables for purchase of merchandise for resale and are short-term in nature.

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

1.13.5 Impairment

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

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

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

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

a) General impairment approach

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

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

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

b) Simplified approach

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

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.13 Other financial instruments (continued)

1.13.5 Impairment (continued)

c) Provision matrix

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

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

Note 40.4.1 provides more detail on how the Group determines a significant increase in credit risk and how the expected credit loss allowance is measured.

1.14 Investments in subsidiaries and associates

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

1.15 Inventories

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

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

1.16 Stated capital

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

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

1.17 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.

1.17.1 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.

1.17.2 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.

1.17.3 Reinstatement provision

Where it has a contractual obligation in respect of certain lease agreements, the Group provides the estimate of the cost of dismantling and removing an item of property, plant and equipment and restoring the site on which the item was located to its original condition at the expiry of the lease.

The Group also provides for the anticipated costs associated with the restoration of leasehold property to its original condition at inception of the lease, including removal of items included in property, plant and equipment or right-of-use assets that are erected on leased land.

1 Accounting policies (continued)

1.18 Employee benefits

1.18.1 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.

1.18.2 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.

1.18.3 Cash-settled share-based payments

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

1.18.4 Equity-settled share-based payments

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

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

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

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

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

1.18.5 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.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.19 Revenue from contracts with customers

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

1.19.1 Sale of merchandise

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

Revenue for the sale of merchandise from ordinary Group-operating activities, net of value added tax, rebates and discounts and after eliminating sales within the Group are recognised at a point in time, upon delivery of products and customer acceptance. The Group's Xtra Savings Rewards Programme offers immediate discount which is recognised as a reduction in revenue, since it does not create a separate performance obligation providing a material right to a future discount. Payment is usually received via cash, debit card or credit card. Related card transaction costs are recognised in the statement of comprehensive income as other expenses. When merchandise is sold under instalment sale agreements, the present value of the instalment sale payments is recognised as a receivable.

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

1.19.2 Layaway sales

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

1.19.3 Gift vouchers and savings stamps

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

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

1.19.4 Commission received

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

1.19.5 Franchise fees received

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

1.19.6 Financing components

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

1 Accounting policies (continued)

1.20 Other operating income

Other operating income is recognised as follows:

1.20.1 Effective interest income

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

1.20.2 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 to note 1.11.2.

1.20.3 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 reporting date. Refer to note 1.28.2.

1.20.4 Dividend income

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

1.21 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.

1.22 Rebates from suppliers

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

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

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

1.23 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.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.24 Current and deferred income tax

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

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

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

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

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

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

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

1.25 Earnings per share

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

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

Headline earnings are calculated in accordance with Circular 1/2019 issued by the South African Institute of Chartered Accountants as required by the JSE Listings Requirements.

1.26 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.

1.27 Dividends distributed to shareholders

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



1 Accounting policies (continued)

1.28 Basis of accounting for underwriting activities

1.28.1 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.

1.28.2 Recognition and measurement of contracts

a) Premiums arising from general insurance business

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

b) Unearned premium allowance

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

c) Claims arising from insurance business

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

d) Provision for outstanding claims

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

e) Reinsurance

The Group entered into an excess of loss reinsurance policy that covers the risk of property damage and business interruptions. The insurance policy gives rise to continued insurance cover for which an asset is recognised. The asset is measured at amortised cost, similar to that of IFRS 9, and included within other receivables. Interest accrues on the asset at the contractual interest rate and is included in interest revenue in the statement of comprehensive income.

Premiums paid are capitalised to the asset and insurance claims made in respect of this policy are treated as a reduction of the asset.

The asset is assessed annually for impairment. The impairment allowance is measured in line with the IFRS 9 ECL model. Refer to the Group's accounting policy for ECL in terms of the general model as outlined in note 1.13.5(a).

f) Liabilities and related assets under liability adequacy test

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

1.29 Related parties

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

1 Accounting policies (continued)

1.30 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 Group's Nigeria subsidiary has been classified as held for sale during the current year. Information about this discontinued segment is provided in note 32.

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

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

1.31 Standards, interpretations and amendments that are not yet effective at 28 June 2020

The Group has considered the following new standards, interpretations and amendments to existing standards, which are relevant to the Group's operations and had been issued by the reporting date, but are not yet effective as at 28 June 2020:

Number	Title	Effective for year ending
Amendments to IAS 1 and IAS 8	Disclosure Initiative (Definition of Material)	2021
Amendments to IFRS 3	Business Combinations (Definition of a Business)	2021
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	2023
IFRS 17	Insurance Contracts	2024

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 standard set out hereafter.



1 Accounting policies (continued)

1.31 Standards, interpretations and amendments that are not yet effective at 28 June 2020 (continued)

Title of standard	IFRS 17: <i>Insurance Contracts</i>
Nature of change	<p>IFRS 17 was issued as replacement for IFRS 4: <i>Insurance Contracts</i>.</p> <p>IFRS 17 requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:</p> <ul style="list-style-type: none"> ■ discounted probability-weighted cash flows; ■ an explicit risk adjustment; and ■ a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. <p>The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.</p> <p>An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short-duration contracts.</p>
Impact	The Group is currently assessing the impact of IFRS 17.
Mandatory application date/ Date of adoption by the Group	<p>IFRS 17 is mandatory for financial years commencing on or after 1 January 2023, subject to being adopted by the EU.</p> <p>At this stage, the Group does not intend to adopt the standard before its effective date.</p>

1.32 New standards, interpretations and amendments effective for the year ended 28 June 2020

The following new standards, interpretations and amendments to existing standards are effective for the year ended 28 June 2020:

Number	Title
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures
Amendments to IFRS 9	Financial Instruments (Prepayment Features with Negative Compensation)
IFRS 16	Leases
IFRIC 23	Uncertainty Over Income Tax Treatments
Various	Annual improvements to IFRS 2015 – 2017 Cycle

Following the adoption of IFRS 16 with effect from 1 July 2019, the Group had to change its accounting policies and make certain retrospective adjustments to the amounts recognised in the financial statements. The new standard also introduced expanded disclosure requirements and changes in presentation. The effect of the changes in accounting policies is disclosed in note 42.

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

1.33 Comparative figures

Where necessary, comparative figures have been restated for the change in accounting policies, following the adoption of IFRS 16 and the classification of the Group's Nigeria subsidiary as discontinued operations, and for the reclassification of interest revenue previously included in other operating income, with disclosure of the restatements detailed in notes 42 and 43.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

2 Operating segment information 2.1 Analysis per reportable segment

Continuing operations	Supermarkets RSA Rm	Supermarkets Non-RSA Rm	Furniture Rm	Other operating segments Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
2020							
Sale of merchandise							
External	122 412	18 153	5 470	10 820	156 855	—	156 855
Inter-segment	4 558	24	—	59	4 641	—	4 641
	126 970	18 177	5 470	10 879	161 496	—	161 496
Trading profit	8 024	(28)	(15)	316	8 297	(126)	8 171
Interest revenue included in trading profit	54	238	255	51	598	—	598
Depreciation and amortisation	4 189	741	342	58	5 330	93	5 423
Impairments							
Property, plant and equipment	—	505	12	1	518	176	694
Right-of-use assets	35	200	235	—	470	—	470
Intangible assets	86	—	—	13	99	—	99
	121	705	247	14	1 087	176	1 263
Total assets ¹	56 866	16 287	4 378	3 687	81 218	1 508	82 726
Restated* 2019							
Sale of merchandise							
External	112 655	18 407	6 206	10 409	147 677	(199)	147 478
Inter-segment	4 623	34	—	—	4 657	—	4 657
	117 278	18 441	6 206	10 409	152 334	(199)	152 135
Trading profit	7 100	(37)	275	179	7 517	879	8 396
Interest revenue included in trading profit	39	357	320	43	759	(17)	742
Depreciation and amortisation	4 118	721	359	62	5 260	113	5 373
Impairments							
Property, plant and equipment	46	58	—	3	107	20	127
Right-of-use assets	7	265	63	—	335	21	356
Intangible assets	40	—	—	—	40	—	40
	93	323	63	3	482	41	523
Total assets ¹	52 145	16 295	4 931	3 333	76 704	2 420	79 124

Refer to note 32 for operating segment disclosures of discontinued operations.

* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.

¹ Total assets of consolidated continuing operations, together with discontinued operations' total assets, equal total assets as presented in the statement of financial position. Discontinued operations' total assets amounted to R1.9 billion at 30 June 2019.



2 Operating segment information (continued)

2.2 Geographical analysis

Continuing operations	South Africa Rm	Outside South Africa Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
2020					
Sale of merchandise – external	135 882	20 973	156 855	–	156 855
Non-current assets ^{2 and 3}	31 367	5 508	36 875	1 715	38 590
Restated* 2019					
Sale of merchandise – external	126 371	21 306	147 677	(199)	147 478
Non-current assets ^{2 and 3}	30 223	6 374	36 597	2 724	39 321

* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.

² Non-current assets consist of property, plant and equipment, right-of-use assets, intangible assets and non-financial trade and other receivables.

³ Non-current assets of consolidated continuing operations, together with discontinued operations' non-current assets, equal non-current assets as presented in the statement of financial position. Discontinued operations' non-current assets amounted to R1.1 billion at 30 June 2019.

3 Property, plant and equipment

3.1 Reconciliation of carrying values

Group	Land Rm	Buildings Rm	Machinery, equipment and vehicles** Rm	Leasehold improvements Rm	Total Rm
Carrying value at 1 July 2018	1 375	5 755	10 674	3 414	21 218
Cost	1 375	6 258	19 739	4 032	31 404
Accumulated depreciation and impairment	–	(503)	(9 065)	(618)	(10 186)
Additions	319	494	3 358	655	4 826
Transfer to assets held for sale (note 3.4)	(138)	(576)	–	–	(714)
Disposal	(3)	(9)	(309)	(30)	(351)
Proceeds on disposal	(4)	(18)	(211)	(32)	(265)
Profit/(loss) on disposal and scrapping	1	9	(98)	2	(86)
Depreciation	–	(88)	(2 484)	(85)	(2 657)
Impairment (note 7)	–	–	(137)	(7)	(144)
Foreign currency translation differences including hyperinflation effect	(17)	(107)	(277)	(333)	(734)
Carrying value at 30 June 2019	1 536	5 469	10 825	3 614	21 444
Cost	1 536	5 978	20 730	4 241	32 485
Accumulated depreciation and impairment	–	(509)	(9 905)	(627)	(11 041)
Additions	1	198	2 173	505	2 877
Transfer to assets held for sale (note 3.4)	(106)	(183)	(239)	(150)	(678)
Transfer from assets held for sale (note 3.4)	10	251	–	–	261
Acquisition of operations	–	–	2	–	2
Disposal of investment in subsidiary	–	–	(15)	–	(15)
Disposal	–	–	(1 248)	(21)	(1 269)
Proceeds on disposal***	–	–	(1 212)	(21)	(1 233)
Loss on disposal and scrapping	–	–	(36)	–	(36)
Depreciation	–	(82)	(2 350)	(94)	(2 526)
Impairment (note 7)	–	–	(254)	(478)	(732)
Foreign currency translation differences	(37)	(224)	(100)	(738)	(1 099)
Carrying value at 28 June 2020	1 404	5 429	8 794	2 638	18 265
Cost	1 404	6 000	18 401	3 677	29 482
Accumulated depreciation and impairment	–	(571)	(9 607)	(1 039)	(11 217)

** Includes aircraft with a carrying value of R161 million (2019: R163 million) and vehicles with a carrying value of R475 million (2019: R1.7 billion).

*** Proceeds on disposal of property, plant and equipment includes R1.1 billion relating to the Group's commercial vehicle fleet previously included in machinery, equipment and vehicles, which were sold under a sale and leaseback arrangement during the year under review.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

3 Property, plant and equipment (continued)

3.2 Property, plant and equipment subject to an operating lease where the Group is the lessor

The reconciliation of carrying values of property, plant and equipment presented in note 3.1 includes the following relating to underlying assets that are subject to an operating lease:

Group	Land Rm	Buildings Rm	Leasehold improvements Rm	Total Rm
Carrying value at 1 July 2018	251	1 154	425	1 830
Cost	251	1 260	480	1 991
Accumulated depreciation and impairment	—	(106)	(55)	(161)
Additions	3	57	78	138
Depreciation	—	(17)	(10)	(27)
Foreign currency translation differences including hyperinflation effect	(2)	(19)	(79)	(100)
Carrying value at 30 June 2019	252	1 175	414	1 841
Cost	252	1 297	473	2 022
Accumulated depreciation and impairment	—	(122)	(59)	(181)
Additions	—	64	71	135
Transfer to assets held for sale	(13)	(75)	(14)	(102)
Depreciation	—	(17)	(9)	(26)
Impairment	—	—	(13)	(13)
Foreign currency translation differences	(1)	(7)	(58)	(66)
Carrying value at 28 June 2020	238	1 140	391	1 769
Cost	238	1 254	464	1 956
Accumulated depreciation and impairment	—	(114)	(73)	(187)

3.3 Property, plant and equipment not yet in use

Included in the gross amounts of land, buildings and leasehold improvements is R426 million (2019: R1.2 billion) that relates to cost capitalised for assets not yet available for use. This relates mainly to buildings and leasehold properties under construction. The gross amount of property, plant and equipment not yet in use was evaluated for impairment by the directors at the reporting date.

Reconciliation of carrying values	Land Rm	Buildings Rm	Leasehold improvements Rm	Total Rm
Carrying value at 1 July 2018	—	9	193	202
Additions	233	323	384	940
Transfer to property, plant and equipment	—	(3)	(57)	(60)
Foreign currency translation differences including hyperinflation effect	—	—	140	140
Carrying value at 30 June 2019	233	329	660	1 222
Additions	6	200	249	455
Transfer to property, plant and equipment	—	(398)	(666)	(1 064)
Impairment	—	—	(98)	(98)
Foreign currency translation differences	—	—	(89)	(89)
Carrying value at 28 June 2020	239	131	56	426



3 Property, plant and equipment (continued)

3.4 Transfer to/(from) 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 and Supermarkets Non-RSA operating segments have been reclassified as assets held for sale as the Group periodically re-evaluates its fixed property holdings in line with this policy. The Group is currently in the process of actively seeking buyers for these properties. Refer to note 4.

During the current financial year certain properties were transferred back to property, plant and equipment. The sale of these properties were reconsidered. This decision to reclassify had no significant effect on the Group's results. Refer to note 4.

		Group	
		2020	2019
		Rm	Rm
4	Assets held for sale		
	Land and buildings	355	792
	Investment in joint venture (note 41)	—	22
	Total assets of disposal group held for sale (note 32)	1 701	—
		2 056	814
4.1	Reconciliation of carrying value		
	Carrying value at the beginning of the year	814	184
	Transfer from property, plant and equipment (note 3)	678	714
	Transfer to property, plant and equipment (note 3)	(261)	—
	Transfer from right-of-use assets (note 5)	764	—
	Transfer from inventories	549	—
	Transfer from trade and other receivables	47	—
	Transfer from current income tax assets	4	—
	Disposal	(554)	(83)
	Proceeds on disposal	(793)	(184)
	Profit on disposal and scrapping	239	101
	Additions	13	—
	Foreign currency translation differences including hyperinflation effect	2	(1)
	Carrying value at the end of the year	2 056	814

5 Right-of-use assets*

5.1 Reconciliation of carrying values

Group	Land Rm	Buildings Rm	Machinery, equipment and vehicles** Rm	Total Rm
Carrying value at 1 July 2018	850	15 504	—	16 354
Additions	—	2 618	—	2 618
Derecognition	(13)	—	—	(13)
Depreciation	(15)	(2 498)	—	(2 513)
Impairment (note 7)	—	(435)	—	(435)
Reversal of impairment	—	19	—	19
Foreign currency translation differences including hyperinflation effect	(68)	(221)	—	(289)
Carrying value at 30 June 2019	754	14 987	—	15 741
Additions**	14	4 610	1 004	5 628
Transfer to assets held for sale (note 3.4)	(63)	(701)	—	(764)
Derecognition	—	(186)	—	(186)
Depreciation	(15)	(2 566)	(132)	(2 713)
Impairment (note 7)	(10)	(458)	—	(468)
Foreign currency translation differences	(167)	85	—	(82)
Carrying value at 28 June 2020	513	15 771	872	17 156

* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.

** Right-of-use asset additions for machinery, equipment and vehicles includes R815 million relating to the Group's commercial vehicle fleet previously included in machinery, equipment and vehicles, which were sold under a sale and leaseback arrangement during the year under review.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

6 Intangible assets

6.1 Reconciliation of carrying values

Group	Goodwill Rm	Software Rm	Trademarks Rm	Customer relationships Rm	Total Rm
Carrying value at 1 July 2018	281	2 680	25	8	2 994
Gross amount	450	4 111	194	54	4 809
Accumulated amortisation and impairment losses	(169)	(1 431)	(169)	(46)	(1 815)
Acquisition of operations	30	—	—	—	30
Additions	—	82	—	—	82
Internally generated	—	372	—	—	372
Borrowing costs capitalised (note 6.3)	—	29	—	—	29
Loss on disposal and scrapping	—	(7)	—	—	(7)
Amortisation	—	(377)	(3)	(5)	(385)
Impairment (note 7)	(40)	—	—	—	(40)
Foreign currency translation differences including hyperinflation effect	—	2	—	—	2
Carrying value at 30 June 2019	271	2 781	22	3	3 077
Gross amount	425	3 462	194	54	4 135
Accumulated amortisation and impairment losses	(154)	(681)	(172)	(51)	(1 058)
Acquisition of operations	41	—	—	—	41
Additions	—	33	—	—	33
Internally generated	—	307	—	—	307
Borrowing costs capitalised (note 6.3)	—	11	—	—	11
Loss on disposal and scrapping	—	(55)	—	—	(55)
Amortisation	—	(353)	(4)	(3)	(360)
Impairment (note 7)	(40)	(59)	—	—	(99)
Carrying value at 28 June 2020	272	2 665	18	—	2 955
Gross amount	437	3 643	71	54	4 205
Accumulated amortisation and impairment losses	(165)	(978)	(53)	(54)	(1 250)

6.2 Goodwill

An analysis of goodwill per operating segment is presented in the following table.

	2020			2019		
	Gross amount Rm	Accumulated impairment losses Rm	Carrying value Rm	Gross amount Rm	Accumulated impairment losses Rm	Carrying value Rm
Supermarkets RSA	250	(65)	185	209	(38)	171
Supermarket stores	148	(12)	136	148	(12)	136
Liquor stores	29	—	29	16	—	16
Other	73	(53)	20	45	(26)	19
Supermarkets Non-RSA	26	(8)	18	55	(37)	18
Supermarket stores	26	(8)	18	55	(37)	18
Other operating segments	161	(92)	69	161	(79)	82
Computicket	27	(13)	14	27	—	27
Transpharm	76	(47)	29	76	(47)	29
Metcash Seven Eleven	58	(32)	26	58	(32)	26
Total goodwill	437	(165)	272	425	(154)	271

The carrying amount of goodwill allocated to a CGU or group of units is not significant in comparison with the Group's total goodwill.

6.3 Borrowing costs capitalised

Borrowing costs were capitalised against qualifying items of software during the year under review. The weighted average borrowings rate was 8.0% (2019: 8.5%).

6.4 Software not yet in use

Included in the gross amount of software is R351 million (2019: R374 million) that relates to cost capitalised for software not yet available for use. This relates mainly to the development and implementation of software to analyse customer data and improve customer relationship management. Prior year costs related mainly to the development and implementation of SAP merchandising software. The gross amount of software not yet in use was evaluated for impairment by the directors at the reporting date.



7 Impairment of non-financial assets

7.1 Impairments recognised

Group	Property, plant and equipment Rm	Right-of-use assets Rm	Goodwill Rm	Other intangible assets Rm	Total Rm
2020					
Supermarkets RSA	—	35	27	59	121
Supermarkets Non-RSA	505	200	—	—	705
Furniture	12	235	—	—	247
Other operating segments	1	—	13	—	14
Total operating segments	518	470	40	59	1 087
Hyperinflation effect	176	—	—	—	176
Consolidated continuing operations	694	470	40	59	1 263
Discontinued operations	38	(2)	—	—	36
2019					
Supermarkets RSA	46	7	40	—	93
Supermarkets Non-RSA	58	265	—	—	323
Furniture	—	63	—	—	63
Other operating segments	3	—	—	—	3
Total operating segments	107	335	40	—	482
Hyperinflation effect	20	21	—	—	41
Consolidated continuing operations	127	356	40	—	523
Discontinued operations	17	60	—	—	77

The impairment charges resulted from a significant reduction in the future expected sales of merchandise in certain subsidiaries that own the assets, due to further currency devaluations experienced in key markets where the Group trades, as well as the uncertainty regarding the recovery of the lower commodity prices experienced in the commodity dependent regions.

7.2 Impairment methodology

Cash-generating units

The Group treats each store as a separate CGU for impairment testing of property, plant and equipment, right-of-use assets and intangible assets, other than goodwill. Goodwill is allocated to the Group's CGUs, or a group of CGUs, to which the goodwill relates.

The recoverable amount of each CGU is the higher of its value-in-use and its fair value less costs of disposal. The recoverable amount of a CGU, or group of CGUs to which goodwill has been allocated, is determined based on value-in-use calculations.

Central corporate assets such as home office, regional offices and distribution centres, together with their associated costs are allocated to CGUs with reference to sales.

Each CGU is tested for impairment at the reporting date to determine if any indicators of impairment have been identified. Impairment indicators include loss-making stores and stores performing below budget.

Value-in-use

The cash flow projections used in value-in-use calculations are based on financial budgets, approved by management, covering five-year planning periods. Cash flow projections are derived from an analysis of historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives, the results of which are reviewed by management. Cash flows beyond these planning periods are extrapolated into the future over the useful life of the CGU, using a steady long-term growth rate which is derived from inflation forecasts by recognised bodies and does not exceed the long-term average growth rate for the industry and country in which the CGUs operate.

In determining the value-in-use of each CGU, projected cash flows are discounted using the entity-specific pre-tax discount rate which includes an adjustment for risks, specific to the country in which a CGU operates.

Fair value less costs of disposal

In determining the fair value less costs of disposal of affected land and buildings (level 3 within the fair value hierarchy), cash flow projections based on projected net market-related rentals covering the next planning period were used.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

7 Impairment of non-financial assets (continued)

7.3 Key assumptions and sensitivity analysis

The key assumptions in the value-in-use calculations are the expected trading profit growth rates, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital, lease liabilities and borrowings, to which specific market-related premium adjustments are made for each country.

For fair value less costs of disposal calculations of land and buildings, the key assumption is the pre-tax market capitalisation rate used.

The following table sets out the key assumptions applied in determining the recoverable amount of each CGU, summarised by geographical region:

	Discount rate		Trading profit growth rate		Long-term growth rate		Market capitalisation rate	
	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %
South Africa	13.3	11.8	2.6	2.4	2.8	4.9	8.0	7.9
Angola	29.4	14.8	21.5	16.9	13.1	15.0	10.0	10.0
Botswana	5.4	4.5	2.4	3.5	2.6	7.1	—	—
Kenya	9.0	13.6	5.0	5.8	5.0	5.3	—	—
Mozambique	24.9	21.2	5.5	3.5	6.4	19.8	10.0	10.0
Nigeria	21.6	19.0	11.8	11.9	11.8	13.6	10.0	10.0
Zambia	31.6	16.6	12.7	11.7	9.7	16.4	10.0	10.0
Other countries outside South Africa	21.7 – 30.9	13.0 – 16.6	6.0 – 12.4	4.9 – 10.4	6.3 – 10.7	13.6 – 16.4	8.5 – 10.0	8.5 – 10.0

The forecast trading profit growth rates (2019: operating margins), risk-adjusted pre-tax discount rates and long-term growth rates for CGUs and groups of CGUs to which goodwill has been allocated are as follows:

	Trading profit growth rate	Operating margin	Discount rate		Long-term growth rate	
	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %
Supermarket operations	2.0 – 4.0	4.6	9.9 – 13.3	11.8	2.8 – 4.0	5.0
Other operations	1.8	2.1	13.3	11.8	2.8	5.0

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

- An increase of one percentage point in the discount rates for each geographical region would increase the impairment by R49.1 million (2019: R108.3 million). The possible increase mainly relates to Angola (2020: R14.3 million; 2019: R105.3 million) and Botswana (2020: R31.9 million; 2019: N/A).
- A decrease of one percentage point in the long-term growth rate would increase the impairment by R34.6 million (2019: R16.5 million). The possible increase mainly relates to Angola (2020: R3.7 million; 2019: R16.5 million) and Botswana (2020: R28.0 million; 2019: N/A).



Company			Group	
2019 Rm	2020 Rm		2020 Rm	2019 Rm
		8 Interests in subsidiaries		
		Investments in ordinary shares		
		Amounts receivable from subsidiaries (note 8.1)		
9 369	10 744			
2 625	1 199			
11 994	11 943		—	—
		Analysis of total interests in subsidiaries:		
		Non-current		
		Current		
9 369	10 744			
2 625	1 199			
11 994	11 943		—	—
		Detail analysis of the Company's interests in subsidiaries are given in Annexure A.		
		8.1 Amounts receivable from subsidiaries		
		Amounts receivable from subsidiaries of the Company are unsecured and payable on demand. Amounts owing by Shoprite Investments Ltd earn interest at an average rate of 6.5% (2019: 6.5%) during the year under review. All other amounts owing by subsidiaries are interest-free.		
		Amounts receivable from subsidiaries of the Company are considered to have low credit risk where they have a low risk of default and the subsidiary has a strong capacity to meet its contractual cash flow obligations in the near term. The majority of amounts receivable from subsidiaries is receivable from the Group's main trading subsidiary, Shoprite Checkers (Pty) Ltd, and Shoprite Investments Ltd which are both in good financial standing.		
		The maximum exposure to credit risk at the reporting date is the carrying value. None of the amounts receivable from subsidiaries are either past due or impaired.		
		9 Equity accounted investments		
6	6	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	
			2020	2019
6	6	Resilient Africa (Pty) Ltd	39%	39%
—	—	Resilient Africa Managers (Pty) Ltd	39%	39%
6	6		—	—

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

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

	Group	
	2020 Rm	2019 Rm
9 Equity accounted investments (continued)		
Summary financial information of Resilient Africa (Pty) Ltd		
Statement of financial position		
Total assets	2 313	1 958
Current assets	41	64
Non-current assets	2 272	1 894
Total liabilities	2 179	1 925
Current liabilities	53	45
Non-current liabilities	2 126	1 880
Net assets	134	33
Attributable to other owners of Resilient Africa (Pty) Ltd	(13)	(60)
Attributable to the Shoprite Holdings Ltd Group	(9)	(38)
Non-controlling interest	156	131
Statement of comprehensive income		
Revenue	146	149
Loss for the year	(46)	(74)
Attributable to other owners of Resilient Africa (Pty) Ltd	(25)	(46)
Attributable to the Shoprite Holdings Ltd Group	(17)	(29)
Non-controlling interest	(4)	1
Other comprehensive income for the year	147	21
Attributable to other owners of Resilient Africa (Pty) Ltd	73	11
Attributable to the Shoprite Holdings Ltd Group	46	7
Non-controlling interest	28	3
Total comprehensive income/(loss) for the year	101	(53)
Attributable to other owners of Resilient Africa (Pty) Ltd	48	(35)
Attributable to the Shoprite Holdings Ltd Group	29	(22)
Non-controlling interest	24	4
The information disclosed reflects the amounts presented in the consolidated management accounts of Resilient Africa (Pty) Ltd and not the Group's share of those amounts. The information has been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments made at the time of acquisition and modifications for differences in accounting policies.		
Reconciliation to carrying amount:		
Net liabilities attributable to the Group at the beginning of the year	(65)	(43)
Loss for the year attributable to the Group	(17)	(29)
Other comprehensive income for the year attributable to the Group	46	7
Net liabilities attributable to the Group at the end of the year	(36)	(65)
Unrecognised share of losses at the end of the year	36	57
Unrecognised share of other comprehensive loss at the end of the year	—	8
Carrying amount at the end of the year	—	—
Unrecognised share of losses:		
Unrecognised share of losses at the beginning of the year	57	28
Unrecognised share of losses for the year	17	29
Decrease in unrecognised share of losses for the year	(38)	—
Unrecognised share of losses at the end of the year	36	57
Unrecognised share of other comprehensive loss:		
Unrecognised share of other comprehensive loss at the beginning of the year	8	15
Decrease in unrecognised share of other comprehensive loss for the year	(8)	(7)
Unrecognised share of other comprehensive loss at the end of the year	—	8

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



Company			Group	
2019 Rm	2020 Rm		2020 Rm	2019 Rm
		10 Government bonds and bills		
		AOA, USD Index Linked, Angola Government Bonds (note 10.1)	2 238	2 567
		AOA, Angola Government Bonds (note 10.2)	264	433
		Angola Treasury Bills (note 10.3)	—	16
—	—		2 502	3 016
		Analysis of total government bonds and bills:		
		Non-current	62	2 516
		Current	2 440	500
—	—		2 502	3 016
		Reconciliation of movement in government bonds and bills:		
		Carrying value at the beginning of the year	3 016	3 690
		Amounts restated through opening retained earnings on adoption of IFRS 9	—	(133)
		Increase in loss allowance recognised in profit or loss during the year	(8)	—
		Unused loss allowance reversed	8	—
		Additional investments	—	1 017
		Investments matured and sold	(924)	(1 444)
		Interest income (note 23.3)	210	316
		Interest received	(242)	(321)
		Exchange rate differences	1 374	804
		Foreign currency translation differences including hyperinflation effect	(932)	(913)
—	—	Carrying value at the end of the year	2 502	3 016
		10.1 AOA, USD Index Linked, Angola Government Bonds	2 238	2 567
		Gross amount	2 304	2 658
		Provision for impairment	(66)	(91)
		The AOA, USD Index Linked, Angola Government Bonds are to be settled in Angola kwanza, earn interest at an average rate of 7.0% (2019: 7.0%) p.a. and mature after five months from the reporting date. Accrued interest is payable bi-annually.		
		10.2 AOA, Angola Government Bonds	264	433
		Gross amount	269	433
		Provision for impairment	(5)	—
		The AOA, Angola Government Bonds are denominated in Angola kwanza, earn interest at an average rate of 14.0% (2019: 13.7%) p.a. and mature after 14 to 22 months from the reporting date. Accrued interest is payable bi-annually.		
		10.3 Angola Treasury Bills	—	16
		Gross amount	—	26
		Provision for impairment	—	(10)
		The Angola Treasury Bills were denominated in Angola kwanza, earned interest at an average rate of 19.0% (2019: 19.0%) p.a. and matured during the current year. Accrued interest was payable at maturity.		

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company		Group	
2019 Rm	2020 Rm	2020 Rm	2019 Rm
		11 Loans receivable	
			Amounts receivable from associate (note 11.1)
		1 206	1 041
			Amounts receivable from franchisees (note 11.2)
		545	429
			Amounts receivable from Circle Mall Mauritius Ltd (note 11.3)
		244	201
			Amounts receivable from Kin Oasis Investments Ltd (note 11.4)
		173	143
			Other
		14	46
		2 182	1 860
			Analysis of total loans receivable:
			Non-current
		1 953	1 664
			Current
		229	196
		2 182	1 860
			11.1 Amounts receivable from associate
			Shareholder loan receivable from Resilient Africa (Pty) Ltd (note 11.1.1)
		434	402
			Other amounts receivable from Resilient Africa (Pty) Ltd (note 11.1.2)
		772	639
		1 206	1 041
			The Group is committed to provide a shareholder loan to Resilient Africa (Pty) Ltd to a maximum capital amount of R333 million (2019: R449 million) of which Resilient Africa (Pty) Ltd has drawn down R328 million (2019: R328 million).
			11.1.1 Shareholder loan receivable from Resilient Africa (Pty) Ltd
		434	402
			Gross amount
		494	462
			Provision for impairment
		(60)	(60)
			The shareholder loan is denominated in South Africa rand, earns interest at an average rate of 6.6% (2019: 6.6%) p.a. and is repayable on demand, subject to certain conditions.
			11.1.2 Other amounts receivable from Resilient Africa (Pty) Ltd
		772	639
			Gross amount
		772	639
			Provision for impairment
		—	—
			The other loan is denominated in US dollar, earns interest at an average rate of 2.7% (2019: 3.1%) p.a. and is repayable after four years from the reporting date, subject to certain conditions.
			11.2 Amounts receivable from franchisees
		545	429
			Gross amount
		587	461
			Provision for impairment
		(42)	(32)
			The amounts are mainly denominated in South Africa rand, earn interest at a weighted average variable interest rate (linked to the South African prime rate) of 8.2% (2019: 8.3%) p.a. and are repayable between one and five years from the reporting date.
			11.3 Amounts receivable from Circle Mall Mauritius Ltd (previously RMB Westport Osapa)
		244	201
			Gross amount
		245	202
			Provision for impairment
		(1)	(1)
			The amount owing by Circle Mall Mauritius Ltd is denominated in US dollar, earns interest at an average rate of 3.0% (2019: 3.0%) p.a. and is repayable after two years from the reporting date, subject to certain conditions.
			11.4 Amounts receivable from Kin Oasis Investments Ltd
		173	143
			Gross amount
		173	143
			Provision for impairment
		—	—
			The amount owing by Kin Oasis Investments Ltd is denominated in US dollar, earns interest at an average rate of 3.0% (2019: 3.0%) p.a. and is repayable after five years from the reporting date, subject to certain conditions.



Company			Group	
2019 Rm	2020 Rm		2020 Rm	Restated* 2019 Rm
		12 Deferred income tax*		
2	2	Deferred income tax assets (note 12.1)	2 184	1 629
—	—	Deferred income tax liabilities (note 12.2)	(824)	(538)
2	2	Net deferred income tax assets	1 360	1 091
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		The movement in the net deferred income tax assets is as follows:		
1	2	Carrying value at the beginning of the year	1 091	1 038
—	—	Amounts restated through opening retained earnings on adoption of IFRS 9	—	148
1	—	Charge to profit for the year	477	24
1	—	Provisions and accruals	340	(17)
—	—	Allowances on property, plant and equipment	43	(72)
—	—	Fixed escalation operating lease accruals	(21)	1
—	—	Leases	362	220
—	—	Allowances on intangible assets	(93)	(124)
—	—	Unrealised exchange rate differences	(258)	(152)
—	—	Tax losses	104	168
—	—	Charged to other comprehensive income	96	(1)
—	—	Foreign currency translation differences including hyperinflation effect	(304)	63
—	—	Discontinued operations (note 32)	—	(181)
2	2	Carrying value at the end of the year	1 360	1 091
		12.1 Deferred income tax assets		
2	2	Provisions and accruals	1 348	1 061
—	—	Allowances on property, plant and equipment	(726)	(791)
—	—	Fixed escalation operating lease accruals	(1)	15
—	—	Leases	1 705	1 387
—	—	Allowances on intangible assets	(355)	(259)
—	—	Unrealised exchange rate differences	94	20
—	—	Tax losses	119	196
2	2		2 184	1 629
—	—	Net (taxable)/deductible temporary differences to be (settled)/recovered after more than 12 months	(31)	175
2	2	Net deductible temporary differences to be recovered within 12 months	2 215	1 454
2	2		2 184	1 629
		12.2 Deferred income tax liabilities		
—	—	Provisions and accruals	91	72
—	—	Allowances on property, plant and equipment	1 059	698
—	—	Leases	—	(31)
—	—	Allowances on intangible assets	—	3
—	—	Unrealised exchange rate differences	(325)	(200)
—	—	Tax losses	(1)	(4)
—	—		824	538
—	—	Net taxable temporary differences to be settled after more than 12 months	852	543
—	—	Net deductible temporary differences to be recovered within 12 months	(28)	(5)
—	—		824	538

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group	
2019 Rm	2020 Rm		2020 Rm	Restated* 2019 Rm
		12 Deferred income tax* (continued)		
		12.3 Net calculated income tax losses and net deductible temporary differences		
		Calculated income tax losses and net deductible temporary differences at year-end	13 629	12 449
		Applied in the provision for deferred income tax	(7 694)	(5 125)
–	–		5 935	7 324
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		The utilisation of the income tax relief on net calculated income tax losses, to the value of R1.7 billion (2019: R1.0 billion), is dependent on sufficient future taxable income in the companies concerned. The income tax relief is calculated at current income tax rates and translated at closing rates.		
		The carry forward of all gross calculated income tax losses is indefinite, except for certain African countries, as set out below:		
		Expiry date of income tax relief		
		2020 Financial year-end	–	9
		2021 Financial year-end	59	27
		2022 Financial year-end	225	153
		2023 Financial year-end	26	68
		2024 Financial year-end	34	62
		2025 Financial year-end	100	14
		2026 Financial year-end	13	–
		2029 Financial year-end	28	–
		2030 Financial year-end	27	–
–	–		512	333
		Calculated temporary differences on consolidation associated with investments in subsidiaries for which deferred income tax liabilities have not been created	223	262
–	–			
		13 Inventories		
		Trading goods	18 845	20 889
		14 Trade and other receivables		
		Trade receivables from contracts with customers (note 14.1)	2 268	2 169
		Instalment sale receivables from contracts with customers (note 14.2)	803	1 028
2	14	Other receivables (note 14.3)	788	666
2	–	Prepayments and indirect taxes receivable*	410	376
–	–	Fixed escalation operating lease accruals	51	55
–	–	Amounts receivable from joint ventures (note 14.4)	–	31
4	14		4 320	4 325
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		Analysis of trade and other receivables:		
		Non-current	214	169
4	14	Current	4 106	4 156
4	14		4 320	4 325



Company			Group	
2019 Rm	2020 Rm		2020 Rm	2019 Rm
		14 Trade and other receivables (continued)		
		14.1 Trade receivables from contracts with customers	2 268	2 169
		Gross amount	2 475	2 288
		Provision for impairment	(207)	(119)
		Analysis of total trade receivables:		
		Receivables from franchisees	1 683	1 440
		Gross amount	1 702	1 459
		Provision for impairment	(19)	(19)
		Receivables from medical aid schemes, pharmacies and doctors	264	276
		Gross amount	295	304
		Provision for impairment	(31)	(28)
		Buying aid societies and other receivables	321	453
		Gross amount	478	525
		Provision for impairment	(157)	(72)
		Trade receivables from contracts with customers consist mainly of amounts receivable for the sale of merchandise to franchisees, medical aid schemes, pharmacies, doctors and buying aid societies. The amounts are mainly denominated in South Africa rand.		
		14.2 Instalment sale receivables from contracts with customers	803	1 028
		Gross amount	1 621	1 600
		Provision for impairment (note 40.4.1(c))	(818)	(572)
		The Group has entered into various instalment sale agreements for household furniture. The periods of these contracts range between one and two years and the weighted average interest rate on these receivables is 19.8% (2019: 21.0%) p.a. The amounts are mainly denominated in South Africa rand.		
		Instalment sale receivables expected to be recovered		
		Not later than one year	529	493
		Later than one year	274	535
			803	1 028
		These amounts are reflected as current as they form part of the normal operating cycle.		
2	14	14.3 Other receivables	788	666
2	14	Gross amount	1 046	883
—	—	Provision for impairment	(258)	(217)
		Other receivables consist of various operational debtors such as municipal deposits refundable, insurance claims receivable and staff debtors and bursaries. The amounts are mainly denominated in South Africa rand.		
—	—	14.4 Amounts receivable from joint ventures	—	31
		The amount receivable at the end of the previous year was repaid during the current year. It was mainly denominated in South Africa rand and earned interest at an average rate of 6.4% (2019: 6.4%) p.a.		
		The maximum exposure to credit risk at the reporting date is the carrying value. No allowance for impairment has been made.		

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group																															
2019 Rm	2020 Rm		2020 Rm	2019 Rm																														
7 516	7 516	15 Stated capital and treasury shares																																
		15.1 Stated capital	7 516	7 516																														
		<p>Authorised: 1 300 000 000 (2019: 1 300 000 000) no par value ordinary shares</p> <p>Issued: 591 338 502 (2019: 591 338 502) no par value ordinary shares</p> <p>Details of the beneficial shareholders holding 5% or more of the total issued shares are disclosed in Annexure B.</p> <p>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:</p> <table border="1"> <thead> <tr> <th></th> <th colspan="2">Number of shares</th> </tr> <tr> <th></th> <th>2020</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>Issued ordinary share capital</td> <td>591 338 502</td> <td>591 338 502</td> </tr> <tr> <td>Treasury shares (note 15.2)</td> <td>(38 632 000)</td> <td>(36 941 101)</td> </tr> <tr> <td></td> <td>552 706 502</td> <td>554 397 401</td> </tr> </tbody> </table> <p>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.</p> <p>All shares are fully paid up.</p> <p>Details of special resolutions passed by the Company and its subsidiaries during the reporting period are provided in the directors' report. Full details will be provided in the notice to shareholders published in the Integrated Annual Report.</p>		Number of shares			2020	2019	Issued ordinary share capital	591 338 502	591 338 502	Treasury shares (note 15.2)	(38 632 000)	(36 941 101)		552 706 502	554 397 401																	
	Number of shares																																	
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—	—	15.2 Treasury shares	806	605																														
		38 632 000 (2019: 36 941 101) ordinary shares																																
		<p>Reconciliation of movement in number of treasury shares for the Group:</p> <table border="1"> <thead> <tr> <th></th> <th colspan="2">Number of shares</th> </tr> <tr> <th></th> <th>2020</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>Balance at the beginning of the year</td> <td>36 941 101</td> <td>36 659 642</td> </tr> <tr> <td>Shares purchased during the year</td> <td>2 076 613</td> <td>630 341</td> </tr> <tr> <td>Shares disposed during the year</td> <td>(49 023)</td> <td>(70 073)</td> </tr> <tr> <td>Shares utilised for settlement of equity-settled share-based payment arrangements</td> <td>(336 691)</td> <td>(278 809)</td> </tr> <tr> <td>Balance at the end of the year</td> <td>38 632 000</td> <td>36 941 101</td> </tr> </tbody> </table> <p>Consisting of:</p> <table border="1"> <tbody> <tr> <td>Shares owned by Shoprite Checkers (Pty) Ltd</td> <td>35 436 572</td> <td>35 436 572</td> </tr> <tr> <td>Shares held by Shoprite Checkers (Pty) Ltd for the benefit of participants to equity-settled share-based payment arrangements (refer to note 16.2)</td> <td>3 195 428</td> <td>1 504 529</td> </tr> <tr> <td></td> <td>38 632 000</td> <td>36 941 101</td> </tr> </tbody> </table>		Number of shares			2020	2019	Balance at the beginning of the year	36 941 101	36 659 642	Shares purchased during the year	2 076 613	630 341	Shares disposed during the year	(49 023)	(70 073)	Shares utilised for settlement of equity-settled share-based payment arrangements	(336 691)	(278 809)	Balance at the end of the year	38 632 000	36 941 101	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 16.2)	3 195 428	1 504 529		38 632 000	36 941 101		
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16 Share-based compensation plans

16.1 Cash-settled share-based payments

The Group has granted cash-settled share-based payments to non-executive director, CH Wiese, via a management company. The rights to cash-settled share-based payments entitle the participant to receive cash payments based on the difference between the share price at the date of the exercise of the rights and the strike price which relates to the share price at the date of the grant. The Group has recognised the liability in respect of the cash-settled share-based payments and included it in payables (refer to note 21).

Refer to note 25.1 for the expense recognised in the statement of comprehensive income as employee benefits.

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

16.2 Equity-settled share-based payments

The Group offers long-term incentives in the form of rights to ordinary shares of Shoprite Holdings Ltd through participation in the Shoprite Holdings Ltd Executive Share Plan (ESP) (previously virtual option bonus plan) and the deferred short-term incentive plan (previously long-term incentive bonus plan).

Shares granted in terms of the new ESP and deferred short-term incentive plan, as well as the previous virtual option bonus and long-term incentive bonus plans meet the definition of equity-settled share-based payments. The rights to the shares granted entitle the participants to receive Shoprite Holdings Ltd ordinary shares on vesting at an exercise price of nil. The shares are acquired in the market at the grant date and are held as treasury shares until they are vested. The Company's main trading subsidiary, Shoprite Checkers (Pty) Ltd, purchased 2 076 613 (2019: 630 341) Shoprite Holdings Ltd ordinary shares in relation to shares granted during the year. The ownership of these shares vests with Shoprite Checkers (Pty) Ltd until vesting conditions are met by the participants. The participants are entitled to the dividends and voting rights in relation to the shares granted during the vesting period. The vesting conditions are set out below.

Refer to note 25.1 for the expense recognised in the statement of comprehensive income as employee benefits. The reconciliation of amounts recorded in the share-based payment reserve is presented in note 17.1.1.

ESP

Employees that participate in the ESP may be eligible for performance shares, retention shares and/or co-investment shares. These shares vest three years from the grant date if the vesting conditions (subject to certain special circumstances) are met. If the employee does not fulfil the vesting conditions, other than in certain limited circumstances, the award will lapse and the employee will lose all rights in respect of the ESP shares.

ESP performance shares: Performance conditions, as determined by the Remuneration Committee, are attached to these shares. Vesting is dependent on the achievement of the performance criteria by the vesting date and the employee meeting the service requirement of remaining employed by the Group throughout the vesting period.

ESP co-investment shares: There are no performance conditions attached to these shares. Vesting is dependent on the employee meeting the service requirement of remaining employed by the Group throughout the vesting period. As an additional vesting condition, the employee is required to acquire and hold Shoprite Holdings Ltd ordinary shares, without any encumbrance, for the entire vesting period.

ESP retention shares: There are no performance conditions attached to these shares. Vesting is only dependent on the employee meeting the service requirement of remaining employed by the Group throughout the vesting period.

Deferred short-term incentive plan

Under the Group's deferred short-term incentive plan, employees may be eligible for shares, based on the achievement of short-term incentive criteria for the reporting period. The rights are granted at the end of September of the following financial year. There are no performance conditions attached to these shares. Vesting is only dependent on the employee meeting the service requirement of remaining employed by the Group throughout the vesting period. These shares vest three years from the grant date if the vesting conditions (subject to certain special circumstances) are met. If the employee does not fulfil the vesting conditions, other than in certain limited circumstances, the award will lapse and the employee will lose all rights in respect of these shares.

At the grant date, employees may elect to settle their unvested benefits earned in respect of the previous year in shares. The Group therefore grants shares to management in the form of forfeitable retention share awards, resulting in 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 deferred short-term incentive plan is converted to shares in Shoprite Holdings Ltd. The Group recognises a modification of a cash bonus arrangement in respect of these deferred short-term incentives and transfers the liability as at the modification date from provisions to the share-based payment reserve within equity. The vesting conditions and vesting periods are not affected by this modification.

Virtual option bonus and long-term incentive bonus plans

The virtual option bonus and long-term incentive bonus plans have been replaced by the ESP and deferred short-term incentive plan respectively during the current year. The previous virtual option bonus and long-term incentive bonus plans operated in the same manner as the new deferred short-term incentive plan, with the exception of different vesting periods as determined under the virtual option bonus and long-term incentive bonus plans. These shares vest in equal thirds over a three-, four- and five-year period from the grant date if vesting conditions (subject to certain special circumstances) are met. If the employee does not fulfil the vesting conditions, other than in certain limited circumstances, the award will lapse and the employee will lose all rights in respect of these shares.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

16 Share-based compensation plans (continued)

16.2 Equity-settled share-based payments (continued)

16.2.1 ESP performance shares

Reconciliation of movement in number of performance shares granted by the Group:

	Weighted average price per share on date of the grant		Number of shares	
	2020	2019	2020	2019
Balance at the beginning of the year	—	—	—	—
Shares granted during the year	R115.50	—	861 638	—
Shares forfeited during the year	R115.50	—	(6 550)	—
Balance at the end of the year	R115.50	—	855 088	—

Performance shares outstanding at the end of the year will vest on 5 September 2022.

The fair value of performance shares awarded in terms of the ESP during the year was based on the closing share price of a Shoprite Holdings Ltd ordinary share as quoted on the Johannesburg Securities Exchange on the date of the grant and determined at R115.50 per share. The following assumptions were used in calculating the fair value:

	2020
Total number of performance shares awarded	861 638
Grant date	5 September 2019
Vesting date	5 September 2022
Share price on grant date	R115.50
Exercise price	R0.00
Forfeiture rate	4.0%

16.2.2 ESP co-investment shares

Reconciliation of movement in number of co-investment shares granted by the Group:

	Weighted average price per share on date of the grant		Number of shares	
	2020	2019	2020	2019
Balance at the beginning of the year	—	—	—	—
Shares granted during the year	R115.50	—	211 565	—
Shares forfeited during the year	R115.50	—	(261)	—
Balance at the end of the year	R115.50	—	211 304	—

Co-investment shares outstanding at the end of the year will vest on 5 September 2022.

The fair value of co-investment shares awarded in terms of the ESP during the year was based on the closing share price of a Shoprite Holdings Ltd ordinary share as quoted on the Johannesburg Securities Exchange on the date of the grant and determined at R115.50 per share. The following assumptions were used in calculating the fair value:

	2020
Total number of co-investment shares awarded	211 565
Grant date	5 September 2019
Vesting date	5 September 2022
Share price on grant date	R115.50
Exercise price	R0.00
Forfeiture rate	4.0%



16 Share-based compensation plans (continued)

16.2 Equity-settled share-based payments (continued)

16.2.3 ESP retention shares

Reconciliation of movement in number of retention shares granted by the Group:

	Weighted average price per share on date of the grant		Number of shares	
	2020	2019	2020	2019
Balance at the beginning of the year	—	—	—	—
Shares granted during the year	R115.50	—	288 132	—
Shares forfeited during the year	R115.50	—	(2 741)	—
Balance at the end of the year	R115.50	—	285 391	—

Retention shares outstanding at the end of the year will vest on 5 September 2022.

The fair value of retention shares awarded in terms of the ESP during the year was based on the closing share price of a Shoprite Holdings Ltd ordinary share as quoted on the Johannesburg Securities Exchange on the date of the grant and determined at R115.50 per share. The following assumptions were used in calculating the fair value:

	2020
Total number of retention shares awarded	288 132
Grant date	5 September 2019
Vesting date	5 September 2022
Share price on grant date	R115.50
Exercise price	R0.00
Forfeiture rate	4.0%

16.2.4 Shares awarded under the deferred short-term incentive, virtual option bonus and long-term incentive bonus plans

Reconciliation of movement in number of shares granted by the Group:

	Weighted average price per share on date of the grant		Number of shares	
	2020	2019	2020	2019
Balance at the beginning of the year	R188.01	R192.20	1 504 529	1 223 070
Shares granted during the year	R132.39	R176.72	715 278	630 341
Shares vested during the year	R186.12	R180.04	(336 691)	(278 809)
Shares forfeited during the year	R178.84	R191.25	(39 471)	(70 073)
Balance at the end of the year	R166.97	R188.01	1 843 645	1 504 529

The market price of share grants vested during the year was R126.96 (2019: R188.83) per share.

Vesting dates of shares outstanding under the deferred short-term incentive, virtual option bonus and long-term incentive bonus plans at the end of the year:

	2020	2019	2020	2019
30 September 2019	R0.00	R186.76	—	286 682
30 September 2020	R195.43	R195.35	321 958	344 207
30 September 2021	R189.22	R189.12	356 222	380 195
30 September 2022	R161.83	R186.87	509 461	293 966
30 September 2023	R151.96	R176.72	420 239	199 479
30 September 2024	R132.39	R0.00	235 765	—
	R166.97	R188.01	1 843 645	1 504 529

The fair value of shares awarded under the deferred short-term incentive, virtual option bonus and long-term incentive bonus plans during the year was based on the closing share price of a Shoprite Holdings Ltd ordinary share as quoted on the Johannesburg Securities Exchange on the date of the grant and determined at R132.39 per share. The following assumptions were used in calculating the fair value:

	2020
Total number of full share grants awarded	715 278
Grant date	30 October 2019
Vesting date	30 September 2022 – 2024
Share price on grant date	R132.39
Exercise price	R0.00
Forfeiture rate	4.0%

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

16 Share-based compensation plans (continued)

16.2 Equity-settled share-based payments (continued)

16.2.5 Share awards held by executive directors

Award granted	Grant date	Award grant price	Vesting date	2020 Number of shares			
				At the beginning of the year	Granted during the year	Vested during the year	At the end of the year
PC Engelbrecht							
Virtual option bonus shares	24/10/2017	R0.00	30/9/2019	16 955	—	(16 955)	—
Virtual option bonus shares	24/10/2017	R0.00	30/9/2020	16 963	—	—	16 963
ESP performance shares	5/9/2019	R0.00	5/9/2022	—	97 846	—	97 846
ESP co-investment shares	5/9/2019	R0.00	5/9/2022	—	21 859	—	21 859
ESP retention shares	5/9/2019	R0.00	5/9/2022	—	13 047	—	13 047
Total				33 918	132 752	(16 955)	149 715
A de Bruyn							
Virtual option bonus shares	24/10/2017	R0.00	30/9/2019	2 327	—	(2 327)	—
Virtual option bonus shares	24/10/2017	R0.00	30/9/2020	2 329	—	—	2 329
Virtual option bonus shares	30/10/2018	R0.00	30/9/2021	2 290	—	—	2 290
Virtual option bonus shares	30/10/2018	R0.00	30/9/2022	2 290	—	—	2 290
Virtual option bonus shares	30/10/2018	R0.00	30/9/2023	2 291	—	—	2 291
Virtual option bonus shares	30/10/2019	R0.00	30/9/2022	—	4 662	—	4 662
Virtual option bonus shares	30/10/2019	R0.00	30/9/2023	—	4 662	—	4 662
Virtual option bonus shares	30/10/2019	R0.00	30/9/2024	—	4 666	—	4 666
ESP performance shares	5/9/2019	R0.00	5/9/2022	—	16 225	—	16 225
ESP co-investment shares	5/9/2019	R0.00	5/9/2022	—	3 880	—	3 880
ESP retention shares	5/9/2019	R0.00	5/9/2022	—	3 474	—	3 474
Total				11 527	37 569	(2 327)	46 769
2019 Number of shares							
Award granted	Grant date	Award grant price	Vesting date	At the beginning of the year	Granted during the year	Vested during the year	At the end of the year
PC Engelbrecht							
Virtual option bonus shares	24/10/2017	R0.00	30/9/2018	16 955	—	(16 955)	—
Virtual option bonus shares	24/10/2017	R0.00	30/9/2019	16 955	—	—	16 955
Virtual option bonus shares	24/10/2017	R0.00	30/9/2020	16 963	—	—	16 963
Total				50 873	—	(16 955)	33 918
A de Bruyn							
Virtual option bonus shares	24/10/2017	R0.00	30/9/2018	2 327	—	(2 327)	—
Virtual option bonus shares	24/10/2017	R0.00	30/9/2019	2 327	—	—	2 327
Virtual option bonus shares	24/10/2017	R0.00	30/9/2020	2 329	—	—	2 329
Virtual option bonus shares	30/10/2018	R0.00	30/9/2021	—	2 290	—	2 290
Virtual option bonus shares	30/10/2018	R0.00	30/9/2022	—	2 290	—	2 290
Virtual option bonus shares	30/10/2018	R0.00	30/9/2023	—	2 291	—	2 291
Total				6 983	6 871	(2 327)	11 527



Company					Group	
2019 Rm	2020 Rm			2020 Rm	Restated* 2019 Rm	
		17 Reserves*				
4 843	5 505	Retained earnings		21 048	19 466	
—	—	Other reserves (note 17.1)		(7 907)	(4 276)	
4 843	5 505			13 141	15 190	
		17.1 Other reserves				
		Share-based payments reserve (note 17.1.1)		203	149	
		Foreign currency translation reserve (note 17.1.2)		(8 110)	(4 425)	
—	—			(7 907)	(4 276)	
		17.1.1 Share-based payments reserve				
		Reconciliation of carrying value				
		Carrying value at the beginning of the year		149	108	
		Share-based payments – value of employee services		101	75	
		Modification of cash bonus arrangement transferred from provisions		16	16	
		Realisation of share-based payment reserve		(63)	(50)	
		Carrying value at the end of the year		203	149	
		17.1.2 Foreign currency translation reserve				
		Reconciliation of carrying value				
		Carrying value at the beginning of the year		(4 425)	(1 769)	
		Foreign currency translation differences including hyperinflation effect, net of income tax*		(3 375)	(2 656)	
		Group		(3 413)	(2 656)	
		Equity accounted investments		38	—	
		Loss on effective net investment hedge, net of income tax		(310)	—	
		Loss on effective net investment hedge		(406)	—	
		Related income tax		96	—	
		Carrying value at the end of the year		(8 110)	(4 425)	
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.				
		18 Lease liabilities*				
		Reconciliation of carrying values				
		Balance at the beginning of the year		21 478	21 049	
		New leases and remeasurements		5 540	2 594	
		Lease termination		(255)	—	
		Lease payments		(4 590)	(4 055)	
		Principal lease liability payments		(2 585)	(2 245)	
		Interest paid		(2 005)	(1 810)	
		Interest accrual		1 984	1 814	
		Exchange rate differences		404	458	
		Transfer to liabilities directly associated with assets classified as held for sale (note 32)		(1 481)	—	
		Foreign currency translation differences including hyperinflation effect		191	(382)	
		Balance at the end of the year		23 271	21 478	
		Analysis of total lease liabilities:				
		Non-current		20 168	19 158	
		Current		3 103	2 320	
				23 271	21 478	

* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.

The Group's leasing activities and how they are accounted for are disclosed in note 1.11.1.

Material concentrations of currency risk within the Group's lease liabilities are presented in note 40.4.2(a). Refer to note 40.4.3 for a maturity analysis of contractual undiscounted future lease payments, including renewal options reasonably assured.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company		Group	
2019 Rm	2020 Rm	2020 Rm	Restated* 2019 Rm
18 Lease liabilities* (continued)			
The Group is exposed to the following potential future undiscounted cash outflows which are not included in the measurement of lease liabilities:			
Extension and termination options not reasonably assured		61 818	56 972
Leases not yet commenced to which the Group is committed		2 575	1 439
Right-of-use assets recognised in the statement of financial position in relation to the Group's lease liabilities are disclosed in note 5.			
The statement of comprehensive income includes the following amounts relating to leases:			
Depreciation charge of right-of-use assets (note 24)		2 600	2 393
Impairment charge of right-of-use assets (included in items of a capital nature, note 28)		470	356
Interest expense (included in finance costs, note 30)		1 920	1 754
Expense relating to short-term leases (included in other operating expenses, note 27)		544	356
Expense relating to variable lease payments not included in lease liabilities (included in other operating expenses, note 27)		447	396
Total cash outflows for leases amounted to R5.6 billion (2019: R4.8 billion) during the reporting period.			
Sale and leaseback transactions:			
Sale and leaseback transactions relating to the Group's property, plant and equipment may become more prevalent as and when the opportunity arises. The Group secured long-term financing during the reporting period by entering into a sale and leaseback transaction on its commercial vehicle fleet. This transaction generated cash inflows of R1.1 billion and no profit or loss. The commercial vehicle fleet was leased back over an average lease term of five years.			
Key terms and conditions of the sale and leaseback of the Group's commercial vehicle fleet are disclosed below:			
Market value of commercial vehicle fleet at disposal date		1 058	—
Carrying amount of commercial vehicle fleet at disposal date		1 058	—
		Prime minus	—
Interest rate implicit to the lease		2%	—
Average lease term		5 years	—
The age and mileage of the commercial vehicle fleet were used to determine a fair lease period and rental based on market values.			
Payments not included in the measurement of the lease liability relating to the commercial vehicle fleet include monthly managed maintenance fees of R60 per vehicle and administration fees of R100 per vehicle. Normal maintenance charges are also not included to ensure that only the rental portion, directly related to the cost price, is included in the measurement of the lease liability.			



Company			Group	
2019 Rm	2020 Rm		2020 Rm	2019 Rm
		19 Borrowings		
		Consisting of:		
		ABSA Bank Ltd (note 19.2)	2 035	2 043
		Firststrand Bank Ltd (note 19.3)	2 004	2 008
		ABSA Bank (Mauritius) Ltd (note 19.4)	469	991
		Standard Chartered Bank (Mauritius) Ltd (note 19.5)	945	1 472
		Standard Finance (Isle of Man) Ltd (note 19.6)	6 007	4 968
		Stanbic Bank Kenya Ltd (note 19.7)	238	84
		Stanbic Bank Botswana Ltd (note 19.8)	311	—
		First National Bank of Namibia Ltd (note 19.9)	—	140
—	—		12 009	11 706
		Analysis of total borrowings:		
		Non-current	8 826	9 044
		Current	3 183	2 662
—	—		12 009	11 706
		19.1 Reconciliation of movement in liabilities arising from financing activities		
		Carrying value at the beginning of the year	11 706	6 977
		Cash inflows	4 854	8 770
		Cash outflows	(5 995)	(4 271)
		Foreign currency translation differences including hyperinflation effect	1 444	230
—	—	Carrying value at the end of the year	12 009	11 706
		19.2 ABSA Bank Ltd		
		This loan is denominated in South Africa rand and unsecured. R1.0 billion is payable after 15 months from the reporting date and bears interest at an average rate of 7.9% (2019: 8.5%) p.a. The remaining balance is payable after 39 months from the reporting date and bears interest at an average rate of 8.2% (2019: 8.8%) p.a.		
		19.3 Firststrand Bank Ltd		
		This loan is denominated in South Africa rand and unsecured. R1.0 billion is payable after 24 months from the reporting date and bears interest at an average rate of 7.9% (2019: 8.4%) p.a. The remaining balance is payable after 48 months from the reporting date and bears interest at an average rate of 8.0% (2019: 8.5%) p.a.		
		19.4 ABSA Bank (Mauritius) Ltd (previously Barclays Bank Mauritius Ltd)		
		This loan is denominated in US dollar, unsecured, payable after six months from the reporting date and bears interest at an average rate of 3.2% (2019: 3.7%) p.a.		
		19.5 Standard Chartered Bank (Mauritius) Ltd		
		The amount outstanding at 30 June 2019 was repaid during the current year, denominated in US dollar, unsecured and carried interest at an average rate of 2.7% (2019: 2.9%) p.a. The Group entered into a new loan agreement during the year. This loan is denominated in US dollar, unsecured, payable after one month from the reporting date and bears interest at an average rate of 2.8% p.a.		
		19.6 Standard Finance (Isle of Man) Ltd		
		This loan is denominated in US dollar and unsecured. R1.7 billion (2019: R1.4 billion) is payable after six months from the reporting date and bears interest at a fixed rate of 3.5% (2019: 3.5%) p.a. The remaining balance is payable after 15 months from the reporting date and bears interest at a fixed rate of 4.3% (2019: 4.3%) p.a.		
		19.7 Stanbic Bank Kenya Ltd		
		This loan is denominated in Kenya shilling, unsecured, payable after 21 months from the reporting date and bears interest at an average rate of 9.7% (2019: 9.2%) p.a.		

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group	
2019 Rm	2020 Rm		2020 Rm	Restated* 2019 Rm
		19 Borrowings (continued)		
		19.8 Stanbic Bank Botswana Ltd		
		This loan is denominated in Botswana pula, unsecured, payable after 21 months from the reporting date and bears interest at an average rate of 6.5% p.a.		
		19.9 First National Bank of Namibia Ltd		
		This loan was denominated in Namibia dollar, unsecured, payable on demand and carried interest at an average rate of 9.6% (2019: 9.5%) p.a.		
		20 Provisions*		
		Provision for post-employment medical benefits	26	28
		Provision for outstanding claims	11	23
		Provision for long-term employee benefits	329	275
		Reinstatement provision	87	64
			453	390

* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.

Reconciliation of carrying values

Group	Post-employment medical benefits Rm	Outstanding claims Rm	Long-term employee benefits Rm	Reinstatement provision Rm	Total Rm
Balance at 1 July 2018	31	7	248	64	350
Additional provisions	—	16	92	5	113
Unused amounts reversed	—	—	(6)	(4)	(10)
Re-measurements recognised directly in other comprehensive income	(4)	—	—	—	(4)
Utilised during the year	(2)	—	(63)	(1)	(66)
Accretion of discount	3	—	22	—	25
Modification of cash bonus arrangement transferred to share-based payments reserve	—	—	(16)	—	(16)
Foreign currency translation differences including hyperinflation effect	—	—	(2)	—	(2)
Balance at 30 June 2019	28	23	275	64	390
Additional provisions	—	—	144	4	148
Additions against right-of-use assets	—	—	—	74	74
Unused amounts reversed	—	(12)	—	(50)	(62)
Re-measurements recognised directly in other comprehensive income	(2)	—	—	—	(2)
Utilised during the year	(3)	—	(102)	(6)	(111)
Accretion of discount	3	—	33	1	37
Modification of cash bonus arrangement transferred to share-based payments reserve	—	—	(16)	—	(16)
Transfer to liabilities directly associated with assets classified as held for sale (note 32)	—	—	(3)	—	(3)
Foreign currency translation differences	—	—	(2)	—	(2)
Balance at 28 June 2020	26	11	329	87	453
Analysis of total provisions:					
2019					
Non-current	28	—	212	39	279
Current	—	23	63	25	111
	28	23	275	64	390
2020					
Non-current	24	—	256	61	341
Current	2	11	73	26	112
	26	11	329	87	453
Discount rates used					
2019	10.0%	N/A	7.7%	13.8%	
2020	10.3%	N/A	5.8%	13.3%	



Company			Group	
2019 Rm	2020 Rm		2020 Rm	Restated* 2019 Rm
		21 Trade and other payables*		
—	—	Trade payables	13 407	13 082
14	12	Other payables and accruals (note 21.1)	3 670	3 539
—	—	Deposits and third-party payments liability	477	512
—	—	Employee benefit accruals	1 628	1 408
—	—	Indirect taxes payable	646	393
—	—	Insurance contract allowances		
—	—	– Unearned premiums (note 21.2)	182	193
—	—	Amounts owing to joint ventures (note 21.3)	—	8
—	—	Refund liability	46	39
—	—	Cash-settled share-based payment accrual (note 16.1)	101	151
14	12		20 157	19 325
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		21.1 Deferred shares		
		Authorised:		
		720 000 000 (2019: 720 000 000) non-convertible, non-participating, non-transferable no par value deferred shares		
		Issued:		
—	—	305 621 601 (2019: 305 621 601) non-convertible, non-participating, non-transferable no par value deferred shares	—	—
		The deferred share liability of R0.3 million (2019: R0.3 million) is included in other payables at the reporting date.		
		All shares are fully paid up.		
		In terms of the transaction agreement concluded between the Company, Thibault Square Financial Services (Pty) Ltd and Titan Premier Investments on 18 April 2019, the voting rights attached to 40 652 489 deferred shares held by Thibault Square will remain restricted whilst all the required approvals are obtained to enable the acquisition of these deferred shares as required in the Memorandum of Incorporation (MOI) of the Company. All other deferred shares carry the same voting rights as the ordinary shares.		
		The deferred shares are not convertible into shares of any other class, are not entitled to participate in any profits of the Company and no dividends may be declared or paid in respect of these shares. The holder of these shares is entitled to be present at any meeting of the Company and is entitled on a poll to one vote in respect of every share held.		
		The Company shall proportionally acquire deferred shares in relation to the extent which the shareholder disposes of his interest in ordinary shares in the Company. The Company shall acquire all issued deferred shares, should the shareholder's interest in ordinary shares become less than 10%. These shares are not listed on any stock exchange.		
		Subject to certain limitations, the unissued deferred share capital is under the control of the directors, who may issue it under predetermined circumstances as set out in the MOI of Shoprite Holdings Ltd.		
		21.2 Analysis of allowance for unearned premiums		
		Balance at the beginning of the year	193	214
		Change in allowance for unearned premiums	(11)	(21)
		Premiums written during the year	190	246
		Amortisation charged to income (note 23)	(201)	(267)
—	—	Balance at the end of the year	182	193

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group	
2019 Rm	2020 Rm		2020 Rm	Restated* 2019 Rm
–	–	21 Trade and other payables* (continued)		
		21.3 Amounts owing to joint ventures	–	8
		These loans were unsecured, repaid during the year and carried interest at an average rate of 6.5% (2019: 6.5%) p.a.		
–	–	22 Contract liabilities		
		Gift vouchers, saving stamps and layaway sales	864	791
		Reconciliation of contract liabilities:		
		Balance at the beginning of the year	791	578
		Prepayments received during the year	3 170	3 176
		Revenue recognised upon redemption	(3 077)	(2 636)
		Prepayments included in opening balance	(781)	(487)
		Prepayments received during the year	(2 296)	(2 149)
		Revenue recognised upon expiry date	(13)	(291)
		Breakage amount recognised as revenue during the year	(1)	(34)
		Transfer to liabilities directly associated with assets classified as held for sale (note 32)	(4)	–
		Foreign currency translation differences including hyperinflation effect	(2)	(2)
–	–	Balance at the end of the year	864	791
		23 Revenue and other income		
94	112	Revenue from contracts with customers	158 419	149 056
–	–	Sale of merchandise (note 23.1)	156 855	147 478
–	–	Commissions received (note 23.2)	845	875
–	–	Franchise fees received	108	96
94	112	Other revenue	611	607
65	115	Finance income (note 23.3)	1 041	1 014
–	–	Operating lease income (note 23.4)	507	504
–	–	Premiums and other insurance income earned	235	267
–	–	Other income	19	96
1 863	2 421	Dividends received (note 23.5)	1	22
2 022	2 648		160 222	150 959
		Consisting of:		
–	–	Sale of merchandise	156 855	147 478
1 957	2 533	Other operating income	2 326	2 467
52	56	Interest revenue	598	742
13	59	Interest received from bank account balances	443	272
2 022	2 648		160 222	150 959
		23.1 Sale of merchandise has been disaggregated as follows:		
		Supermarkets RSA	122 412	112 655
		Shoprite and Usave	66 783	62 602
		Checkers and Checkers Hyper	48 520	42 731
		LiquorShop and other	7 109	7 322
		Supermarkets Non-RSA	18 153	18 407
		Shoprite and Usave	17 001	17 221
		Checkers and Checkers Hyper	947	972
		LiquorShop and other	205	214
		Furniture	5 470	6 206
		RSA	4 211	4 825
		Non-RSA	1 259	1 381
		Other operating segments	10 820	10 409
		Drop-shipment sales to franchisees	5 965	5 839
		Other sales	4 855	4 570
		Total operating segments	156 855	147 677
		Hyperinflation effect	–	(199)
–	–	Consolidated sale of merchandise	156 855	147 478



Company			Group	
2019 Rm	2020 Rm		2020 Rm	2019 Rm
		23 Revenue and other income (continued)		
		23.2 Commissions received		
		Commission on Computicket ticket sales	153	209
		Commission on money transfers	196	216
		Commission on third-party account and insurance payments	147	158
		Other commissions received	349	292
—	—		845	875
		23.3 Finance income		
		Finance income earned from instalment sale receivables	255	320
—	—	Interest received from bank account balances	443	272
13	59	Interest received from government bonds and bills	210	316
—	—	Interest received from subsidiaries	—	—
52	56	Interest received from associates	52	48
—	—	Interest received other	81	58
—	—			
65	115		1 041	1 014
		23.4 Operating lease income		
		The Group has entered into various operating lease agreements as the lessor of property.		
		Leases on properties are contracted for periods of between one and 20 years (2019: one and 10 years). Rental comprises mainly minimum monthly payments. Rental escalations vary, but average at a rate of 8.5% (2019: 7.6%) p.a.		
		23.5 Dividends received		
		Dividends received from subsidiaries	—	—
1 863	2 421	Dividends received from unlisted investments	1	22
—	—		1	22
1 863	2 421			
				Restated*
		24 Depreciation and amortisation		
		Property, plant and equipment	2 463	2 595
		Right-of-use assets*	2 600	2 393
		Intangible assets	360	385
			5 423	5 373
		Disclosed as cost of sales	(392)	(402)
—	—		5 031	4 971
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		25 Employee benefits		
		Wages, salaries and other staff benefits	13 215	12 574
		Share-based payment arrangements (note 25.1)	50	12
		Post-employment medical benefits	3	3
		Retirement benefit contributions (note 39)	548	504
			13 816	13 093
		Disclosed as cost of sales	(1 231)	(1 248)
—	—		12 585	11 845
		25.1 Share-based payment arrangements		
		Cash-settled share-based payments (note 16.1)	(50)	(63)
		Equity-settled share-based payments (note 16.2)	100	75
—	—		50	12

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group	
2019 Rm	2020 Rm		2020 Rm	2019 Rm
		25 Employee benefits (continued)		
		25.2 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% (2019: 28%).		
		Mandatory grants received	17	19
		Discretionary grants received	17	24
–	–		34	43
		In terms of the Disaster Management Tax Relief Bill 2020, relief was granted to employers in the form of a temporary suspension of the SDLs from 1 May 2020. The Group received relief of R16.5 million for SDLs during the year. This resulted in a reduction in mandatory grants received for the applicable months of the reporting period.		
		25.3 Employment tax incentive (ETI)		
		The Group has, during the year under review, received an ETI allowance.		
		Employment tax incentive rebates		
		In terms of the Employment Tax Incentive Act of 2013 the Group can recoup rebates for hiring young work seekers in South Africa. The ETI rebate allowance promulgation has been extended for a further 10 years ending in 2029 and the levels of rebates was increased by an estimated 25%. The resulting reduction in employee benefit expenses is set out below.		
–	–	Employment tax incentive	335	299
		In terms of the Disaster Management Tax Relief Bill 2020, relief was granted to employers in the form of a change in criteria for qualifying employees from 1 April 2020. This resulted in an increase in the incentive amount received by employers for the applicable months of the reporting period.		
		26 Directors' remuneration		
34	50	Executive directors		
6	6	Non-executive directors		
40	56		–	–
(34)	(50)	Less: paid by subsidiaries and joint ventures		
6	6		–	–

The only prescribed officers of the Group are listed on the next page.

For details of equity and cash-settled share-based payment instruments issued to directors refer to note 16.



26 Directors' remuneration (continued)

R'000	2020						2019					
	Remune- ration	Short- term perfor- mance bonus	Long- term incentive bonus ¹	Retire- ment and medical benefits	Other benefits	Total	Remune- ration	Short- term perfor- mance bonus	Long- term incentive bonus ¹	Retire- ment and medical benefits	Other benefits	Total
Executive directors and alternates												
M Bosman (retired 2/7/2018)	—	—	—	—	—	—	95	—	—	—	—	95
A de Bruyn	3 758	2 018	1 940	249	345	8 310	3 123	1 161	1 960	207	287	6 738
PC Engelbrecht	16 121	7 648	10 651	231	519	35 170	16 130	4 436	—	214	491	21 271
B Harisunker	4 033	2 083	—	—	509	6 625	3 794	1 402	—	—	528	5 724
	23 912	11 749	12 591	480	1 373	50 105	23 142	6 999	1 960	421	1 306	33 828

R'000	2020		2019	
	Fees	Total	Fees	Total
Non-executive directors				
JF Basson	1 104	1 104	749	749
JJ Fouché (retired 27/2/2019)	—	—	394	394
CG Goosen (retired 30/10/2018)	—	—	141	141
EC Kieswetter (resigned 6/5/2019)	250	250	653	653
AM le Roux (appointed 30/11/2018)	692	692	353	353
JA Louw (retired 30/10/2018)	—	—	262	262
ATM Mokgokong	1 218	1 218	623	623
JA Rock	794	794	603	603
CH Wiese*	1 722	1 722	1 211	1 211
S Zinn (appointed 31/8/2018 and resigned 6/11/2019)	488	488	538	538
	6 268	6 268	5 527	5 527

¹ Long-term incentive bonuses include the grant date fair value of shares granted in terms of the ESP (2019: virtual option bonus plan) without spreading the expense over the vesting period. Refer to note 16.2 for further details.

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group	
2019 Rm	2020 Rm		2020 Rm	Restated* 2019 Rm
		27 Other operating expenses		
—	—	Advertising	2 347	2 497
—	—	Cleaning	891	793
—	—	Commission paid	946	805
—	—	Electricity and water	3 373	3 002
15	23	Fees for professional services	698	607
—	—	Motor vehicle expenses	992	1 130
—	—	Lease expenses (note 18)	991	752
—	—	Repairs and maintenance	1 766	1 731
—	—	Security services	1 679	1 568
14	14	Other expenses	2 557	2 519
29	37		16 240	15 404
—	—	Disclosed as cost of sales*	(2 051)	(1 987)
29	37		14 189	13 417
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		28 Items of a capital nature		
		Profit on disposal and scrapping of property (note 3)	—	10
		Profit on disposal of assets held for sale (note 4)	239	101
		Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 6)	(91)	(103)
		Impairment of property, plant and equipment (note 3)	(694)	(127)
		Impairment of right-of-use assets (note 5)*	(470)	(356)
		Impairment of intangible assets (note 6)	(99)	(40)
		Insurance claims receivable	11	97
		Profit on disposal of subsidiary	46	—
		Profit/(loss) on other investing activities	3	(1)
—	—		(1 055)	(419)
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		29 Operating profit		
		Determined after taking into account the following:		
		Fair value losses on financial instruments	2	1
		Policyholder claims and benefits paid	1	58
		– claims paid	13	42
		– movement in accumulated outstanding claims (note 20)	(12)	16
		30 Finance costs		
		Lease liability finance charges*	1 920	1 754
		Borrowings and other finance charges	1 001	874
—	—		2 921	2 628
		Borrowing costs capitalised	(11)	(29)
—	—		2 910	2 599
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		



Company			Group	
2019 Rm	2020 Rm		2020 Rm	Restated* 2019 Rm
		31 Income tax expense*		
		31.1 Classification		
39	63	South African income tax	1 777	1 504
—	—	Foreign income tax	6	211
39	63		1 783	1 715
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		31.2 Consisting of:		
44	63	Current income tax	2 204	1 631
(4)	—	Prior year income tax	12	9
—	—	Withholding income tax	44	99
40	63		2 260	1 739
(1)	—	Deferred income tax	(477)	(24)
39	63		1 783	1 715
		31.3 Reconciliation of income tax		
558	731	South African current income tax at 28% (2019: 28%)	1 469	1 551
(519)	(668)	Net adjustments	314	164
(522)	(678)	Dividend income	—	(7)
—	—	Exempt income**	(375)	(185)
7	10	Non-deductible expenses***	235	104
—	—	Income tax allowances	(13)	(24)
—	—	Deferred income tax asset previously not recognised	(86)	(19)
(4)	—	Prior year income tax	12	9
—	—	Effect of foreign income tax rates	86	47
—	—	Withholding income tax	44	99
—	—	Deferred income tax asset not recognised****	411	140
39	63	Income tax	1 783	1 715
2.0%	2.4%	Effective tax rate	34.0%	31.0%

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

*** Non-deductible expenses mainly comprise professional fees, bad debt written off and interest on shareholder loans.

**** The increase in deferred income tax asset not recognised mainly relates to the derecognition of deferred income tax assets previously recognised, where the current economic environment of certain countries deteriorated during the year to such an extent that it is no longer certain that accumulated assessed tax losses will be utilised in the future.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company		Group	
2019 Rm	2020 Rm	2020 Rm	2019 Rm
32 Discontinued operations			
<p>In April 2020 the Board approved the Group's intention to dispose of a majority stake in its Nigeria subsidiary, Retail Supermarkets Nigeria Ltd. The Group embarked on a process to actively identify a strategic partner that will improve the performance and operational efficiencies of the business in Nigeria. At the reporting date, management had received interest from potential buyers. The due diligence process is currently in progress and expected to be completed by the end of September 2020. Management considers it highly probable that a majority stake or the Group's entire shareholding will be sold after the reporting date. The associated assets and liabilities are consequently presented as held for sale in the 2020 statement of financial position.</p>			
32.1 Financial performance and cash flow information			
32.1.1 Loss from discontinued operations			
Sale of merchandise		2 734	2 917
Gross profit		739	871
Depreciation and amortisation		(176)	(182)
Employee benefits		(175)	(152)
Other operating expenses		(358)	(354)
Trading profit		30	183
Exchange rate losses		(22)	(233)
Items of a capital nature		(31)	(77)
Operating loss		(23)	(127)
Net finance costs		(64)	(59)
Loss before income tax		(87)	(186)
Income tax expense		—	(159)
Loss after income tax		(87)	(345)
32.1.2 Other comprehensive loss from discontinued operations			
Foreign currency translation differences from discontinued operations		(40)	(34)
32.1.3 Net cash inflows/(outflows) attributable to discontinued operations			
Operating activities		154	81
Investing activities		(22)	(76)
Financing activities		(261)	(196)
Net decrease in cash generated by the subsidiary		(129)	(191)
32.2 Assets and liabilities of disposal group classified as held for sale			
<p>The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 28 June 2020:</p>			
Assets classified as held for sale			
Property, plant and equipment		337	—
Right-of-use assets		764	—
Inventories		549	—
Trade and other receivables		47	—
Current income tax assets		4	—
Total assets of disposal group held for sale		1 701	—
Liabilities directly associated with assets classified as held for sale			
Lease liabilities		1 481	—
Trade and other payables		423	—
Contract liabilities		4	—
Provisions		3	—
Total liabilities of disposal group held for sale		1 911	—

The cumulative foreign currency translation losses recognised in other comprehensive loss in relation to the discontinued operations as at 28 June 2020 were R488 million.



33 Earnings/(loss) per share

	Gross Rm	Income tax effect Rm	Net Rm
2020			
Net profit attributable to owners of the parent			3 356
Loss from discontinued operations			87
Earnings from continuing operations			3 443
Profit on disposal of assets held for sale (note 4)	(239)	54	(185)
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 6)			65
Impairment of property, plant and equipment (note 3)	694	(135)	559
Impairment of right-of-use assets (note 5)	470	(125)	345
Impairment of intangible assets (note 6)	99	(27)	72
Insurance claims receivable	(11)	3	(8)
Profit on disposal of subsidiary	(46)	—	(46)
Profit on other investing activities	(3)	—	(3)
Headline earnings from continuing operations	1 055	(256)	4 242
Loss from discontinued operations			(87)
Expenditure of a capital nature from discontinued operations	31	—	31
Headline earnings	1 086	(256)	4 186

Restated* 2019

Net profit attributable to owners of the parent*			3 468
Loss from discontinued operations			345
Earnings from continuing operations			3 813
Profit on disposal and scrapping of property (note 3)	(10)	2	(8)
Profit on disposal of assets held for sale (note 4)	(101)	23	(78)
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 6)			74
Impairment of property, plant and equipment (note 3)	103	(29)	92
Impairment of right-of-use assets (note 5)*	356	(76)	280
Impairment of intangible assets (note 6)	40	—	40
Insurance claims receivable	(97)	29	(68)
Loss on other investing activities	1	—	1
Headline earnings from continuing operations	419	(86)	4 146
Loss from discontinued operations			(345)
Expenditure of a capital nature from discontinued operations	77	—	77
Headline earnings	496	(86)	3 878

	2020 '000	2019 '000
Number of ordinary shares		
■ In issue	552 707	554 397
■ Weighted average	553 046	554 498
■ Weighted average adjusted for dilution	553 896	555 113
Reconciliation of weighted average number of ordinary shares in issue during the year:		
Weighted average number of ordinary shares	553 046	554 498
Adjustments for dilutive potential of full share grants	850	615
Weighted average number of ordinary shares for diluted earnings per share	553 896	555 113

Earnings/(loss) per share (cents)	2020			Restated* 2019		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
■ Basic earnings/(loss)	622.6	(15.7)	606.9	687.6	(62.3)	625.3
■ Diluted earnings/(loss)	621.6	(15.6)	606.0	686.9	(62.2)	624.7
■ Basic headline earnings/(loss)	767.0	(10.1)	756.9	747.7	(48.5)	699.2
■ Diluted headline earnings/(loss)	765.8	(10.1)	755.7	746.9	(48.4)	698.5

* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group	
2019 Cents	2020 Cents		2020 Cents	2019 Cents
		34 Dividends per share		
		34.1 Dividends per share paid		
279.0	163.0	No 141 paid 9 September 2019 (2019: No 139 paid 10 September 2018)	163.0	279.0
156.0	156.0	No 142 paid 16 March 2020 (2019: No 140 paid 18 March 2019)	156.0	156.0
435.0	319.0		319.0	435.0
		34.2 Dividends per share declared		
163.0	227.0	No 143 payable 5 October 2020 (2019: No 141 paid 9 September 2019)	227.0	163.0
Rm	Rm		Rm	Restated* Rm
		35 Cash flow information		
		35.1 Non-cash items		
		Depreciation of property, plant and equipment	2 526	2 657
		Depreciation of right-of-use assets*	2 713	2 513
		Amortisation of intangible assets	360	385
		Net fair value losses on financial instruments	2	1
		Net monetary gain*	—	(947)
		Exchange rate (gains)/losses*	(544)	343
		Profit on lease terminations	(69)	—
		Profit on disposal and scrapping of property	—	(10)
		Profit on disposal of assets held for sale	(239)	(101)
		Loss on disposal and scrapping of plant and equipment and intangible assets	91	103
		Impairment of property, plant and equipment	732	144
		Impairment of right-of-use assets*	468	416
		Impairment of intangible assets	99	40
		Profit on disposal of subsidiary	(46)	—
		Movement in provisions*	13	62
		Movement in cash-settled share-based payment accrual	(50)	(63)
		Movement in share-based payment reserve	101	75
		Movement in fixed escalation operating lease accruals*	4	2
—	—		6 161	5 620
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		35.2 Changes in working capital		
—	—	Inventories	1 184	(3 575)
(4)	(10)	Trade and other receivables*	(20)	172
2	(1)	Trade and other payables	1 322	(340)
—	—	Contract liabilities	79	215
(2)	(11)		2 565	(3 528)
		* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.		
		35.3 Dividends paid		
(8)	(7)	Shareholders for dividends at the beginning of the year	(10)	(11)
(2 572)	(1 886)	Dividends distributed to equity holders	(1 773)	(2 418)
—	—	Dividends distributed to non-controlling interest	(11)	(11)
7	6	Shareholders for dividends at the end of the year	8	10
(2 573)	(1 887)		(1 786)	(2 430)
		35.4 Income tax paid		
(1)	(6)	Prepaid/(payable) at the beginning of the year	57	(361)
(40)	(63)	Per statement of comprehensive income	(2 260)	(1 739)
—	—	Transfer to assets held for sale (note 3.4)	(4)	—
—	—	Foreign currency translation differences including hyperinflation effect	58	65
6	49	Payable/(prepaid) at the end of the year	1 001	(57)
(35)	(20)		(1 148)	(2 092)



Company			Group	
2019 Rm	2020 Rm		2020 Rm	2019 Rm
		35 Cash flow information (continued)		
		35.5 Cash inflow on disposal of investment in subsidiary		
		On 24 January 2020, the Group completed the sale of its investment in Hungry Lion Angola Lda, a wholly-owned subsidiary operating in the fast food industry in Angola. The Group received cash proceeds of R29 million as consideration for disposal of 100% of its investment in the subsidiary and recognised a gain on disposal of R46 million within items of a capital nature (refer to note 28). The net liabilities of Hungry Lion Angola Lda at the disposal date is presented in the following table.		
		Property, plant and equipment (note 3.1)	15	—
		Trade and other receivables (note 14)	3	—
		Inventories (note 13)	4	—
		Trade and other payables (note 21)	(26)	—
		Bank overdrafts	(7)	—
		Net identifiable liabilities disposed	(11)	—
		Net inflow of cash on disposal of investment in subsidiary comprise of the following:		
		Cash proceeds on disposal	29	—
		Bank overdrafts disposed	7	—
		Cash inflow on disposal of investment in subsidiary	36	—
		36 Contingent liabilities		
		36.1 Amounts arising in the ordinary course of business relating to property transactions, uncertain tax positions and other transactions from which it is anticipated that no material liabilities will arise.	966	373
		The increase in contingent liabilities from the prior year is primarily a result of additional tax assessments received from certain tax authorities where the Group traded. Management has assessed the merits of each of these cases in close collaboration with the Group's external advisors and remain confident that these assessments leading to additional payments are not probable. Accordingly, these are disclosed as contingent liabilities.		
		36.2 During 2015, the National Credit Regulator (NCR) initiated a complaint against Shoprite Investments Ltd in terms of section 136(2) of the National Credit Act, 2005 which was subsequently referred to the National Consumer Tribunal (NCT) for allegedly selling unnecessary insurance cover to pensioners and the reckless granting of credit. In its judgement dated September 2017, the NCT imposed an administrative fine on Shoprite Investments Ltd in the amount of R1 million to be paid within 30 days of their order. Shoprite Investments Ltd's appeal to the High Court was dismissed during December 2019 and the fine was paid as required.		
		36.3 In 2011, A.I.C Ltd (the Claimant), a company registered in the Federal Republic of Nigeria issued a summons against Shoprite Checkers (Pty) Ltd and Retail Supermarkets Nigeria Ltd in the Federal High Court of Nigeria for breach of a joint venture agreement (the JV Agreement) allegedly concluded during 1998. In its judgement, on 30 November 2017, damages in the sum of US\$10 million plus interest at a rate of 10% per annum effective from the date of judgement until final liquidation of the entire sum were awarded. An appeal against the judgement was heard by the Court of Appeal which, in its judgement dated 21 May 2020, allowed the appeal by Retail Supermarkets Nigeria Ltd, but dismissed the appeal by Shoprite Checkers (Pty) Ltd. Based on legal advice, a Notice of Appeal has been filed against the judgement to the Supreme Court of Appeal.		
		The Group considers it to be probable that the judgement will be in its favour, based on legal advice, and has therefore not recognised a provision in relation to this claim.		

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

Company			Group	
2019 Rm	2020 Rm		2020 Rm	2019 Rm
		37 Commitments		
		37.1 Capital commitments		
		Contracted for property, plant and equipment	1 052	1 493
		Contracted for intangible assets	11	—
		Authorised by directors, but not contracted for	3 726	4 182
—	—	Total capital commitments	4 789	5 675
		Funds to meet this expenditure will be provided from the Group's own resources and borrowings.		
		37.2 Operating lease receivables		
		Future minimum lease payments receivable under non-cancellable operating leases:		
		■ Not later than one year	376	367
		■ Later than one year, not later than two years	298	218
		■ Later than two years, not later than three years	162	136
		■ Later than three years, not later than four years	110	152
		■ Later than four years, not later than five years	62	26
		■ Later than five years	51	66
			1 059	965
		Less: fixed escalation operating lease accruals	(51)	(55)
—	—		1 008	910
		38 Borrowing powers		
		In terms of the Memorandum of Incorporation of the Company the borrowing powers of Shoprite Holdings Ltd are unlimited.		
		39 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 74.9% (2019: 68.2%) of employees and 7.1% (2019: 7.5%) 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:	548	504

40 Risk management and financial instrument disclosure

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

This note discloses information about the Group's capital risk management and exposure to risks from its use of financial instruments. It also discloses information about the Group's exposure to insurance risk and how it is mitigated.

40.1 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The gearing ratio is calculated as interest-bearing borrowings and lease liabilities divided by equity and was 176.5% (2019: 149.4%) at the reporting date.

The Group is currently maintaining a two times dividend cover based on dilutive headline earnings per share from continuing operations. Dividend cover in the previous year excluded the impact of hyperinflation accounting.

40.2 Fair value of financial instruments

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

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

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

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

The following tables reflect the carrying amounts and fair values of financial instruments, including their levels in the fair value hierarchy, at the reporting date. It does not include inputs used to determine the fair value of financial assets and financial liabilities not measured at fair value of financial instruments classified at level 3. Fair value disclosures are not presented for lease liabilities, as this is not a requirement in terms of IFRS 7: *Financial Instruments: Disclosures*.

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.2 Fair value of financial instruments (continued)

Group	Note	Carrying amount			Fair value			
		Financial assets at amortised cost Rm	Financial liabilities at amortised cost Rm	Total Rm	Level 2 Rm	Level 3 Rm	Total Rm	Borrowing rate used
2020								
Financial assets not measured at fair value								
Government bonds and bills		2 502	—	2 502	2 739	—	2 739	
AOA, USD Index Linked, Angola Government Bonds	10.1	2 238	—	2 238	2 475	—	2 475	4.7%
AOA, Angola Government Bonds	10.2	264	—	264	264	—	264	20.7%
Loans receivable		2 182	—	2 182	2 156	—	2 156	
Shareholder loan receivable from Resilient Africa (Pty) Ltd	11.1.1	434	—	434	404	—	404	7.1%
Other amounts receivable from Resilient Africa (Pty) Ltd	11.1.2	772	—	772	749	—	749	3.9%
Amounts receivable from franchisees	11.2	545	—	545	587	—	587	10.3%
Amounts receivable from Circle Mall Mauritius Ltd	11.3	244	—	244	239	—	239	4.0%
Amounts receivable from Kin Oasis Investments Ltd	11.4	173	—	173	164	—	164	4.0%
Other		14	—	14	13	—	13	7.0%
Instalment sale receivables*		803	—	803	—	803	803	
Trade receivables from contracts with customers*		2 276	—	2 276	—	2 276	2 276	
Other receivables excluding prepayments and taxes receivable*		815	—	815	—	815	815	
Cash and cash equivalents*		12 114	—	12 114	—	12 114	12 114	
Total financial assets		20 692	—	20 692	4 895	16 008	20 903	
* The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value due to the short-term nature of these current receivables.								
Financial liabilities not measured at fair value								
Borrowings		—	12 009	12 009	12 623	—	12 623	
ABSA Bank Ltd	19.2	—	2 035	2 035	2 301	—	2 301	5.6%
ABSA Bank (Mauritius) Ltd	19.4	—	469	469	469	—	469	3.3%
Standard Chartered Bank (Mauritius) Ltd	19.5	—	945	945	945	—	945	3.2%
Current borrowing from Standard Finance (Isle of Man) Ltd	19.6	—	1 715	1 715	1 715	—	1 715	3.5%
Non-current borrowing from Standard Finance (Isle of Man) Ltd	19.6	—	4 292	4 292	4 293	—	4 293	4.3%
Stanbic Bank Kenya Ltd	19.7	—	238	238	234	—	234	10.7%
Stanbic Bank Botswana Ltd	19.8	—	311	311	302	—	302	8.3%
Firststrand Bank Ltd	19.3	—	2 004	2 004	2 364	—	2 364	5.8%
Trade payables**		—	13 720	13 720	—	13 720	13 720	
Other payables and accruals excluding taxes payable and employee benefit accruals**		—	3 744	3 744	—	3 744	3 744	
Deposits and third-party payments liability**		—	477	477	—	477	477	
Refund liability**		—	46	46	—	46	46	
Contract liabilities**		—	868	868	—	868	868	
Bank overdrafts**		—	2 095	2 095	—	2 095	2 095	
Total financial liabilities excluding lease liabilities		—	32 959	32 959	12 623	20 950	33 573	
Lease liabilities	18	—	24 752	24 752				
Total financial liabilities		—	57 711	57 711				

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


40 Risk management and financial instrument disclosure (continued)
40.2 Fair value of financial instruments (continued)

Group	Note	Carrying amount			Fair value			
		Financial assets at amortised cost Rm	Financial liabilities at amortised cost Rm	Total Rm	Level 2 Rm	Level 3 Rm	Total Rm	Borrowing rate used
2019								
Financial assets not measured at fair value								
Government bonds and bills								
		3 016	—	3 016	3 026	—	3 026	
	10.1	2 567	—	2 567	2 585	—	2 585	8.2%
	10.2	433	—	433	416	—	416	23.3%
	10.3	16	—	16	25	—	25	4.5%
Loans receivable								
		1 860	—	1 860	1 809	—	1 809	
	11.1.1	402	—	402	373	—	373	7.6%
	11.1.2	639	—	639	610	—	610	4.9%
	11.2	429	—	429	461	—	461	10.3%
	11.3	201	—	201	192	—	192	4.5%
	11.4	143	—	143	127	—	127	5.0%
		46	—	46	46	—	46	7.6%
		1 028	—	1 028	—	1 028	1 028	
		2 169	—	2 169	—	2 169	2 169	
		666	—	666	—	666	666	
		31	—	31	—	31	31	
		7 707	—	7 707	—	7 707	7 707	
		16 477	—	16 477	4 835	11 601	16 436	
* The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value due to the short-term nature of these current receivables.								
Financial liabilities not measured at fair value								
Borrowings								
		—	11 706	11 706	11 569	—	11 569	
	19.2	—	2 043	2 043	2 022	—	2 022	8.8%
	19.4	—	991	991	991	—	991	4.8%
	19.5	—	1 472	1 472	1 469	—	1 469	4.8%
	19.6	—	1 418	1 418	1 376	—	1 376	5.4%
	19.6	—	3 550	3 550	3 480	—	3 480	5.4%
	19.7	—	84	84	82	—	82	10.5%
	19.3	—	2 008	2 008	2 009	—	2 009	8.4%
	19.9	—	140	140	140	—	140	9.5%
		—	13 082	13 082	—	13 082	13 082	
		—	3 539	3 539	—	3 539	3 539	
		—	512	512	—	512	512	
		—	8	8	—	8	8	
		—	39	39	—	39	39	
		—	791	791	—	791	791	
		—	4 124	4 124	—	4 124	4 124	
		—	33 801	33 801	11 569	22 095	33 664	
	18	—	21 478	21 478				
		—	55 279	55 279				

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.3 Offsetting of financial assets and liabilities

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

Group	Financial assets			Financial liabilities		
	Trade receivables Rm	Cash and cash equivalents Rm	Total assets Rm	Trade payables Rm	Bank overdrafts Rm	Total liabilities Rm
2020						
Gross amounts of recognised financial assets/(liabilities)	3 599	12 482	16 081	(15 043)	(2 463)	(17 506)
Gross amounts of recognised financial assets/(liabilities) offset in the statement of financial position	(1 323)	(368)	(1 691)	1 323	368	1 691
Net amounts of financial assets/(liabilities) presented in the statement of financial position	2 276	12 114	14 390	(13 720)	(2 095)	(15 815)
Related amounts not offset in the statement of financial position*						
Financial instruments	(105)	—	(105)	105	—	105
Net amounts	2 171	12 114	14 285	(13 615)	(2 095)	(15 710)
2019						
Gross amounts of recognised financial assets/(liabilities)	3 370	8 341	11 711	(14 283)	(4 758)	(19 041)
Gross amounts of recognised financial assets/(liabilities) offset in the statement of financial position	(1 201)	(634)	(1 835)	1 201	634	1 835
Net amounts of financial assets/(liabilities) presented in the statement of financial position	2 169	7 707	9 876	(13 082)	(4 124)	(17 206)
Related amounts not offset in the statement of financial position*						
Financial instruments	(110)	—	(110)	110	—	110
Net amounts	2 059	7 707	9 766	(12 972)	(4 124)	(17 096)

* 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.

40.4 Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange rate contracts and price swap contracts as economic hedges, to hedge certain exposures. Where all relevant criteria are met, hedge accounting is applied, using non-derivative financial instruments, to remove the accounting mismatch between the hedging instrument and the hedged item.

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.

40.4.1 Credit risk

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

The following impairment losses, including reversals of impairment losses, in relation to financial assets are presented as credit impairment losses in the statement of comprehensive income.

	Group	
	2020 Rm	2019 Rm
Instalment sale receivables from contracts with customers (note 14.2)	324	37
Trade receivables from contracts with customers (note 14.1)	99	(65)
Loans receivable (note 11)	10	3
Other receivables (note 14.3)	47	2
Net impairment losses/(reversals) on financial assets	480	(23)



40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

Of the previously mentioned impairment losses, R423 million (2019: R28 million impairment reversals) relate to receivables arising from contracts with customers.

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

Measurement of ECL in terms of the general model for impairment

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

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

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

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

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

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

Quantitative criteria

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

Qualitative criteria

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

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

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

Measurement of ECL in terms of the simplified model

The Group has elected to apply the simplified model and measures the impairment allowance at an amount equal to lifetime ECL.

This policy has been applied to all instalment sale receivables. Lifetime ECL are assessed by determining cash flows on a probability-weighted basis and discounting these at the effective interest rate including initiation fees.

The probability-weighted cash flows are calculated using the following:

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

Measurement of ECL in terms of the provision matrix

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

Definition of default and credit-impaired assets

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

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

Receivables arising from contracts with customers:

- *In duplum* (the National Credit Act section providing that all charges ceases to accrue once the sum of the charges equals the amount of capital outstanding at the time);
- Debt counselling accounts (as governed by the National Credit Act);
- Non-performing accounts; and
- As a backstop, accounts not included in the above categories, where no payment has been received over the last three consecutive months.

Government bonds and bills and loans receivable:

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

Other receivables:

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

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

Curing

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

Government bonds and bills:

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

Loans receivable:

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

Instalment sale receivables:

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

Trade receivables:

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

Other receivables:

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

Write-off policy

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



40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(a) Government bonds and bills (note 10)

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

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

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

Internal credit rating category	Basis for recognition of ECL allowance	Financial instrument class	2020				2019			
			ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm	ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm
Under-performing (stage 2)	Lifetime ECL	AOA, USD Index Linked, Angola Government Bonds	2.9%	2 304	(66)	2 238	3.4%	2 658	(91)	2 567
		AOA, Angola Government Bonds	1.9%	269	(5)	264	0.0%	433	—	433
		Angola Treasury Bills	0.0%	—	—	—	38.5%	26	(10)	16
Total government bonds and bills			2 573	(71)	2 502		3 117	(101)	3 016	

Internal credit rating categories are defined as follows with reference to external credit ratings published by Standard & Poor's for Angola:

- **Performing (stage 1):** Counterparty has a low risk of default and a strong capacity to meet contractual cash flows based on external credit ratings ranging between AAA and A+.
- **Underperforming (stage 2):** Investments for which there is a SICR. External credit ratings deteriorated from being internally classified as performing to between A and BBB-.
- **Non-performing (stage 3):** Interest and/or principal repayments are 90 days past due.

Reconciliation of loss allowance for government bonds and bills:

	2020	2019
	Under-performing (stage 2) Rm	Under-performing (stage 2) Rm
Group		
Balance at the beginning of the year as previously reported under IAS 39		—
Amounts restated through opening retained earnings on adoption of IFRS 9		133
Restated balance at the beginning of the year under IFRS 9	101	133
Changes in risk parameters*	8	—
Unused amounts reversed	(8)	—
Foreign currency translation differences including hyperinflation effect	(30)	(32)
Balance at the end of the year	71	101

* The increase in the loss allowance is due to an increase in the PD used to calculate the lifetime ECL for the under-performing government bonds and bills.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(a) Government bonds and bills (note 10) (continued)

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

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

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

(b) Loans receivable (note 11)

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

The Group does not hold any collateral as security for the South Africa rand denominated shareholder loan receivable from Resilient Africa (Pty) Ltd (refer to note 11.1.1). The Group manages its credit risk by holding share pledges and cession agreements in the underlying subsidiaries of Resilient Africa (Pty) Ltd as collateral for the US dollar denominated loan receivable (refer to note 11.1.2).

Circle Mall Mauritius Ltd's holding company provided a guarantee and indemnity for 50% of the loan amount which is in turn secured by a pledge of 100% of the shareholding in Circle Mall Mauritius Ltd to the Group (refer to note 11.3).

Kin Oasis Investments Ltd's holding company, Kinosis Investments Ltd, provided a guarantee and indemnity for 100% of all present and future payment obligations and liabilities which is in turn secured by a pledge of 60% of the shareholding in Kin Oasis Investments Ltd to the Group (refer to note 11.4).

Amounts receivable from franchisees relate to a wide-spread number of franchisees which are individually insignificant. The credit history of all franchisees are verified with an external credit bureau. Notarial and mortgage bonds and bank guarantees to the value of R550 million (2019: R525 million) are held as collateral for these amounts. Amounts are due within 30 days of statement date and the age analysis of these amounts are reviewed on a monthly basis.

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

Internal credit rating category	Basis for recognition of ECL allowance	Financial instrument class	2020				2019			
			ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm	ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm
Performing (stage 1)	12-month ECL	Shareholder loan receivable from Resilient Africa (Pty) Ltd	0.0%	—	—	—	13.0%	462	(60)	402
		Other amounts receivable from Resilient Africa (Pty) Ltd	0.0%	—	—	—	0.0%	639	—	639
		Amounts receivable from franchisees	0.0%	191	—	191	0.0%	192	—	192
		Amounts receivable from Circle Mall Mauritius Ltd	0.4%	245	(1)	244	0.5%	202	(1)	201
		Amounts receivable from Kin Oasis Investments Ltd	0.0%	173	—	173	0.0%	143	—	143
		Other	0.0%	14	—	14	0.0%	46	—	46
Under-performing (stage 2)	Lifetime ECL	Shareholder loan receivable from Resilient Africa (Pty) Ltd	12.1%	494	(60)	434	0.0%	—	—	—
		Other amounts receivable from Resilient Africa (Pty) Ltd	0.0%	772	—	772	0.0%	—	—	—
		Amounts receivable from franchisees	0.0%	127	—	127	0.0%	23	—	23
Non-performing (stage 3)	Lifetime ECL	Amounts receivable from franchisees	15.6%	269	(42)	227	13.0%	246	(32)	214
Total loans receivable				2 285	(103)	2 182		1 953	(93)	1 860



40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(b) Loans receivable (note 11) (continued)

Internal credit rating categories are defined as follows:

- **Performing (stage 1):** Counterparty has a low risk of default and a strong capacity to meet contractual cash flows.
- **Underperforming (stage 2):** Loans for which there is a SICR. A SICR is presumed if interest and/or principal repayments are 30 days past due.
- **Non-performing (stage 3):** Interest and/or principal repayments are 60 days past due.

Reconciliation of loss allowance for loans receivable:

Group	2020				2019		
	Performing (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total loans receivable Rm	Performing (stage 1) Rm	Non-performing (stage 3) Rm	Total loans receivable Rm
Balance at the beginning of the year as previously reported under IAS 39					60	29	89
Amounts restated through opening retained earnings on adoption of IFRS 9					1	—	1
Restated balance at the beginning of the year under IFRS 9	61	—	32	93	61	29	90
New financial assets originated or purchased during the year	—	—	10	10	—	3	3
Individual financial assets transferred to underperforming (lifetime expected credit losses)	(60)	60	—	—	—	—	—
Balance at the end of the year	1	60	42	103	61	32	93

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

The PD represents the likelihood of the counterparty defaulting on its financial obligation, either over 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. Global Corporate Average Cumulative Default Rates With Rating Modifiers (1981 – 2019) (%) as published on 29 April 2020 by Standard & Poor's for corporate exposures are used as input to these calculations. The rating is then adjusted to represent the appropriate risk appetite for a specific instrument.

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

(c) Trade and other receivables

Instalment sale receivables from contracts with customers (note 14.2)

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

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

Credit granting:

The credit underwriting process flows through the following stages:

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

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Instalment sale receivables from contracts with customers (note 14.2) (continued)

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

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

The total cost of credit is disclosed to the consumer.

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

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

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

Contractual arrears:

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

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

The tables below reflect the maximum exposure to credit risk on instalment sale receivables as well as the ECL allowance and contractual arrears per customer grouping at the reporting date. Customer groupings are determined as follows:

- **Satisfactory paid:** Customers who have paid 70% or more of amounts due over the contract period.
- **Slow payers:** Customers who have paid 55% to 69% of amounts due over the contract period.
- **Non-performing accounts:** Customers who have paid less than 55% of amounts due over the contract period.

Analysis of instalment sale receivables at 28 June 2020

Customer grouping	Total number of customers	Gross carrying value Rm	ECL allowance Rm	ECL allowance %	Total arrears Rm	Number of instalments in arrears		
						1 instalment Rm	2 instalments Rm	>2 instalments Rm
Satisfactory paid	130 007 51.2%	620 38.3%	139 17.0%	22.4%	170	134	20	16
Slow payers	38 665 15.2%	266 16.4%	134 16.4%	50.4%	72	36	10	26
Non-performing accounts	85 443 33.6%	735 45.3%	545 66.6%	74.1%	202	55	23	124
Total instalment sale receivables	254 115	1 621	818	50.5%	444	225	53	166

Analysis of credit-impaired instalment sale receivables at 28 June 2020 included in the table above

Credit-impaired categories	Non-performing accounts Rm	In duplum		Debt counselling		No payment in 3 consecutive months		Total Rm
		Satisfactory paid Rm	Slow payers Rm	Satisfactory paid Rm	Slow payers Rm	Satisfactory paid Rm	Slow payers Rm	
Gross carrying value	735	5	41	9	9	97	166	1 062
ECL allowance	(545)	(2)	(18)	(2)	(4)	(2)	(14)	(587)
Amortised cost	190	3	23	7	5	95	152	475



40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Instalment sale receivables from contracts with customers (note 14.2) (continued)

Analysis of instalment sale receivables at 30 June 2019

Customer grouping	Total number of customers	Gross carrying value Rm	ECL allowance Rm	ECL allowance %	Total arrears Rm	Number of instalments in arrears		
						1 instalment Rm	2 instalments Rm	>2 instalments Rm
Satisfactory paid	162 137 59.9%	791 49.4%	136 23.8%	17.2%	76	33	17	26
Slow payers	36 935 13.6%	236 14.8%	72 12.6%	30.5%	95	14	13	68
Non-performing accounts	71 876 26.5%	573 35.8%	364 63.6%	63.5%	360	16	14	330
Total instalment sale receivables	270 948	1 600	572	35.8%	531	63	44	424

Analysis of credit-impaired instalment sale receivables at 30 June 2019 included in the table above

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

Reconciliation of loss allowance for instalment sale receivables:

Group	2020			2019		
	Accounts not credit-impaired Rm	Credit-impaired accounts Rm	Total instalment sale receivables Rm	Accounts not credit-impaired Rm	Credit-impaired accounts Rm	Total instalment sale receivables Rm
Balance at the beginning of the year as previously reported under IAS 39				182	125	307
Amounts restated through opening retained earnings on adoption of IFRS 9				25	291	316
Restated balance at the beginning of the year under IFRS 9	140	432	572	207	416	623
New financial assets originated or purchased during the year	399	22	421	128	210	338
Individual financial assets transferred to non-performing (credit-impaired financial assets)	(282)	282	—	(193)	193	—
Amounts recovered during the year	(42)	(76)	(118)	—	(301)	(301)
Changes in risk parameters	11	10	21	—	—	—
Amounts written off during the year as uncollectible	—	(89)	(89)	—	(83)	(83)
Foreign currency translation differences including hyperinflation effect	5	6	11	(2)	(3)	(5)
Balance at the end of the year	231	587	818	140	432	572

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Instalment sale receivables from contracts with customers (note 14.2) (continued)

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

Probability-weighted cash flows:

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

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

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

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

Economic overlay:

An economic overlay has been developed by performing a regression analysis between key economic variables with reference to the non-performing category over a five-year period (customers who have paid less than 55% of amounts due over the contract period). The gross domestic product (GDP) was identified as having statistical significance at the reporting date. At the end of the previous year, the economic variables identified as having statistical significance were the consumer price index, prime overdraft rate and unemployment rate.

The impact of the COVID-19 pandemic on the economy and consumers will also affect the forward-looking economic overlay applied on the impairment provision for the current year. The provision estimates were adjusted to account for this expected increase in risk of missed payments or default, due to COVID-19 related financial stress inhibiting the ability and prioritisation of clients to pay their debt to the Group.

The Group makes use of a cash flow model adjusted for coverage percentages unique to each country and each state. The process of determining adjusted coverage percentages involved applying an adjustment to the PDs. These PDs were adjusted by a scalar to account for the economic stress caused by COVID-19. The scalar was based on country specific GDP forecasts.

The GDP forecasts used for South Africa are listed below. The IMF GDP forecasts were used for the other African countries.

Scenario	Calendar year		
	2020	2021	2022
Upside	-8.3%	6.5%	4.0%
Base	-9.6%	5.0%	4.0%
Downside	-10.6%	4.0%	2.0%

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

The three scenarios project the future impact of the economic variables on the impairment provision. Management has assigned a probability of 20% (2019: 20%) to the upside scenario, 50% (2019: 60%) to the base scenario and 30% (2019: 20%) to the downside scenario for the 12-month forecast for South Africa.



40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Instalment sale receivables from contracts with customers (note 14.2) (continued)

Impact of forward-looking information on ECL:	2020 South Africa		2019 South Africa	
	Rm	% change	Rm	% change
Probability-weighted impact of all three scenarios	407		255	
100% upside scenario	378	-7.1%	232	-2.0%
100% base scenario	398	-2.1%	290	22.4%
100% downside scenario	441	8.3%	251	5.9%

Trade receivables from contracts with customers (note 14.1)

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

The Group has policies in place to ensure that all sales of goods and services on credit are made to customers with an appropriate credit history. Balances are due within 30 days of statement date and the age analysis of these amounts are reviewed on a monthly basis. Franchisees comprise a wide-spread client base and the credit history of all franchisees are verified with an external credit bureau. Notarial and mortgage bonds and bank guarantees to the value of R1.2 billion (2019: R1.1 billion) are held as collateral for these amounts. Long standing trading relationships exist with the buying aid societies and the Group reviews the credit history of these societies, based on its own records as well as information from an external credit bureau, on a cyclical basis. Based on this the Group considers the credit quality of all fully performing amounts as satisfactory.

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

	Current Rm	Trade receivables – days past due				Total Rm
		31 – 60 days past due Rm	61 – 90 days past due Rm	91 – 120 days past due Rm	More than 120 days past due Rm	
As at 28 June 2020						
Gross carrying amount	1 884	233	82	67	217	2 483
Lifetime ECL	(105)	(2)	(2)	(25)	(73)	(207)
Net carrying amount	1 779	231	80	42	144	2 276
Expected credit loss rate	5.6%	0.9%	2.4%	37.3%	33.6%	8.3%
As at 30 June 2019						
Gross carrying amount	1 631	311	103	81	162	2 288
Lifetime ECL	(13)	(5)	(20)	(17)	(64)	(119)
Net carrying amount	1 618	306	83	64	98	2 169
Expected credit loss rate	0.8%	1.6%	19.4%	21.0%	39.5%	5.2%

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Trade receivables from contracts with customers (note 14.1) (continued)

Reconciliation of loss allowance for trade receivables:

Group	Accounts not credit-impaired		Credit-impaired accounts				Total trade receivables Rm
	Buying aid societies and other receivables Rm	Total trade receivables not credit-impaired Rm	Receivables from franchisees Rm	Receivables from medical aid schemes, pharmacies and doctors Rm	Buying aid societies and other receivables Rm	Total credit-impaired trade receivables Rm	
2020							
Balance at the beginning of the year	45	45	19	28	27	74	119
New financial assets originated or purchased during the year	84	84	—	4	38	42	126
Amounts recovered during the year	(26)	(26)	—	—	—	—	(26)
Amounts written off during the year as uncollectible	(1)	(1)	—	(1)	(4)	(5)	(6)
Unused amounts reversed	—	—	—	—	(1)	(1)	(1)
Foreign currency translation differences	—	—	—	—	(5)	(5)	(5)
Balance at the end of the year	102	102	19	31	55	105	207
2019							
Balance at the beginning of the year as previously reported under IAS 39	73	73	19	26	21	66	139
Amounts restated through opening retained earnings on adoption of IFRS 9	—	—	—	—	53	53	53
Restated balance at the beginning of the year under IFRS 9	73	73	19	26	74	119	192
New financial assets originated or purchased during the year	31	31	9	3	7	19	50
Amounts recovered during the year	(59)	(59)	—	—	(54)	(54)	(113)
Amounts written off during the year as uncollectible	—	—	(8)	—	—	(8)	(8)
Unused amounts reversed	—	—	(1)	(1)	—	(2)	(2)
Balance at the end of the year	45	45	19	28	27	74	119



40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Trade receivables from contracts with customers (note 14.1) (continued)

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

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

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

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

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

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

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

Other receivables (note 14.3)

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

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

Internal credit rating category	Basis for recognition of ECL allowance	Financial instrument class	2020				2019			
			ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm	ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm
Performing (stage 1)	12-month ECL	Insurance claims receivable	0.0%	31	—	31	0.0%	66	—	66
		Staff debtors and bursaries	2.2%	90	(2)	88	2.2%	90	(2)	88
		Various other receivables	7.6%	669	(51)	618	20.4%	535	(109)	426
Under-performing (stage 2)	Lifetime ECL	Staff debtors and bursaries	50.0%	2	(1)	1	0%	—	—	—
Non-performing (stage 3)	Lifetime ECL	Staff debtors and bursaries	100.0%	34	(34)	—	100.0%	37	(37)	—
		Various other receivables	69.6%	253	(176)	77	44.5%	155	(69)	86
Total other receivables				1 079	(264)	815		883	(217)	666

Internal credit rating categories are defined as follows:

- **Performing (stage 1):** Counterparty has a low risk of default and a strong capacity to meet contractual cash flows.
- **Underperforming (stage 2):** Receivables for which there is a significant increase in credit risk. A significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due.
- **Non-performing (stage 3):** Interest and/or principal repayments are 60 days past due.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(c) Trade and other receivables (continued)

Other receivables (note 14.3) (continued)

Reconciliation of loss allowance for other receivables:

Group	2020				2019		
	Performing (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total other receivables Rm	Performing (stage 1) Rm	Non-performing (stage 3) Rm	Total other receivables Rm
Balance at the beginning of the year as previously reported under IAS 39					20	169	189
Amounts restated through opening retained earnings on adoption of IFRS 9					—	26	26
Restated balance at the beginning of the year under IFRS 9	111	—	106	217	20	195	215
New financial assets originated or purchased during the year	—	1	—	1	—	—	—
Individual financial assets transferred to non-performing (credit impaired financial assets)	(85)	—	85	—	—	—	—
Amounts recovered during the year	—	—	(3)	(3)	—	(20)	(20)
Changes in risk parameters*	27	—	22	49	91	(69)	22
Balance at the end of the year	53	1	210	264	111	106	217

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

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

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

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

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

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

(d) Cash and cash equivalents

The Group uses subsidiaries of rated South African and/or international financial institutions as its bankers. However, due to the Group's international operational requirements it is forced to transact with financial institutions in certain countries where independent internationally accredited credit ratings are not available. In these instances the Group's exposure to credit risk at each of these financial institutions are evaluated by management on a case by case basis. Cash balances deposited with these financial institutions are kept to an operational minimum and are transferred, subject to exchange control regulations and available suitable foreign currency, to financial institutions with acceptable credit ratings. The Group has policies that limit the amount of credit exposure to any one financial institution.

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



40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.1 Credit risk (continued)

(d) Cash and cash equivalents (continued)

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

Company			National Scale	Global Scale	Group	
2019 Rm	2020 Rm				2020 Rm	2019 Rm
—	—	Standard Chartered Bank		P-1	448	725
—	—	Citibank		P-1	8	53
373	1 117	Standard Bank	P-1	NP	5 082	2 606
—	—	ABSA	P-1	NP	3 232	1 133
—	—	Nedbank	P-1	NP	1 284	1 234
—	—	FirstRand	P-1	NP	458	430
—	—	Investec	P-1	NP	580	161
—	—	Zenith		NP	102	157
—	—	Other banks			413	363
—	—	Cash on hand and in transit			507	845
373	1 117	Total cash and cash equivalents			12 114	7 707

Local currency cash and short-term deposits of R712 million (2019: R993 million) are held in Angola and are subject to onerous local exchange control regulations. These local exchange control regulations impose restrictions on exporting capital from the country, other than through normal dividends. These restricted cash balances held by the respective subsidiaries are not available for general use by the holding company or other subsidiaries in the Group.

(e) Financial guarantee contracts

The Company has guaranteed various revolving credit facilities of R29.3 billion (2019: R27.7 billion). The fair value of these guarantees is estimated at R29.6 million (2019: R30.0 million) at the reporting date. The guarantees have also been disclosed as part of the Company's liquidity risk below. Financial guarantees are kept to an operational minimum and reassessed regularly. The maximum potential exposure to credit risk under financial guarantee contracts amounts to R29.3 billion (2019: R27.7 billion).

40.4.2 Market risk

(a) Currency risk

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

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

Short-term loans between subsidiaries of the Group expose the Group to currency risk resulting from fluctuations in local currency exchange rates to the US dollar (2020: R1.8 billion liability; 2019: R2.4 billion liability) and South Africa rand (2020: R775 million liability; 2019: R882 million liability). This US dollar currency risk is mitigated by the investment in AOA, USD Index Linked, Angola Government Bonds (2020: R2.2 billion asset; 2019: R2.7 billion asset) (refer to note 10.1) which serves as a natural hedge against the Group's currency risk on short-term US dollar loans between Group subsidiaries.

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

	Lease liabilities		Net cash and cash equivalents	
	2020 Rm	2019 Rm	2020 Rm	2019 Rm
Foreign currency				
South Africa rand	—	—	12	141
United States dollar	3 244	3 121	197	420
Other currencies	—	—	7	17
	3 244	3 121	216	578

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

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.2 Market risk (continued)

(a) Currency risk (continued)

Hedge of net investment in foreign operation

The Group hedges a designated portion of its US dollar net assets in Shoprite International Ltd (SIL) for foreign currency exposure arising between the US dollar and South Africa rand as part of the Group's risk management objectives. SIL has a US dollar functional currency. Shoprite Holdings Ltd's net investment in SIL is therefore exposed to fluctuations in the US\$/ZAR spot exchange rate. SIL uses these dollars in order to fund the operations in the various countries outside of South Africa, which also have liabilities denominated in US dollar. As a result of this exposure, the Group designates external lease liabilities denominated in US dollar as hedging instruments. Foreign exchange movements on translation of these hedging instruments are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) within shareholders' equity for the duration of the hedging relationship, offsetting the exchange differences recognised in other comprehensive income, arising on translation of the designated US dollar net assets of SIL to South Africa rand. The cumulative foreign exchange movement recognised in other comprehensive income will only be reclassified to profit or loss upon loss of control of SIL. The hedging relationship is reset on a monthly basis, whereby the designated portion of the net investment is adjusted to equal the value of the hedging instruments.

Hedge effectiveness is determined at the inception of the hedging relationship and through periodic prospective effectiveness assessments, by comparing the changes in the carrying amount of the debt that is attributable to a change in the spot rate with changes in the net assets designated in SIL. Hedge ineffectiveness could arise due to a decrease in the net investment in a foreign operation to a level below that of the designated lease liabilities. No hedge ineffectiveness was recognised in the statement of comprehensive income.

The effects of the foreign currency-related hedging instruments on the Group's financial position and performance are as follows:

	Group	
	2020 US\$m	2019 US\$m
Nominal amount of US dollar denominated lease liabilities (non-current liabilities)	141	—
Nominal amount of US dollar denominated lease liabilities (current liabilities)	27	—
Nominal amount of US dollar denominated lease liabilities included in liabilities directly associated with assets classified as held for sale (current liabilities)	21	—
	Rm	Rm
Carrying amount of US dollar denominated lease liabilities (non-current liabilities)	2 416	—
Carrying amount of US dollar denominated lease liabilities (current liabilities)	460	—
Carrying amount of US dollar denominated lease liabilities included in liabilities directly associated with assets classified as held for sale (current liabilities)	368	—
Total carrying amount of US dollar denominated lease liabilities	3 244	—
Change in carrying amount of designated lease liabilities as a result of foreign currency losses	(406)	—
Change in value of hedged item used to determine hedge effectiveness	406	—
Hedge ratio	100%	—
Reconciliation of amounts accumulated in the FCTR relating to hedges of net investments in foreign operations:		
Balance at the beginning of the year	—	—
Change in carrying amount of hedging instruments as a result of foreign currency losses recognised in other comprehensive income, net of income tax (note 17.1.2)	(310)	—
Balance at the end of the year	(310)	—

Sensitivity analysis of material concentrations of currency risk

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 South Africa rand and the US dollar. At 28 June 2020 the total possible decrease in Group post-tax profit, calculated for all estimated currency movements, was R642 million with the Angola kwanza exchange rate to the US dollar and South Africa rand (with an expected decline of 23.8% against the US dollar and 29.1% against the South Africa rand) contributing R191 million and R107 million respectively to this number. At 30 June 2019 the total possible decrease in Group post-tax profit, calculated for all estimated currency movements, was R362 million with the AON/US\$ exchange rate (with an expected 15.8% decline) contributing R172 million to this number. These changes had no material effect on the Group's equity.

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

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



40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.2 Market risk (continued)

(a) Currency risk (continued)

Foreign currency	Group	
	2020 Rm	2019 Rm
Angola kwanza	1 669	2 826
United States dollar	(9 722)	(8 557)

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk arises mainly from daily call accounts, bank overdrafts and borrowings. The Group does not account for any fixed rate financial assets or liabilities at fair value through profit and loss and therefore a change in interest rates at the reporting date would not affect profit or loss. Fixed rate financial instruments include government bonds and bills (refer to note 10), loans receivable (refer to note 11), instalment sale receivables (refer to note 14.2) and certain borrowings (refer to note 19.6).

Daily call accounts and bank overdrafts carry interest at rates fixed on a daily basis and expose the Group to cash flow interest rate risk. The Group analyses this interest rate exposure on a dynamic basis. Daily cash flow forecasts are done and combined with interest rates quoted on a daily basis. This information is then taken into consideration when reviewing refinancing/reinvesting and/or renewal/cancellation of existing positions and alternative financing/investing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for cash/borrowings that represent the major interest-bearing positions. The weighted average effective interest rate on call accounts was 7.0% (2019: 7.7%).

As part of the process of managing floating rate interest-bearing debt, the interest rate characteristics of borrowings (refer to note 19) are positioned according to the expected movements in interest rates. Interest rate profiles are analysed by the changes in borrowing levels and the interest rates applicable to the facilities available to the Group. The Chief Financial Officer has the mandate to approve the use of fixed interest debt and interest rate swaps as circumstances dictate. The Group obtained fixed interest rate loans of US\$100 million at a rate of 3.5% p.a. and US\$250 million at a rate of 4.3% p.a. (refer to note 19.6). No interest rate swaps were entered into during the current year.

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

- Amounts receivable from franchisees: note 11.2
- Amounts receivable from joint ventures: note 14.4
- Amounts owing to joint ventures: note 21.3

Sensitivity analysis of material concentrations of interest rate risk

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 28 June 2020 the total possible decrease in Group post-tax profit, calculated for all estimated interest rate movements, was R32.0 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 R18.1 million. At 30 June 2019 the total possible decrease in Group post-tax profit, calculated for all estimated interest rate movements, was R6.8 million. The estimated decrease of 25 basis points in the South African prime rate would have resulted in a possible decrease in Group post-tax profit of R6.9 million. 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.

40.4.3 Liquidity risk

The risk of illiquidity is managed by using cash flow forecasts, maintaining adequate unutilised banking facilities (2020: R10.4 billion; 2019: R7.3 billion) and unlimited borrowing powers. All unutilised facilities are controlled by the Group's treasury department in accordance with a treasury mandate as approved by the Board of Directors.

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants, calculated on the basis that IAS 17 is still applied:

- The leverage ratio (net debt to earnings before interest, income tax, depreciation and amortisation (EBITDA)) must not exceed 2.5 – 2.75 times;
- The net finance costs cover ratio (EBITDA divided by net finance costs) must be a minimum of 3.5 times for First Rand Bank Ltd borrowings and 5 times for ABSA Bank Ltd borrowings; and
- The finance costs cover ratio (EBITDA divided by finance costs) must be a minimum of 3.5 times.

The Group has complied with these covenants throughout the reporting period. As at the reporting date, these ratios measured as follows:

	2020 times	2019 times
■ Leverage	0.24	0.85
■ Net finance costs cover	15.29	16.66
■ Finance costs cover	8.45	11.28

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

40 Risk management and financial instrument disclosure (continued)

40.4 Financial risk management (continued)

40.4.3 Liquidity risk (continued)

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

Non-derivative financial liabilities	Book value Rm	Total Rm	Not later than one year Rm	Between one and two years Rm	Between two and five years Rm	Between five and ten years Rm	After ten years Rm
Group							
2020							
Lease liabilities**	24 752	37 634	5 097	4 459	11 150	10 790	6 138
Borrowings	12 009	12 649	3 365	7 050	2 234	—	—
Trade payables	13 720	13 720	13 720	—	—	—	—
Other payables and accruals excluding taxes payable and employee benefit accruals	3 744	3 744	3 744	—	—	—	—
Deposits and third-party payments liability	477	477	477	—	—	—	—
Amounts owing to joint ventures	—	—	—	—	—	—	—
Refund liability	46	46	46	—	—	—	—
Contract liabilities	868	868	868	—	—	—	—
Bank overdrafts	2 095	2 095	2 095	—	—	—	—
Financial commitment	—	5	5	—	—	—	—
	57 711	71 238	29 417	11 509	13 384	10 790	6 138
Restated* 2019							
Lease liabilities**	21 478	33 944	4 023	3 760	9 544	9 644	6 973
Borrowings	11 706	12 811	2 827	354	9 630	—	—
Trade payables	13 082	13 082	13 082	—	—	—	—
Other payables and accruals excluding taxes payable and employee benefit accruals	3 539	3 539	3 539	—	—	—	—
Deposits and third-party payments liability	512	512	512	—	—	—	—
Amounts owing to joint ventures	8	8	8	—	—	—	—
Refund liability	39	39	39	—	—	—	—
Contract liabilities	791	791	791	—	—	—	—
Bank overdrafts	4 124	4 124	4 124	—	—	—	—
Financial commitment	—	47	47	—	—	—	—
	55 279	68 897	28 992	4 114	19 174	9 644	6 973

* Restated for the adoption of IFRS 16: Leases. Refer to note 42 for details of this change in accounting policy.

** The maturity analysis of contractual undiscounted future lease payments include renewal options reasonably assured.

Company							
2020							
Other payables and accruals excluding taxes payable and employee benefit accruals	12	12	12	—	—	—	—
Financial guarantees	—	29 330	29 330	—	—	—	—
	12	29 342	29 342	—	—	—	—
2019							
Other payables and accruals excluding taxes payable and employee benefit accruals	14	14	14	—	—	—	—
Financial guarantees	—	27 672	27 672	—	—	—	—
	14	27 686	27 686	—	—	—	—

40 Risk management and financial instrument disclosure (continued)

40.5 Insurance risk

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

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

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

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

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

41 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.

Details of the remuneration of directors, and equity- and cash-settled share-based payment instruments issued to directors, are disclosed in notes 16 and 26.

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

	Group	
	2020 Rm	2019 Rm
Key management personnel compensation		
Short-term employee benefits	85	66
Post-employment benefits	2	2
Long-term incentive bonuses including share-based payments	20	13
Directors' fees	6	6
	113	87

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

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

	Group	
	2020 Rm	2019 Rm
These transactions and related balances were as follows:		
Purchase of merchandise	523	495
Utilisation of services	8	17
Year-end balances owed by the Group	86	81

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

41 Related party information (continued)

The Group has a 39% interest in Resilient Africa (Pty) Ltd and Resilient Africa Managers (Pty) Ltd (refer to note 9).

	Group	
	2020 Rm	2019 Rm
The following transactions took place between the Resilient Africa associates and the Group during the year under review:		
Rent paid to the associates	10	5
Interest received by the Group	52	48

The year-end balances relating to loans receivable from Resilient Africa (Pty) Ltd are disclosed in note 11.1.

Assets held for sale (note 4) included the Group's 50% interest in Hungry Lion (Mauritius) Ltd at the end of the previous year. The Group disposed of this investment during the current year, upon fulfillment of the suspensive conditions. The other 50% was indirectly held by former alternate non-executive director JAL Basson.

	Group	
	2020 Rm	2019 Rm
The following transactions took place between the Hungry Lion joint venture and the Group during the year under review:		
Sale of merchandise to the joint venture	—	71
Operating expenses recovered by the Group	—	2
Administration fees received by the Group	—	8

The year-end balances relating to the transactions with the joint venture are disclosed in notes 14.4 and 21.3.

Details of the Company's interests in subsidiaries are provided in note 8 and Annexure A.

The Company paid dividends of R113 million (2019: R154 million) to Shoprite Checkers (Pty) Ltd during the year under review.

	Company	
	2020 Rm	2019 Rm
The Company received the following from its subsidiaries:		
Annual administration fee received from Shoprite Checkers (Pty) Ltd	2	2
Dividends received from Shoprite Checkers (Pty) Ltd	2 421	1 513
Dividends received from Shoprite Insurance Company Ltd	—	350
Guarantee fee received from Shoprite International Ltd	103	90
Guarantee fee received from Retail Holdings Botswana (Pty) Ltd	4	—
Interest received from Shoprite Investments Ltd	56	52

42 Change in accounting policy

42.1 Discontinued operations

Following the classification of the Group's Nigeria subsidiary as discontinued operations in accordance with IFRS 5 (refer to note 32), comparative statement of comprehensive income figures have been restated for the change in accounting policy. The adjustments recognised for each individual line item affected in the Group's consolidated statement of comprehensive income for the year ended 30 June 2019 is detailed in note 42.4.

42.2 Adoption of IFRS 16: Leases

IFRS 16 is effective for the accounting period commencing 1 July 2019 and replaces IAS 17: *Leases* (IAS 17). The Group implemented the standard using the full retrospective approach. Accordingly, the comparative information in these consolidated annual financial statements have been restated from a transition date of 2 July 2018.

The principles for the recognition, measurement, presentation and disclosure of leases under IFRS 16 largely aligns the accounting of operating leased assets with the accounting of owned and finance leased assets. IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities on the statement of financial position for all leases, except short-term and low-value asset leases.

At commencement of the lease, the lease liability and corresponding right-of-use asset are initially recognised at a value equal to the present value of future lease payments. The right-of-use asset is then adjusted for payments already made, lease incentives, initial direct costs and any provision for restoration costs. The values of the right-of-use asset and lease liability reduce over the lease term at different rates.

Lease liabilities are subsequently measured at amortised cost using the effective interest rate method. The lease liability is remeasured upon the occurrence of certain events, such as a change in lease term or a change in future lease payments resulting from a rent review, change in a relevant index or rate such as inflation or a change in the Group's assessment of whether it is reasonably certain to exercise a renewal or termination option. A corresponding adjustment is made to the right-of-use asset. The Group no longer recognises property provisions for onerous lease contracts as the lease payments are included within the lease liability.

Right-of-use assets are subsequently depreciated on a straight-line basis over the useful life of the underlying right-of-use asset and are tested for impairment when there are any indicators of impairment.

In terms of IFRS 16, the straight-line operating lease expense previously recognised under IAS 17 is replaced by depreciation of right-of-use assets and interest charged on outstanding lease liabilities. The net impact on the statement of comprehensive income is the same under IAS 17 and IFRS 16, but the timing of the impact is different over the lease term.

The adoption of IFRS 16 therefore results in an increase to operating profit, which is reported prior to interest being deducted. Depreciation is charged on a straight-line basis, however, interest is charged on outstanding lease liabilities and therefore reduces over the life of the lease. As a result, the impact on the statement of comprehensive income below operating profit is highly dependent on average lease maturity. For an immature portfolio, depreciation and interest are higher than the straight-line operating lease expense they replace and therefore IFRS 16 is dilutive to EPS. For a mature portfolio, they are lower and therefore IFRS 16 is accretive. The Group's lease portfolio on transition is relatively immature, being approximately 42% through an average total lease term of nine years.

Operating lease expenses previously recognised under IAS 17 were presented separately on the face of the statement of comprehensive income before the adoption of IFRS 16, as management considered this expense to be material to the Group's operations. The adoption of IFRS 16 reduced lease expenses to such levels that it is no longer considered to be material enough to be presented as a separate line item on the face of the statement of comprehensive income. Lease expenses under IFRS 16 (2020: R673 million; 2019: R446 million) have therefore been reclassified and included in other operating expenses on the face of the statement of comprehensive income.

At the date of initial application, the Group elected to use the practical expedient provided by IFRS 16, which allows the Group to apply IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4: *Determining Whether an Arrangement Contains a Lease*. The Group has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

IFRS 16 has not had a significant impact on the Group's existing leases in which the Group is a lessor.

IFRS 16 has a significant impact on reported assets, liabilities and the statement of comprehensive income of the Group, as well as the classification of cash flows relating to lease contracts, as the majority of the Group's leased property, machinery, vehicles and equipment and other small item leased assets will be brought onto the statement of financial position. The standard impacts a number of key measures such as operating profit and cash generated from operations, as well as a number of alternative performance measures used by the Group.

The aggregate effect of the change in accounting policies and adjustments recognised for each individual line item affected in the Group's consolidated statement of financial position, statement of comprehensive income and statement of cash flows as at 2 July 2018, 30 June 2019 and 28 June 2020 is detailed in the following tables.

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

42 Change in accounting policy (continued)

42.3 Impact of the adoption of IFRS 16: Leases on the statement of financial position

	IAS 17 2020 Rm	Impact of IFRS 16 2020 Rm	Reported 2020 Rm	Previously Reported 2019 Rm	Impact of IFRS 16 2019 Rm	Restated 2019 Rm
Assets						
Non-current assets	24 883	17 906	42 789	30 212	16 028	46 240
Property, plant and equipment	18 265	—	18 265	21 444	—	21 444
Right-of-use assets	—	17 156	17 156	—	15 741	15 741
Intangible assets	2 955	—	2 955	3 077	—	3 077
Government bonds and bills	62	—	62	2 516	—	2 516
Loans receivable	1 953	—	1 953	1 664	—	1 664
Deferred income tax assets	939	1 245	2 184	629	1 000	1 629
Trade and other receivables	709	(495)	214	882	(713)	169
Current assets	39 267	670	39 937	34 783	(41)	34 742
Inventories	18 845	—	18 845	20 889	—	20 889
Trade and other receivables	4 134	(28)	4 106	4 197	(41)	4 156
Current income tax assets	147	—	147	480	—	480
Government bonds and bills	2 440	—	2 440	500	—	500
Loans receivable	229	—	229	196	—	196
Cash and cash equivalents	12 114	—	12 114	7 707	—	7 707
	37 909	(28)	37 881	33 969	(41)	33 928
Assets held for sale	1 358	698	2 056	814	—	814
Total assets	64 150	18 576	82 726	64 995	15 987	80 982
Equity						
Capital and reserves attributable to owners of the parent						
Stated capital	7 516	—	7 516	7 516	—	7 516
Treasury shares	(806)	—	(806)	(605)	—	(605)
Reserves	17 590	(4 449)	13 141	19 152	(3 962)	15 190
	24 300	(4 449)	19 851	26 063	(3 962)	22 101
Non-controlling interest	151	(8)	143	114	(8)	106
Total equity	24 451	(4 457)	19 994	26 177	(3 970)	22 207
Liabilities						
Non-current liabilities	11 497	18 662	30 159	11 204	17 815	29 019
Lease liabilities	—	20 168	20 168	—	19 158	19 158
Borrowings	8 826	—	8 826	9 044	—	9 044
Deferred income tax liabilities	823	1	824	568	(30)	538
Provisions	299	42	341	289	(10)	279
Fixed escalation operating lease accruals	1 549	(1 549)	—	1 303	(1 303)	—
Current liabilities	28 202	4 371	32 573	27 614	2 142	29 756
Trade and other payables	20 384	(227)	20 157	19 495	(170)	19 325
Contract liabilities	864	—	864	791	—	791
Lease liabilities	—	3 103	3 103	—	2 320	2 320
Borrowings	3 183	—	3 183	2 662	—	2 662
Current income tax liabilities	1 148	—	1 148	423	—	423
Provisions	98	14	112	119	(8)	111
Bank overdrafts	2 095	—	2 095	4 124	—	4 124
	27 772	2 890	30 662	27 614	2 142	29 756
Liabilities directly associated with assets classified as held for sale	430	1 481	1 911	—	—	—
Total liabilities	39 699	23 033	62 732	38 818	19 957	58 775
Total equity and liabilities	64 150	18 576	82 726	64 995	15 987	80 982



42 Change in accounting policy (continued)

42.3 Impact of the adoption of IFRS 16: Leases on the statement of financial position (continued)

	Previously Reported 2018 Rm	Impact of IFRS 16 2018 Rm	Restated 2018 Rm
Assets			
Non-current assets	29 353	16 503	45 856
Property, plant and equipment	21 218	—	21 218
Right-of-use assets	—	16 354	16 354
Intangible assets	2 994	—	2 994
Held-to-maturity investments	2 090	—	2 090
Loans and receivables	1 318	—	1 318
Deferred income tax assets	877	840	1 717
Trade and other receivables	856	(691)	165
Current assets	32 494	(160)	32 334
Inventories	17 959	—	17 959
Trade and other receivables	4 935	(160)	4 775
Current income tax assets	120	—	120
Held-to-maturity investments	1 600	—	1 600
Loans and receivables	231	—	231
Cash and cash equivalents	7 465	—	7 465
	32 310	(160)	32 150
Assets held for sale	184	—	184
Total assets	61 847	16 343	78 190
Equity			
Capital and reserves attributable to owners of the parent			
Stated capital	7 516	—	7 516
Treasury shares	(554)	—	(554)
Reserves	20 424	(3 290)	17 134
	27 386	(3 290)	24 096
Non-controlling interest	91	(9)	82
Total equity	27 477	(3 299)	24 178
Liabilities			
Non-current liabilities	3 567	17 533	21 100
Lease liabilities	—	18 795	18 795
Borrowings	1 371	—	1 371
Deferred income tax liabilities	697	(18)	679
Provisions	264	(9)	255
Fixed escalation operating lease accruals	1 235	(1 235)	—
Current liabilities	30 803	2 109	32 912
Trade and other payables	20 048	(145)	19 903
Contract liabilities	578	—	578
Lease liabilities	—	2 254	2 254
Borrowings	5 606	—	5 606
Current income tax liabilities	481	—	481
Provisions	95	—	95
Bank overdrafts	3 995	—	3 995
Total liabilities	34 370	19 642	54 012
Total equity and liabilities	61 847	16 343	78 190

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

42 Change in accounting policy (continued)

42.4 Impact of the adoption of IFRS 16: Leases on the statement of comprehensive income

	IAS 17 52 weeks 2020 Rm	Impact of IFRS 16 52 weeks 2020 Rm	Reported 52 weeks 2020 Rm
Sale of merchandise	156 855	—	156 855
Cost of sales	(119 323)	—	(119 323)
Gross profit	37 532	—	37 532
Other operating income	2 326	—	2 326
Interest revenue	598	—	598
Depreciation and amortisation	(2 431)	(2 600)	(5 031)
Operating leases	(5 247)	5 247	—
Employee benefits	(12 585)	—	(12 585)
Credit impairment losses	(480)	—	(480)
Other operating expenses	(13 516)	(673)	(14 189)
Trading profit	6 197	1 974	8 171
Exchange rate gains	563	3	566
Profit on lease modifications	—	69	69
Items of a capital nature	(585)	(470)	(1 055)
Operating profit	6 175	1 576	7 751
Interest received from bank account balances	443	—	443
Finance costs	(990)	(1 920)	(2 910)
Share of loss of equity accounted investments	(38)	—	(38)
Profit before income tax	5 590	(344)	5 246
Income tax expense	(1 977)	194	(1 783)
Profit from continuing operations	3 613	(150)	3 463
Loss from discontinued operations (attributable to owners of the parent)	(231)	144	(87)
Profit for the year	3 382	(6)	3 376
Other comprehensive loss, net of income tax	(3 202)	(481)	(3 683)
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment medical benefit obligations	2	—	2
Items that may subsequently be reclassified to profit or loss			
Foreign currency translation differences including hyperinflation effect from continuing operations	(3 203)	(170)	(3 373)
Foreign currency translation differences from discontinued operations	(39)	(1)	(40)
Share of foreign currency translation differences of equity accounted investments	38	—	38
Loss on effective net investment hedge, net of income tax	—	(310)	(310)
Total comprehensive income/(loss) for the year	180	(487)	(307)
Profit attributable to:	3 382	(6)	3 376
Owners of the parent	3 362	(6)	3 356
Non-controlling interest	20	—	20
Total comprehensive income/(loss) attributable to:	180	(487)	(307)
Owners of the parent	160	(487)	(327)
Non-controlling interest	20	—	20
Basic earnings per share (cents)	608.0	(1.1)	606.9
Diluted earnings per share (cents)	607.1	(1.1)	606.0
Basic headline earnings per share (cents)	696.0	60.9	756.9
Diluted headline earnings per share (cents)	694.9	60.8	755.7


42 Change in accounting policy (continued)
42.4 Impact of the adoption of IFRS 16: Leases on the statement of comprehensive income (continued)

	Previously Reported 52 weeks 2019 Rm	Impact of IFRS 16 52 weeks 2019 Rm	IFRS 16 Restated 52 weeks 2019 Rm	Discontinued operations 52 weeks 2019 Rm	Restated 52 weeks 2019 Rm
Sale of merchandise	150 395	—	150 395	(2 917)	147 478
Cost of sales	(115 074)	—	(115 074)	2 046	(113 028)
Gross profit	35 321	—	35 321	(871)	34 450
Other operating income	2 476	—	2 476	(9)	2 467
Interest revenue	742	—	742	—	742
Depreciation and amortisation	(2 640)	(2 513)	(5 153)	182	(4 971)
Operating leases	(4 643)	4 643	—	—	—
Employee benefits	(11 997)	—	(11 997)	152	(11 845)
Credit impairment losses	23	—	23	—	23
Other operating expenses	(13 326)	(454)	(13 780)	363	(13 417)
Net monetary gain	920	27	947	—	947
Trading profit	6 876	1 703	8 579	(183)	8 396
Exchange rate gains/(losses)	115	(458)	(343)	233	(110)
Profit on lease modifications	—	—	—	—	—
Items of a capital nature	(80)	(416)	(496)	77	(419)
Operating profit	6 911	829	7 740	127	7 867
Interest received from bank account balances	273	—	273	(1)	272
Finance costs	(845)	(1 814)	(2 659)	60	(2 599)
Profit before income tax	6 339	(985)	5 354	186	5 540
Income tax expense	(2 068)	194	(1 874)	159	(1 715)
Profit from continuing operations	4 271	(791)	3 480	345	3 825
Loss from discontinued operations (attributable to owners of the parent)	—	—	—	(345)	(345)
Profit for the year	4 271	(791)	3 480	—	3 480
Other comprehensive loss, net of income tax	(2 773)	120	(2 653)	—	(2 653)
Items that will not be reclassified to profit or loss					
Re-measurements of post-employment medical benefit obligations	3	—	3	—	3
Items that may subsequently be reclassified to profit or loss					
Foreign currency translation differences including hyperinflation effect from continuing operations	(2 776)	120	(2 656)	34	(2 622)
Foreign currency translation differences from discontinued operations	—	—	—	(34)	(34)
Total comprehensive income for the year	1 498	(671)	827	—	827
Profit attributable to:	4 271	(791)	3 480	—	3 480
Owners of the parent	4 260	(792)	3 468	—	3 468
Non-controlling interest	11	1	12	—	12
Total comprehensive income attributable to:	1 498	(671)	827	—	827
Owners of the parent	1 487	(672)	815	—	815
Non-controlling interest	11	1	12	—	12
Basic earnings per share (cents)	768.2	(142.9)	625.3	—	625.3
Diluted earnings per share (cents)	767.3	(142.6)	624.7	—	624.7
Basic headline earnings per share (cents)	780.8	(81.6)	699.2	—	699.2
Diluted headline earnings per share (cents)	779.9	(81.4)	698.5	—	698.5

Notes to the annual financial statements (continued)

Shoprite Holdings Ltd and its subsidiaries for the year ended 28 June 2020

42 Change in accounting policy (continued)

42.5 Impact of the adoption of IFRS 16: Leases on the statement of cash flows

	IAS 17 52 weeks 2020 Rm	Impact of IFRS 16 52 weeks 2020 Rm	Reported 52 weeks 2020 Rm	Previously Reported 52 weeks 2019 Rm	Impact of IFRS 16 52 weeks 2019 Rm	Restated 52 weeks 2019 Rm
Cash flows from operating activities	8 390	2 599	10 989	635	2 269	2 904
Operating profit	5 944	1 784	7 728	6 911	829	7 740
Less: investment income and finance income earned	(599)	—	(599)	(764)	—	(764)
Non-cash items	3 341	2 820	6 161	2 362	3 258	5 620
Changes in working capital	2 565	—	2 565	(3 520)	(8)	(3 528)
Cash generated from operations	11 251	4 604	15 855	4 989	4 079	9 068
Interest received	1 073	—	1 073	1 020	—	1 020
Interest paid	(1 001)	(2 005)	(3 006)	(874)	(1 810)	(2 684)
Dividends received	1	—	1	22	—	22
Dividends paid	(1 786)	—	(1 786)	(2 430)	—	(2 430)
Income tax paid	(1 148)	—	(1 148)	(2 092)	—	(2 092)
Cash flows utilised by investing activities	(375)	(14)	(389)	(4 693)	(24)	(4 717)
Investment in property, plant and equipment and intangible assets to expand operations	(2 140)	—	(2 140)	(3 709)	—	(3 709)
Investment in property, plant and equipment and intangible assets to maintain operations	(1 077)	—	(1 077)	(1 571)	—	(1 571)
Investment in asset held for sale	(13)	—	(13)	—	—	—
Prepayments for right-of-use assets	—	(14)	(14)	—	(24)	(24)
Proceeds on disposal of property, plant and equipment and intangible assets	1 233	—	1 233	265	—	265
Proceeds on disposal of assets held for sale	793	—	793	184	—	184
Payments for government bonds and bills	—	—	—	(1 017)	—	(1 017)
Proceeds from government bonds and bills	924	—	924	1 444	—	1 444
Loans advanced to Resilient Africa (Pty) Ltd	(165)	—	(165)	(51)	—	(51)
Other loans receivable advanced	(208)	—	(208)	(437)	—	(437)
Other loans receivable repaid	257	—	257	204	—	204
Cash inflow on disposal of investment in subsidiary	36	—	36	—	—	—
Acquisition of subsidiaries and operations	(15)	—	(15)	(5)	—	(5)
Cash flows (utilised by)/from financing activities	(1 407)	(2 585)	(3 992)	4 397	(2 245)	2 152
Repayment of lease liability obligations	—	(2 585)	(2 585)	—	(2 245)	(2 245)
Purchase of treasury shares	(272)	—	(272)	(115)	—	(115)
Proceeds from treasury shares disposed	6	—	6	13	—	13
Repayment of borrowings	(5 995)	—	(5 995)	(4 271)	—	(4 271)
Borrowings raised	4 854	—	4 854	8 770	—	8 770
Net movement in cash and cash equivalents	6 608	—	6 608	339	—	339
Cash and cash equivalents at the beginning of the year	3 583	—	3 583	3 470	—	3 470
Effect of exchange rate movements and hyperinflation on cash and cash equivalents	(172)	—	(172)	(226)	—	(226)
Cash and cash equivalents at the end of the year	10 019	—	10 019	3 583	—	3 583
Consisting of:						
Cash and cash equivalents	12 114	—	12 114	7 707	—	7 707
Bank overdrafts	(2 095)	—	(2 095)	(4 124)	—	(4 124)
	10 019	—	10 019	3 583	—	3 583

43 Reclassification of disclosure items

Certain reclassifications of statement of comprehensive income 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 all interest revenue included in trading profit from other operating income. This reclassification ensures that all interest revenue, calculated using the effective interest rate method, is presented separately from other revenue on the face of the statement of comprehensive income as required by IAS 1.

Statement of comprehensive income	2019 Rm
Decrease in other operating income	742
Increase in interest revenue	742
Trading profit	—

44 COVID-19 pandemic

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity. The Group has taken a number of measures to monitor and prevent the effects of the COVID-19 virus, such as safety and health measures for our people (like social distancing and working from home) and securing the supply of materials that are essential to our operations.

At this stage, the impact on our business and results is limited. We will continue to follow the various national institutes' policies and advice. In parallel we will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our people.

44.1 Impairment of non-financial assets

The Group performs a review of its CGUs and considers the need for impairment of non-performing assets. Estimated growth rates and discount rates used in the impairment calculations were adjusted to account for the expected impact of COVID-19 on the performance of the Group's CGUs. Impairments to the value of R1.3 billion were recorded during the year under review, mainly in the Supermarkets Non-RSA and Furniture operating segments as a result of the deterioration in the current and future economic outlook as well as changes in the Group's strategy. Refer to note 7.

44.2 Instalment sale receivables from contracts with customers

Debtor book collections from the Furniture segment were hampered during the lockdown period and are expected to deteriorate in line with the anticipated economic downturn. Our ECL estimates were adjusted to account for the expected increase in risk of missed payments and resulted in an increase in the ECL provision from 35.8% at the end of the previous year to 50.5% at the reporting date. Refer to note 40.4.1(c).

45 Events after the reporting date

45.1 COVID-19 update

From 18 August 2020, trading in the liquor category was allowed to commence from Mondays to Thursdays in South Africa. Restrictions on the sale of alcohol in South Africa were lifted further, with trading in this category also allowed on Fridays, from 21 September 2020. This will have a positive impact on the Group's cash flows. It is too early to estimate the impact on the results of operations outside of South Africa, where lockdown measures are currently also affecting operations and vary from country to country.

45.2 Furniture business affected by fire in Angola

In July 2020, a fire at the distribution centre of the furniture operations in Angola destroyed the majority of its safety inventory holding in the country. A disaster recovery plan was implemented and new premises have since been secured from where the operations will continue to trade. Sufficient inventory has been secured and the impact on trade is estimated to be minimal. It is too early to estimate the full financial impact which is in the process of being assessed. The Group is, however, insured and it is foreseen that the potential loss to the Group as a consequence of this incident will not be material. This is considered by the Group as a non-adjusting event.

46 Going concern

The Board of Directors evaluated the going concern assumption as at 28 June 2020, taking into account the current financial position and their best estimate of the cash flow forecasts in terms of their current knowledge and expectations of ongoing developments of the COVID-19 pandemic, and considered it to be appropriate in the presentation of these consolidated annual financial statements.

The Board has reviewed the cash flow forecast for the next 12 months and is of the opinion that the Group has more than sufficient liquidity to adequately support its working capital requirements and consequently, is satisfied with the Group's ability to continue as a going concern for the foreseeable future.

The Group's outlook regarding trading conditions that will persist into the foreseeable future:

For the months of July and August, trade in South Africa has been in line with our projections, notably impacted by the lockdown restrictions pertaining to liquor, resulting from our substantial business in this category being closed up to 17 August 2020. South African lockdown restrictions relating to the sale and distribution of alcohol were eased after the reporting date.

Financial covenants:

As at the reporting date the Group had unutilised banking facilities of R10.4 billion and is well within the financial covenants with its various financiers. Refer to note 40.4.3.

Annexure A – Interests in subsidiaries

Shoprite Holdings Ltd as at 28 June 2020

	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	
				2020 Rm	2019 Rm	2020 Rm	2019 Rm
Direct subsidiaries							
Shoprite Checkers (Pty) Ltd	South Africa	1 129	100	174	174	206	1 704
Shoprite DTMC (Pty) Ltd	South Africa*	653	100	653	653	—	—
Shoprite Investments Ltd	South Africa	400	100	400	400	886	831
Shoprite International Ltd	Mauritius*	9 496	100	9 497	8 122	103	90
Shoprite Insurance Company Ltd	South Africa	20	100	20	20	—	—
				10 744	9 369	1 195	2 625
Indirect subsidiaries							
Africa Supermarkets Ltd	Zambia*	657	100				
Checkers (Chatsworth) Ltd**	South Africa	2	48				
Computicket (Pty) Ltd	South Africa	69	100				
Medirite (Pty) Ltd	South Africa	1 201	100				
Mercado Fresco de Angola Lda	Angola*	225	100				
OK Bazaars (Lesotho) (Pty) Ltd**	Lesotho*	—	50				
OK Bazaars (Namibia) Ltd	Namibia*	1	100				
OK Bazaars (Swaziland) (Pty) Ltd	Swaziland*	—	100				
OK Bazaars (Venda) Ltd**	South Africa	2	50				
Shoprite Mozambique Lda	Mozambique*	149	100				
Retail Holdings Botswana (Pty) Ltd	Botswana*	165	100			4	—
Retail Supermarkets Nigeria Ltd	Nigeria*	1 798	100				
Sentra Namibia Ltd	Namibia*	6	100				
Shophold (Mauritius) Ltd	Mauritius*	189	100				
Shoprite (Mauritius) Ltd	Mauritius*	266	100				
Shoprite Angola Imobiliaria Lda	Angola*	1 634	100				
Shoprite Checkers Kenya Ltd	Kenya*	89	100				
Shoprite Checkers Uganda Ltd	Uganda*	148	100				
Shoprite Ghana (Pty) Ltd	Ghana*	108	100				
Shoprite Lesotho (Pty) Ltd	Lesotho*	—	100				
Shoprite Madagascar S.A.	Madagascar*	215	100				
Shoprite Namibia (Pty) Ltd	Namibia*	—	100				
Shoprite RDC SPRL	DRC*	82	100				
Shoprite Supermercados Lda	Angola*	836	100				
Shoprite Trading Ltd	Malawi*	127	100				
				10 744	9 369	1 199	2 625

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

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

Note:

General information in respect of subsidiaries is set out in respect of only those subsidiaries of which the financial position or results are material for a proper appreciation of the affairs of the Group. A full list of subsidiaries is available on request.



Annexure B – Shareholder analysis

Shoprite Holdings Ltd as at 28 June 2020

Shareholder spread	No of Shareholdings	%	No of Shares	%
1 – 1 000 shares	41 668	84.11	10 422 329	1.76
1 001 – 10 000 shares	6 386	12.89	17 070 627	2.89
10 001 – 100 000 shares	1 073	2.17	35 850 419	6.06
100 001 – 1 000 000 shares	337	0.68	105 832 975	17.90
Over 1 000 001 shares	76	0.15	422 162 152	71.39
Totals	49 540	100.00	591 338 502	100.00

Distribution of shareholders	No of Shareholdings	%	No of Shares	%
Banks/Brokers	274	0.55	184 069 812	31.13
Close Corporations	312	0.63	1 084 339	0.19
Endowment Funds	277	0.56	2 714 037	0.46
Individuals	40 215	81.18	24 207 728	4.10
Insurance Companies	214	0.43	28 462 016	4.81
Investment Companies	11	0.02	3 555 926	0.60
Medical Schemes	43	0.09	798 255	0.13
Mutual Funds	544	1.10	74 905 834	12.67
Other Corporations	250	0.50	3 312 886	0.56
Private Companies	1 099	2.22	73 792 618	12.48
Public Companies	15	0.03	190 514	0.03
Retirement Funds	650	1.31	135 589 075	22.93
Sovereign Wealth Funds	13	0.03	9 657 401	1.63
Treasury Shares	4	0.01	35 436 572	5.99
Trusts	5 619	11.34	13 561 489	2.29
Totals	49 540	100.00	591 338 502	100.00

Public/non-public shareholders	No of Shareholdings	%	No of Shares	%
Non-public shareholders	27	0.05	164 444 384	27.81
Directors of the company	21	0.04	64 401 742	10.89
Shares held for benefit of participants to equity settled share based payments arrangements*	1	0.00	2 973 209	0.50
Strategic Holding more than 10%	1	0.00	61 632 861	10.43
Treasury Shares	4	0.01	35 436 572	5.99
Public Shareholders	49 513	99.95	426 894 118	72.19
Totals	49 540	100.00	591 338 502	100.00

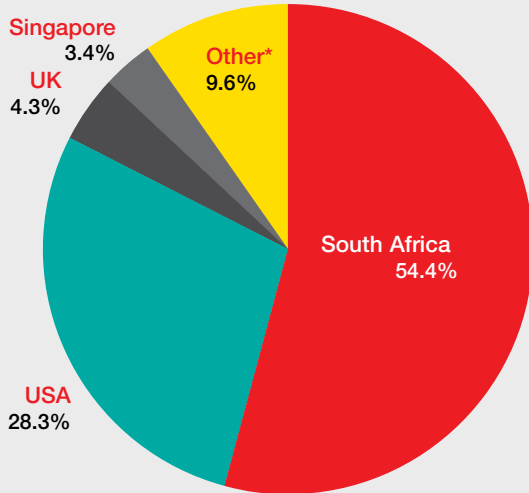
* Excludes shares held by directors in Shoprite Holdings Ltd Executive Share Plan.

Beneficial shareholders holding 1% or more	No of Shares	%
Government Employees Pension Fund	84 556 613	14.30
Wiese, CH	63 110 920	10.67
Shoprite Checkers (Pty) Ltd	35 436 572	5.99
T. Rowe Price	27 138 444	4.59
Coronation Fund Managers	26 765 159	4.53
Old Mutual	26 397 879	4.46
Vanguard	17 920 369	3.03
GIC Private Limited	12 887 161	2.18
BlackRock	10 496 616	1.78
Le Roux, JF	9 031 737	1.53
Lazard	8 786 500	1.49
Sanlam	8 727 819	1.48
Namibian Government Institutions Pension Fund	6 320 441	1.07
People's Bank of China	6 024 577	1.02
Eskom Pension & Provident Fund	5 987 734	1.01
Totals	349 588 541	59.13

Shareholders

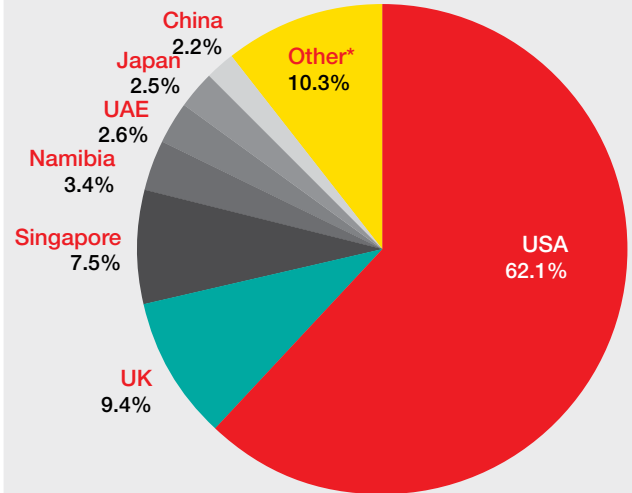
Country classification

Fund managers



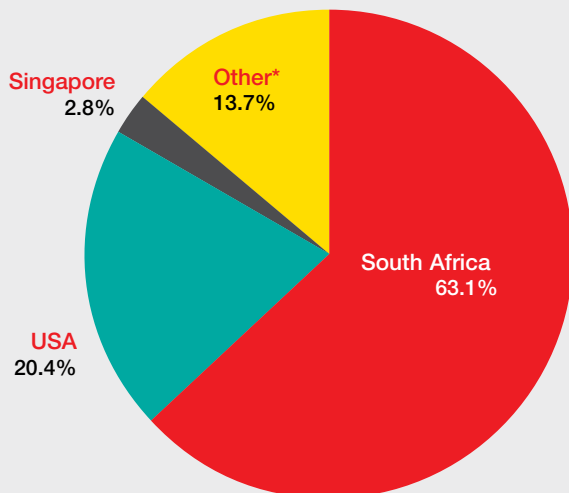
* Other: Namibia, UAE, Japan, China, Luxembourg, Netherlands, Australia, Switzerland, Denmark, Sweden, Canada, Ireland, France, Germany, Italy, Belgium, Norway, South Korea, Slovenia, Chile

Foreign fund managers



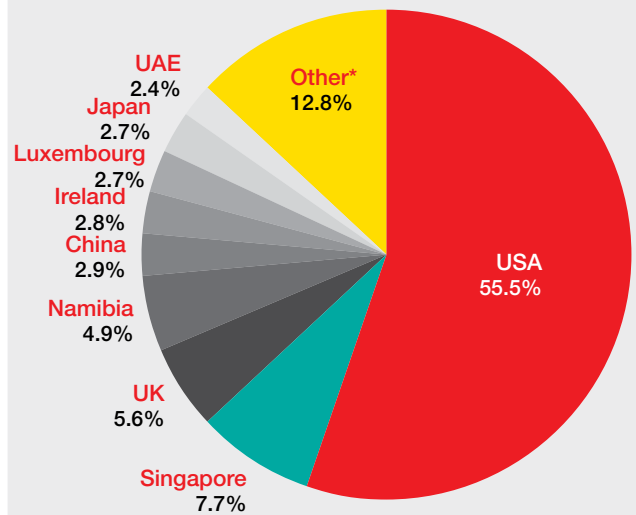
* Other: Luxembourg, Netherlands, Australia, Switzerland, Denmark, Sweden, Canada, Ireland, France, Germany, Italy, Belgium, Norway, South Korea, Slovenia, Chile

Beneficial shareholders



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

Foreign beneficial shareholders



* Other: Switzerland, Netherlands, Australia, South Korea, Canada, Denmark, Saudi Arabia, Norway, Sweden, France, Eswatini, Kuwait, Germany, Zambia, Italy, Belgium, Unidentified, Slovenia, Cayman Islands, Thailand



Administration

Shoprite Holdings Ltd

Registration number

1936/007721/06

Registered office

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PO Box 215, Brackenfell, 7561, South Africa
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Website: www.shopriteholdings.co.za

Company Secretary

Mr PG du Preez
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Transfer secretaries

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Bankers

ABSA Bank Ltd
Citibank N.A.
FirstRand Ltd
Investec Bank Ltd
Nedbank Ltd
The Standard Bank of South Africa Ltd
Standard Chartered Bank PLC

Shareholders' diary

June	August	October	November	December	February	March
Financial year-end	Reviewed results	Payment of final ordinary dividend Publishing of Integrated Annual Report	Annual general meeting	End of financial half-year	Interim results	Payment of interim ordinary dividend

Please consult our website www.shopriteholdings.co.za for the latest published diary dates.

