



THE LARGEST SUPERMARKET RETAILER ON THE AFRICAN CONTINENT

SHOPRITE 
HOLDINGS LTD

ANNUAL FINANCIAL STATEMENTS

2021

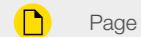
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INDEPENDENT AUDITOR'S REPORT

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 4 July 2021, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited
Shoprite Holdings Ltd's consolidated and separate financial statements set out on pages 20 to 134 comprise:

- the consolidated and separate statements of financial position as at 4 July 2021;
- 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
R347 800 000, which represents 5% of consolidated profit before tax

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 tax. Analytical procedures were performed over the remaining insignificant components.

Key audit matters

- Impairment of non-financial assets;
- Recognition of supplier rebates;
- IFRS 16 – Leases; and
- Investment in subsidiaries and amounts receivable from subsidiaries.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

Notes	53 weeks 2021 Rm	Restated* 52 weeks 2020 Rm
Revenue	171 188	158 310
Sale of merchandise	168 030	155 409
Cost of sales	(126 817)	(118 145)
GROSS PROFIT	41 213	37 264
Other operating income	2 616	2 303
Interest revenue	542	598
Depreciation and amortisation	(5 336)	(4 972)
Employee benefits	(13 553)	(12 492)
Credit impairment losses	(222)	(480)
Other operating expenses	(14 929)	(13 949)
TRADING PROFIT	10 332	8 272
Exchange rate (losses)/gains	(27)	577
Profit on lease modifications and terminations	187	69
Items of a capital nature ¹	(828)	(794)
OPERATING PROFIT	9 664	8 124
Interest received from bank account balances	268	443
Finance costs	(3 095)	(2 878)
Share of profit/(loss) of equity accounted investments	120	(38)
PROFIT BEFORE INCOME TAX	6 957	5 651
Income tax expense	(2 241)	(1 774)
PROFIT FROM CONTINUING OPERATIONS	4 716	3 877
Profit/(loss) from discontinued operations (attributable to owners of the parent)	143	(501)
PROFIT FOR THE YEAR	4 859	3 376
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX	(766)	(3 683)
Items that will not be reclassified to profit or loss		
Re-measurements of post-employment medical benefit obligations	6	2
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences from continuing operations	(1 214)	(3 295)
Foreign currency translation differences from discontinued operations	154	(118)
Release of foreign currency translation reserve on disposal of discontinued operations	447	-
Share of foreign currency translation differences of equity accounted investments	-	38
Loss on effective net investment hedge, net of income tax	(159)	(310)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	4 093	(307)
PROFIT ATTRIBUTABLE TO:	4 859	3 376
Owners of the parent	4 841	3 356
Non-controlling interest	18	20
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:	4 093	(307)
Owners of the parent	4 075	(327)
Non-controlling interest	18	20
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT ARISES FROM:	4 075	(327)
Continuing operations	3 331	292
Discontinued operations	744	(619)
EARNINGS PER SHARE FOR PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE PARENT:		
Basic earnings per share from continuing operations (cents)	851.6	697.5
Diluted earnings per share from continuing operations (cents)	848.2	696.5
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT:		
Basic earnings per share (cents)	877.5	606.9
Diluted earnings per share (cents)	874.0	606.0

* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.
¹ Refer to note 1.1.2(b) for an explanation of what constitute items of a capital nature.

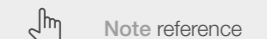
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Integrated Annual Report



Annual Financial Statements



Corporate Governance Report



Sustainability Report



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The annual financial statements for the year ended 4 July 2021 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):

	2021	2020		2021	2020
United States dollar	14.486	17.141	Kenya shilling	0.134	0.161
Pound sterling	19.940	21.308	Madagascar ariary	0.004	0.004
Euro	17.156	19.234	Malawi kwacha	0.018	0.023
Angola kwanza	0.022	0.029	Mozambique metical	0.223	0.246
Botswana pula	1.330	1.464	Nigeria naira	0.035	0.044
DRC franc	0.007	0.009	Uganda shilling	0.004	0.005
Ghana cedi	2.443	2.925	Zambia kwacha	0.638	0.946

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 4 July 2021, 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 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 12 to 17. 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.

 Independent auditor's report, pages 12 to 17

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 2021 and signed on its behalf by:



WE Lucas-Bull
Chairman



PC Engelbrecht
Chief Executive Officer

STATEMENT OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER RESPONSIBILITY

The Directors, whose names are stated below, hereby confirm that:

- the annual financial statements set out on pages 20 to 136, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;
- no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; and
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the Audit and Risk Committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves Directors, and have taken the necessary remedial action.

 Annual financial statements, pages 20 to 136



PC Engelbrecht
Chief Executive Officer

30 September 2021



A de Bruyn
Chief Financial 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 4 July 2021, 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 2021

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.

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, Usave and other store formats.

Supply Chain Management: Supplies the Group's outlets in South Africa and 12 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 easy access to affordable healthcare, healthcare professionals and in-store dispensaries with outlets throughout South Africa. 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 and Namibia, 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 Ltd 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 in Annexure A to the annual financial statements.

Financial Review

The Group's diluted headline earnings per share amounts to 973.2 cents for the year (2020: 755.7 cents). Details of the profit of Shoprite Holdings and its subsidiaries are contained in the statement of comprehensive income with reference to the operating segment information. The financial position of Shoprite Holdings and its subsidiaries are recorded in the statement of financial position. Further details are furnished in the notes to the annual financial statements. The Group's net asset value per share as at 4 July 2021 was 3 845 cents (2020: 3 592 cents).

Distribution to shareholders

Ordinary dividends

An interim cash dividend (no 144) of 191 cents per share was paid on 12 April 2021. A final dividend (no 145) of 353 cents per share, is payable on 4 October 2021, bringing the total dividend for the year to 544 cents (2020: 383 cents) per ordinary share.

Stated capital

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

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

Going concern

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

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

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

Borrowings

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

The Group's overall level of debt decreased from R12.0 billion to R5.3 billion during the financial year under review.

Special resolutions

At the Annual General Meeting of Shoprite Holdings held on 16 November 2020, shareholders approved the following special resolutions:

- **Special resolution number 1:** Remuneration payable to Non-executive Directors;
- **Special resolution number 2:** Financial assistance to subsidiaries, related and inter-related subsidiaries;
- **Special resolution number 3:** General authority to repurchase shares; and
- **Special resolution number 4:** Approval of amendment to sub-clauses of clause 33 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

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 CH Wiese and Ms AM le Roux retire as Directors, in terms of Article 33.5.1 of the MOI of the Company at the Annual General Meeting. Dr CH Wiese has offered himself for re-election as Director of Shoprite Holdings whilst Ms le Roux is not available for re-election.

Mmes L de Beer, NN Gobodo, E Wilton and Mr P Cooper retire as Directors in terms of Article 33.4 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

	Total 2020	Direct beneficial	Indirect beneficial	Total 2021	Encumbered 2021
Non-executive Directors					
WE Lucas-Bull*	n/a	–	–	–	–
JF Basson	1 000	1 000	–	1 000	–
P Cooper†	n/a	–	–	–	–
L de Beer#	n/a	–	–	–	–
NN Gobodo#	n/a	–	–	–	–
AM le Roux	14 000	20 110	–	20 110	–
ATM Mokgokong	–	–	–	–	–
JA Rock	8 300	8 300	–	8 300	–
CH Wiese	63 110 920	–	63 110 920	63 110 920	60 000 000
E Wilton†	n/a	–	–	–	–
JD Wiese**	14 674	–	14 674	14 674	–

* Appointed on 1 October 2020

Appointed on 11 May 2021

† Appointed on 11 August 2021

** Alternate Director

	Total 2020	Direct beneficial	Indirect beneficial	Total 2021	Encumbered 2021
Executive Directors					
PC Engelbrecht	762 346	572 655	316 039	888 694	140 000
A de Bruyn	53 123	81 596	1 700	83 296	–
B Harisunker	437 379	437 379	–	437 379	–

DIRECTORS' REPORT | continued

The following changes occurred in the shareholdings of Directors in ordinary shares between financial year-end and the date of this report.

Non-executive Directors	Total 2021	Sale	Purchase	Total at date of this report	Encumbered at date of this report
AM le Roux	20 110	(20 110)	–	–	–
JD Wiese	14 674	–	3 200	17 874	–

Executive Directors	Total 2021	Sale	ESP Award	Total at date of this report	Encumbered at date of this report
PC Engelbrecht	888 694	(41 910)	107 859	954 643	140 000
A de Bruyn	83 296	–	39 252	122 548	–

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

	Total 2020	Total 2021
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 Corporate Governance Report in the Integrated Annual Report.

Board committees

The reports of the various Board committees will be included in the forthcoming Corporate Governance Report in the 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 these annual financial statements, there have been no material changes in the affairs or financial position of the Company and its subsidiaries from 4 July 2021 to the date of this report.

Holding company

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

Litigation statement


Save for the disclosures as stated in note 36 of the consolidated 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 12 months, a material effect on the Group's financial position.

AUDIT AND RISK COMMITTEE REPORT

Introduction

The Audit and Risk Committee ("the ARC") 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 ARC'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 and it is reviewed annually.

 [Shoprite Holdings corporate website](http://www.shopriteholdings.co.za)

During the 2020/21 financial year, the ARC conducted its affairs in accordance with the charter and has performed its responsibilities as required.

ARC members, meeting attendance and assessment Membership

The ARC consists of five independent Non-executive Directors and is chaired by Johan Basson who is a chartered accountant. The other ARC members are Joseph Rock, Alice le Roux, Linda de Beer and Nonkululeko Gobodo. During the period the Group has embarked on a process to reconstitute its Board. As part of this process Nonkululeko Gobodo and Linda de Beer were appointed to the Board and ARC, with effect from 11 May 2021. All the ARC members are suitably skilled and experienced.

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

Meetings

The charter requires a minimum of four ARC meetings per year. During the 2020/21 financial year, the ARC had four scheduled meetings. In addition, four special ARC meetings were held as summarised below. A Risk Management workshop was also held on 26 November 2020.

The attendance of the ARC members is recorded below:

ARC members	17 August 2020	1 September 2020 (Special)	9 November 2020	10 February 2021 (Special)	24 February 2021	17 May 2021	20 May 2021 (Special)	3 June 2021 (Special)
Johan Basson (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓
Joseph Rock	✓	✓	✓	✓	✓	✓	✓	✓
Alice le Roux	✓	✓	✓	✓	✓	✓	✓	✓
Linda de Beer*						✓	✓	✓
Nonkululeko Gobodo*						✓	✓	✓

* Appointed 11 May 2021

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

ARC evaluation

As part of the annual self-evaluation, the performance of the ARC and its members were assessed and found to be in alignment with the ARC's responsibilities as set out in its 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 ARC. The outcome of the assessments was that all members of the ARC 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 12 years ago.

Linda de Beer was appointed as the Chairman of the ARC on 2 September 2021.

Responsibilities and functions

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

A. Reporting**Financial statements and accounting practices**

During the reporting period, the ARC reviewed the interim and annual financial statements 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 ARC confirmed that these were appropriate.

The ARC considered the following key audit matters as noted in the report by the external auditors:

- **Impairment of non-financial assets**

The ARC considered the policy for impairing assets and the requirements of IAS 36: Impairment of Assets, and key assumptions applied for the impairment tests.

- **IFRS 16: Leases (IFRS 16)**

The ARC considered the impact of IFRS 16, on the financial statements of the Group, in particular:

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

- **Recognition of supplier rebates**

The ARC considered the system and controls in respect of supplier rebates.

- **Investment in subsidiaries and amounts receivable from subsidiaries**

The ARC considered management's review of the value of the investment in subsidiaries and recoverability of the amounts receivable from subsidiaries.

The ARC also considered the following significant matters in relation to the 2020/21 annual financial statements:

- **Investments in Non-RSA**

During the 2020/21 financial year, the Group disposed of its entire interest in Retail Supermarkets Nigeria Ltd, closed the operations in Kenya and embarked on a formal process to sell its investments in Uganda and Madagascar. Consequently, these interests are disclosed as discontinued operations. The ARC considered and evaluated the accounting of the results of these investments as discontinued operations.

- **Sale and leaseback transactions**

The Group entered into a sale and leaseback transaction in respect of certain properties. The ARC considered the impact and accounting treatment of the sale and leaseback transaction.

- **Insurance cell captive arrangements**

The Group entered into first- and third-party cell captive insurance agreements with Old Mutual Life Insurance Company (Namibia) Ltd and Centriq Insurance Company Ltd. The ARC considered the impact and accounting treatment in this regard.

- **Valuation of inventory**

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

- **Measurement of financial assets**

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**

Major provisions made or required for the annual financial statements with management and the external auditors and evaluated these provisions.

- **Taxes**

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.

- **Hyperinflation in Angola**

IAS 29: Financial Reporting in Hyperinflationary Economies (IAS 29) 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 ARC considered the applicability of this standard for the Group's investment in Angola and the impact of applying IAS 29 and the disclosures required in the annual financial statements.

- **COVID-19**

The impact of COVID-19 on the Group has been evaluated, in particular insofar, as it may result in additional impairments and expected credit losses.

- **The JSE 2020 pro-active monitoring report**

The JSE pro-active monitoring report was carefully considered, to ensure that the Group responded appropriately to any findings insofar as it applies to the Group, with specific attention to Annexure 3 of the report.

- **Reporting related guidance issued by the JSE**

The JSE reporting related guidance was considered to ensure compliance with the guidance.

The ARC is satisfied that the Group has established appropriate financial reporting procedures and that those procedures are operating effectively across all companies in the Group to allow for the effective preparation of the Group's annual financial statements.

Integrated and sustainability reporting

The ARC reviewed the 2021 Sustainability and Integrated Annual Reports to satisfy itself as to the integrity and balance of the reports and to ensure it is reflective of the collective mind of the Board in accordance with the <IR> Framework of the International Integrated Reporting Council.

Going concern status

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

Finance function

Anton de Bruyn is the Chief Financial Officer (CFO) and was appointed with effect from 2 July 2018. Having undertaken a formal assessment process, the ARC is satisfied that he has the required expertise and experience for his role.

The ARC considered a written assessment of the capacity, roles and responsibilities, qualifications and experience of senior members of the Group finance function. Based on this assessment, the ARC is satisfied that the Group finance function has the required expertise and resources it requires to function effectively.

B. External audit

The ARC 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 ARC 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. A meeting was held with the PwC leadership team on 3 June 2021 to discuss the findings of the last review performed by IRBA on PwC.

In consultation with the Group's executive management, the ARC agreed to the terms of the PwC audit engagement letter, audit plan and budgeted audit fees for the 2020/21 financial year.

The ARC is satisfied with the effectiveness of the external audit and the quality of the external auditor. A policy governs the process through which PwC renders non-audit services to ensure that audit independence is not compromised. The ARC 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-audit services that may be provided.

A breakdown of audit-related and non-audit fees paid to PwC in the 2020/21 financial year is summarised as follows:

Description	Amount
Audit services	R48 262 431
Audit-related assurance services	R2 308 476
Total audit and audit-related services	R50 570 907
Tax advisory and compliance services	R4 644 646
Other non-audit services	R1 066 451
Total non-audit services	R5 711 097
Total	R56 282 004

The ARC 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 2020/21 financial year;
- The nature of the aspects that were reported to the ARC by PwC;
- The quality of the discussions with PwC regarding audit, accounting and reporting matters at ARC meetings;
- The direct line of communication between the Chairman of the ARC and the designated external audit partner; and
- PwC's confirmation that they:
 - are not precluded from re-appointment due to any impediment as listed in section 90(2)(b) of the Companies Act;
 - comply with section 91(5) of the Companies Act;
 - remain independent as required by section 94(8) of the Companies Act and the relevant provision in the JSE Listings Requirements; and
 - comply with the criteria specified by the Independent Regulatory Board for Auditors and internal regulatory bodies.

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

On the basis of PwC's independence, the ARC re-nominated PwC as the Group's independent external auditor for the 2021/22 financial year with Jacques de Villiers as the designated external auditor partner until the 2022 Annual General Meeting of Shoprite Holdings Ltd. Shareholders are therefore requested to approve PwC's reappointment as the Group's independent external auditor for the 2022 financial year at the Annual General Meeting on 15 November 2021 with Jacques de Villiers 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 ARC 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 without exposing the Group to unnecessary risks and inefficiencies. In broad, the plan entails the identification of one or more audit firms with the required capacity, retail experience and geographical presence to meet the requirements for the Group's audit.

A preferred firm of auditors will be nominated and gradually involved with the existing auditors to get to 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.

C. Risk governance

Risk management

The Shoprite Holdings Board is ultimately responsible for ensuring that Group management maintains an effective risk management process. The ARC is responsible to assist the Board to assess the adequacy and effectiveness of the Group's risk management process. The significant risks of the Group are discussed in the Integrated Annual Report.

The Group Risk Forum, which is a management committee chaired by the CFO, considers significant risks affecting the Group and its business units and how they are being monitored and mitigated. Minutes of these meetings are submitted to the ARC for consideration and discussion.

At the Risk Management workshop on 26 November 2020, various members of management responsible for risk management in certain critical areas of the business presented their portfolio risk management strategies and processes.

The ARC reviewed reports from management, internal audit and external assurance providers in its evaluation of the adequacy and effectiveness of the Group's risk identification, assessment and risk management function as discussed in more detail under the heading Combined Assurance.

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. 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.

Compliance monitoring occurs in various forms, from substantive monitoring to self-assessments by management. 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 ARC. The ARC reviews the effectiveness and adequacy of compliance risk management control measures in the business through Group Risk Forum minutes and reports on regulatory updates, material consumer complaints and regulatory inspections, fines and breaches.

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 findings regarding non-compliance with environmental laws, or criminal sanctions or prosecutions for non-compliance following inspections by environmental regulators.

Governance of information and technology

The Board's terms of reference and the ARC 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.

Governance of IT is implemented through various control processes, gates, bodies and reporting within the Group. 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 ARC receives and considers feedback on the implementation of relevant information and technology governance mandates, policies, processes and control frameworks. Furthermore, the ARC oversees all IT-related matters on behalf of the Board, including significant IT investments, by engaging both internal and external assurance providers. This assurance forms part of the Group's combined assurance framework.

The ARC focused on the following key areas during the 2020/21 financial year:

- **Information security**

The Group recognises the significant threats associated with inadequate management of cyber security risks. Successful cyber security 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 2020/21 year. Following this review, management embarked on a process to enhance the 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. KPMG has been appointed to perform a review of the information security as part of an outsourced Internal Audit function.

- **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 ARC considered reports from management during the year on identified actual or suspected fraud and considered 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 ARC 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.

D. 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 ARC, 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 Group. 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 investigations, 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 ARC maintains ongoing oversight over the effectiveness of the Group's combined assurance framework, in conjunction with the Internal Audit Executive, to achieve the objectives of an effective combined assurance framework.

Internal audit

The ARC 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 ARC monitors cooperation between the Internal Audit function and the external auditors.

Internal audit activities, all of which are risk based, are performed by a team of qualified and experienced auditors led by the 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 ARC.

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

Internal financial controls

The ARC reviewed reports on the Group's systems of internal financial controls. The ARC received assurance on compliance with, and the effectiveness of internal control systems through regular management reviews, engagements, internal audit, as well as from the external auditors who test aspects of these control systems as part of their statutory audit of the annual financial statements.

Future focus areas

For the 2021/22 financial year, the ARC will continue to focus to further enhance the Group's risk and compliance management, information and technology management and the combined assurance framework. The ARC will also consider obtaining independent assurance over certain non-financial aspects of the Integrated Annual Report.

Recommendation to the Board

The ARC has reviewed and considered the 2021 Integrated Annual Report and the 2020/21 annual financial statements as set out above, and has recommended their approval by the Board.



Linda de Beer
Chairman

30 September 2021

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 4 July 2021, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

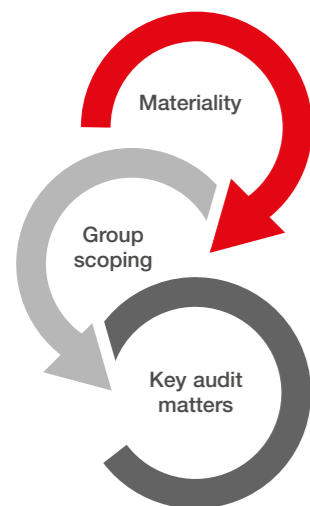
Shoprite Holdings Ltd's consolidated and separate financial statements set out on pages 20 to 134 comprise:

- the consolidated and separate statements of financial position as at 4 July 2021;
- 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.

 Consolidated and separate financial statements, pages 20 to 134

Our audit approach

Overview



Overall Group materiality

R347 800 000, which represents 5% of consolidated profit before tax

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 tax. Analytical procedures were performed over the remaining insignificant components.

Key audit matters

- Impairment of non-financial assets;
- Recognition of supplier rebates;
- IFRS 16 – Leases; and
- Investment in subsidiaries and amounts receivable from subsidiaries.

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

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*).

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	R347 800 000
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How we determined it	5% of consolidated profit before tax
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Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.
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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 taxation in the Group, namely the Supermarkets division of 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 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 This key audit matter relates to the consolidated financial statements. Refer to the accounting policies note 1.1.1.2 (b) (Assumptions and estimates – Impairment of assets), accounting policies note 1.10 (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>The following conditions resulted in significant impairments during the year:</p> <ul style="list-style-type: none"> • 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; and • Further currency devaluations experienced in key markets where the Group trades. <p>As a result of the above mentioned conditions, property, plant and equipment was impaired by R863 million in the current year, relating mainly to leasehold improvements. Furthermore, right-of-use assets were impaired by R198 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: 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>

Key audit matter	How our audit addressed the key audit matter
<p>IFRS 16 – Leases This key audit matter relates to the consolidated financial statements. The disclosures required by the standard for these balances are contained in the accounting policies note 1.1.1.1 (c) (Use of judgements, assumptions and estimates – Lease term), note 1.1.1.1 (d) (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) and note 18 (Lease liabilities) to the consolidated financial statements.</p> <p>The Group leases various land, properties, vehicles and equipment. Leases are recognised as a lease liability and a corresponding right-of-use (ROU) asset at the date of commencement of the lease agreement in terms of IFRS 16 'Leases' (IFRS 16).</p> <p>On initial recognition, the ROU asset and lease liability is measured at the present value of the future lease payments discounted over the lease term using the Group's relevant incremental borrowing rate. The lease term may include future lease periods for which the Group has extension options which it is reasonably certain to exercise.</p> <p>We considered this matter to be 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; and • the potential risk of the lease data used in the calculation being incomplete or inaccurate. 	<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; • For a sample of new leases and modifications we verified the accuracy of the underlying lease data by agreeing it 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 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 This key audit matter relates to the consolidated financial statements. Refer to the accounting policies note 1.1.1.2 (a) (Assumptions and estimates – Rebates from suppliers) and note 1.21 (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.</p> <p>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>Rebates are allocated to inventory on hand at year-end based on inventory turn and the split between foods and non-foods. We have tested the appropriateness of management's assumptions in capitalising the rebates back to stock.</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	How our audit addressed the key audit matter
<p>Investment in subsidiaries and amounts receivable from subsidiaries</p> <p>This key audit matter relates to the separate financial statements. Refer to the accounting policies note 1.2 (Investment in subsidiaries) and note 2 (Interests in subsidiaries) to the separate financial statements.</p> <p>Investments in subsidiaries and amounts receivable from subsidiaries, comprises 99.8% of the total assets in the separate statement of financial position of the Company.</p> <p>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.</p> <p>IFRS 9 requires entities to recognise expected credit losses ("ECL") for all financial assets held at amortised cost, including amounts receivable from subsidiaries.</p> <p>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.</p>	<p>We obtained management's calculation of the investments recoverable amount and performed the following procedures:</p> <ul style="list-style-type: none"> 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 management's cash flow models by agreeing prior year forecasts to actual results. No material differences were noted. 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. We found the assumptions to be in a reasonable range. We recalculated the impairment of the investment to the recoverable amount and noted no material variance. We reviewed the disclosures regarding the impairment losses in the financial statements and noted no material differences. <p>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.</p>
<p>Other information</p> <p>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 2021", 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, and the document titled "2021 Broad-Based Black Economic Empowerment", which we obtained prior to the date of this auditor's report, and the documents titled "Shoprite Holdings Ltd Integrated Annual Report 2021", "Shoprite Holdings Ltd Corporate Governance Report 2021", "Shoprite Holdings Ltd Sustainability Report 2021" and "Shoprite CDP Climate Change Response 2021", 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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Responsibilities of the Directors for the consolidated and separate financial statements</p> <p>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.</p> <p>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.</p>

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 39 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: MC Hamman
Registered Auditor

Cape Town, South Africa

30 September 2021



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GROUP ANNUAL FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Shoprite Holdings Ltd and its subsidiaries as at 4 July 2021

	Notes	2021 Rm	2020 Rm
ASSETS			
NON-CURRENT ASSETS			
		45 009	42 789
Property, plant and equipment	3	14 374	18 265
Right-of-use assets	5	20 520	17 156
Intangible assets	6	3 010	2 955
Equity accounted investments	8	2 025	–
Investment in insurance cell captive arrangements	9	69	–
Government bonds and bills	10	972	62
Loans receivable	11	1 619	1 953
Deferred income tax assets	12	2 214	2 184
Trade and other receivables	13	206	214
CURRENT ASSETS			
		32 057	39 937
Inventories	14	18 396	18 845
Trade and other receivables	13	3 921	4 106
Current income tax assets		358	147
Investment in insurance cell captive arrangements	9	95	–
Government bonds and bills	10	522	2 440
Loans receivable	11	283	229
Cash and cash equivalents		7 950	12 114
		31 525	37 881
Assets classified as held for sale	4	532	2 056
TOTAL ASSETS			
		77 066	82 726
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT			
Stated capital	15	7 516	7 516
Treasury shares	15	(1 455)	(806)
Reserves	17	15 016	13 141
		21 077	19 851
NON-CONTROLLING INTEREST			
		127	143
TOTAL EQUITY			
		21 204	19 994
LIABILITIES			
NON-CURRENT LIABILITIES			
		27 577	30 159
Lease liabilities	18	24 801	20 168
Borrowings	19	2 280	8 826
Deferred income tax liabilities	12	8	824
Provisions	20	488	341
CURRENT LIABILITIES			
		28 285	32 573
Trade and other payables	21	19 649	20 157
Contract liabilities	22	873	864
Lease liabilities	18	2 921	3 103
Borrowings	19	2 999	3 183
Current income tax liabilities		416	1 148
Provisions	20	78	112
Bank overdrafts		1 221	2 095
		28 157	30 662
Liabilities directly associated with assets classified as held for sale	32	128	1 911
TOTAL LIABILITIES			
		55 862	62 732
TOTAL EQUITY AND LIABILITIES			
		77 066	82 726

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	Notes	53 weeks 2021 Rm	Restated* 52 weeks 2020 Rm
Revenue	23	171 188	158 310
Sale of merchandise	23	168 030	155 409
Cost of sales		(126 817)	(118 145)
GROSS PROFIT			
Other operating income	23	41 213	37 264
Interest revenue	23	2 616	2 303
Depreciation and amortisation	24	542	598
Employee benefits	24	(5 336)	(4 972)
Credit impairment losses	25	(13 553)	(12 492)
Other operating expenses	40.4.1 27	(222)	(480)
		(14 928)	(13 949)
TRADING PROFIT			
		10 332	8 272
Exchange rate (losses)/gains		(27)	577
Profit on lease modifications and terminations		187	69
Items of a capital nature ¹	28	(828)	(794)
OPERATING PROFIT			
	29	9 664	8 124
Interest received from bank account balances		268	443
Finance costs	30	(3 095)	(2 878)
Share of profit/(loss) of equity accounted investments	8	120	(38)
PROFIT BEFORE INCOME TAX			
		6 957	5 651
Income tax expense	31	(2 241)	(1 774)
PROFIT FROM CONTINUING OPERATIONS			
		4 716	3 877
Profit/(loss) from discontinued operations (attributable to owners of the parent)	32	143	(501)
PROFIT FOR THE YEAR			
		4 859	3 376
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX			
		(766)	(3 683)
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment medical benefit obligations		6	2
Items that may subsequently be reclassified to profit or loss			
Foreign currency translation differences from continuing operations	17	(1 214)	(3 295)
Foreign currency translation differences from discontinued operations	17	154	(118)
Release of foreign currency translation reserve on disposal of discontinued operations	17	447	–
Share of foreign currency translation differences of equity accounted investments	17	–	38
Loss on effective net investment hedge, net of income tax	17	(159)	(310)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR			
		4 093	(307)
PROFIT ATTRIBUTABLE TO:			
Owners of the parent		4 859	3 376
Non-controlling interest		4 841	3 356
		18	20
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:			
Owners of the parent		4 093	(307)
Non-controlling interest		4 075	(327)
		18	20
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT ARISES FROM:			
Continuing operations		4 075	(327)
Discontinued operations		3 331	292
		744	(619)
EARNINGS PER SHARE FOR PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE PARENT:			
Basic earnings per share from continuing operations (cents)	33	851.6	697.5
Diluted earnings per share from continuing operations (cents)	33	848.2	696.5
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT:			
Basic earnings per share (cents)	33	877.5	606.9
Diluted earnings per share (cents)	33	874.0	606.0

* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.

¹ Refer to note 1.1.2(b) for an explanation of what constitute items of a capital nature.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

Rm	Notes	Total equity	Non-controlling interest	Attributable to owners of the parent				
				Total	Stated capital	Treasury shares	Other reserves	Retained earnings
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
Total comprehensive income		4 093	18	4 075	–	–	(772)	4 847
Profit for the year		4 859	18	4 841				4 841
Recognised in other comprehensive loss								
Re-measurements of post-employment medical benefit obligations		8		8				8
Income tax effect of re-measurements of post-employment medical benefit obligations		(2)		(2)				(2)
Foreign currency translation differences	17	(1 155)		(1 155)			(1 155)	
Income tax effect of foreign currency translation differences	17	95		95			95	
Release of foreign currency translation reserve on disposal of discontinued operations	17	447		447			447	
Loss on effective net investment hedge	17	(207)		(207)			(207)	
Income tax effect of loss on effective net investment hedge	17	48		48			48	
Share-based payments – value of employee services	17	153		153			153	
Modification of cash bonus arrangement transferred from provisions	20	17		17			17	
Purchase of treasury shares	15	(733)		(733)		(733)		
Treasury shares disposed	15	9		9		10		(1)
Realisation of share-based payment reserve	17	–		–		74	(74)	
Acquisition of non-controlling interest		4	(21)	25				25
Dividends distributed to shareholders		(2 333)	(13)	(2 320)				(2 320)
BALANCE AT 4 JULY 2021		21 204	127	21 077	7 516	(1 455)	(8 583)	23 599

CONSOLIDATED STATEMENT OF CASH FLOWS

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

Notes	53 weeks 2021 Rm	52 weeks 2020 Rm	
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	7 983	10 989	
Less: investment income and finance income earned	9 886	7 728	
Non-cash items	(543)	(599)	
Changes in working capital	7 018	6 161	
Cash generated from operations	(237)	2 565	
Interest received	16 124	15 855	
Interest paid	800	1 073	
Dividends received	(3 157)	(3 006)	
Dividends paid	61	1	
Income tax paid	(2 330)	(1 786)	
	(3 515)	(1 148)	
CASH FLOWS UTILISED BY INVESTING ACTIVITIES			
Investment in property, plant and equipment and intangible assets to expand operations	(653)	(389)	
Investment in property, plant and equipment and intangible assets to maintain operations	(2 030)	(2 140)	
Payment for investment in insurance cell captive arrangements	(1 188)	(1 077)	
Prepayments for right-of-use assets	(86)	–	
Proceeds on disposal of property, plant and equipment and intangible assets*	(1)	(13)	
Proceeds on the disposal of the discontinued operations	–	(14)	
Proceeds on disposal of assets classified as held for sale	1 507	1 233	
Payments for government bonds and bills	352	–	
Proceeds from government bonds and bills	255	793	
Loans advanced to Resilient Africa (Pty) Ltd	(2 779)	–	
Other loans receivable advanced	3 373	924	
Other loans receivable repaid	–	(165)	
Cash inflow on disposal of investment in subsidiary	(245)	(208)	
Acquisition of operations	199	257	
	–	36	
	(10)	(15)	
CASH FLOWS UTILISED BY FINANCING ACTIVITIES			
Repayment of lease liability obligations	(9 743)	(3 992)	
Purchase of treasury shares	(3 156)	(2 585)	
Proceeds from treasury shares disposed	(733)	(272)	
Repayment of borrowings	9	6	
Borrowings raised	(7 142)	(5 995)	
	1 279	4 854	
NET MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year	(2 413)	6 608	
Effect of exchange rate movements on cash and cash equivalents	10 019	3 583	
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	(877)	(172)	
	6 729	10 019	
Consisting of:			
Cash and cash equivalents	40.4.1(d)	7 950	12 114
Bank overdrafts		(1 221)	(2 095)
		6 729	10 019

* Proceeds on disposal of property, plant and equipment and intangible assets includes R1.2 billion (2020: R1.1 billion) relating to a sale and leaseback arrangement of distribution centres during the period under review (2020: commercial vehicle fleet). Refer to note 18.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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 2020.

During the year, the Group restructured its insurance arrangements. Refer to note 1.3 for the accounting policy of cell captive insurance arrangements.

The Group's consolidated financial statements were authorised for issue by the Board of Directors on 30 September 2021. Other than the facts presented in the annual financial statements, there have been no material changes in the affairs or financial position of the Group and its subsidiaries from 4 July 2021 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 53-week period, ended 4 July 2021, 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 up to 30 June 2019. For the 53 weeks ended 4 July 2021, the Angolan economy was assessed not to be hyperinflationary. Although no further hyperinflationary adjustments were required for the current and comparative 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) **Investment in associate:** The Group entered into a sale and leaseback transaction on three of its distribution centres. This transaction resulted in a 20-year lease in respect of these properties and a 49.9% shareholding in a company called Retail Logistics Fund (RF) (Pty) Ltd (Retail Logistics). Significant judgement is required in determining whether or not the Group controls Retail Logistics. Management determined that control of Retail Logistics vests in its Board of Directors. Equites Property Fund Ltd has a 50.1% shareholding in Retail Logistics and may appoint the majority of Directors to the Board of Retail Logistics. Furthermore, the majority stake substantive rights inferred includes the ability to appoint key management personnel, the ability to enter into significant transactions and the ability to dominate the nomination of members to Retail Logistics Board.

The founding and operational agreements of Retail Logistics notes that the Group has been granted a number of protective rights and the scope of Retail Logistics activities have been partially restricted. Equites Property Fund has substantive rights to direct these relevant activities of Retail Logistics.

Based on the assessment done by management it was concluded that Equites Property Fund Ltd controls Retail Logistics and that the Group exercises significant influence over Retail Logistics.

b) **Classification of cash and bank balances:** Local currency cash and short-term deposits held in Angola and Nigeria (2020: 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 and Nigeria (2020: 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

c) **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.

d) **Discount rate used to calculate the lease liability:** Incremental borrowing rates used to calculate lease liabilities at 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.

e) **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-lessor obtains control of the asset. Judgement is thus required in analysing whether the transaction constitutes a transfer of control 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-lessor, management considers all qualitative facts and prepares a quantitative assessment considering the proportion of the fair value retained.

f) **Classification of non-current assets to be sold within 12 months after the reporting date:** At the end of the previous year the Group held a portfolio of distribution centres and associated undeveloped land which was sold during the year under review and subsequently leased back from the buyer-lessor (subject to certain conditions). 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 amount of the distribution centres would be recovered principally through continuing use rather than through a sale as the Group retained a large percentage of the fair value of the underlying assets. The property portfolio was therefore still classified as non-current assets and included within property, plant and equipment at the previous reporting date.

g) **Segment reporting:** IFRS 8 requires an entity to identify its operating segments. Once an entity has done that, it is required to determine its reportable segments. Reportable segments may comprise single operating segments or an aggregation of operating segments. Aggregation of one or more operating segments into a single reportable segment is permitted where certain conditions are met; the principle conditions being that the operating segments should have similar economic characteristics and the operating segments are similar in respect of the products and services offered, nature of production processes, type or class of customers, distribution methods, and regulatory environment.

The Group's management has assessed the above mentioned aggregation criteria in respect of its identified retail operating segments and believes 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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

- h) **Determination of cash-generating units:** The Group has determined each store as a separate cash-generating unit for impairment testing.
- i) **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.
- j) **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 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 no longer be hyperinflationary. The hyperinflation accounting was ceased for the current and comparative year 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 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. As at 4 July 2021, the cumulative three-year inflation rate was 79.7% (2020: 71.4%).

- k) **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 negotiated between the Group and the suppliers. The Group has assessed its drop-shipment sales and concluded that the fact that 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.
- l) **Change in income tax rates substantively enacted:** The Group considers the lowering of the South African corporate income tax rate for companies with years of assessments commencing on or after 1 April 2022 not to be substantively enacted as announced at the budget speech of 24 February 2021.

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.

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

- 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 1.23 and 12.
- 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 its 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 1.16, 1.17, 16 and 20.

Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in a subsequent year relate to the following: impairment of assets; income taxes; expected credit losses 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 amount 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 them 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 terminations as well as 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 1/2021: 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 classified as 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.2 Consolidation and equity accounting

1.2.1 Subsidiaries

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

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

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

1.2.2 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 arrangements

The Group has entered into insurance cell arrangements with Old Mutual Life Insurance Company (Namibia) Ltd and Centriq Insurance Company Ltd, licensed insurance companies. The Group purchased shares in insurance cells within South Africa and 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 first-party cells are classified as financial assets held at fair value through profit and loss (FVPL) (refer to note 1.13) and the third-party cells as cell captive insurance contracts (refer to note 1.27).

The net investment is presented separately on the face of the statement of financial position. In the previous year, the net investment was not considered to be material and was 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 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 ACCOUNTING POLICIES | continued

1.4 Foreign currency translation | continued

1.4.3 Foreign operations

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

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

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

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

When a foreign operation is disposed of, abandoned 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

Up to 30 June 2019, 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

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.

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 that 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 ACCOUNTING POLICIES | continued

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 at each reporting date and whenever there is an 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.

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 classified as held for sale and discontinued operations

1.9.1 Non-current assets classified as held for sale

Non-current assets and/or disposal groups are classified as assets held for sale and are stated at the lower of the carrying amount and fair value less 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.

Assets and liabilities of abandoned disposal groups are not classified as held for sale because the carrying amounts will not be recovered principally through a sale transaction.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.9 Non-current assets classified as held for sale and discontinued operations | continued

1.9.2 Discontinued operations

A discontinued operation is a component of the entity that has been disposed of, abandoned 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 resale. An abandoned operation is classified as a discontinued operation when it has been closed. 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 asset 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 amount of an asset exceeds its estimated recoverable amount, the carrying amount 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.

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 15 to 20 years.
- **Commercial vehicle fleet:** one 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.

1 ACCOUNTING POLICIES | continued

1.11 Leases | continued

1.11.1 Leases where the Group is the lessee | continued

a) Leasing activities and how they are accounted for | continued

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. In instances where the ownership transfers from the lessor to the lessee, the right-of-use assets are depreciated over the underlying asset's useful life.

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 has been extended to 30 June 2022 and 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 4 July 2021 are recognised as income when rent payments become due. During the pandemic, the Group recognised rent concessions of R9 million (2020: R31 million) as income to the reporting date.

b) Variable lease payments

Some property leases (2021: 51.6%; 2020: 50.4%) contain variable payment terms that are linked to sales generated from a store. Turnover rentals, where applicable, average 2.0% (2020: 2.0%) of turnover. Variable payment terms are used for a variety of reasons, including minimising the fixed costs 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 R28 million (2020: R28 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:

	2021	2020
Distribution centres	8.2 years	6.5 years
Storage and warehousing	4.5 years	4.6 years
Other properties	8.4 years	8.3 years
Commercial vehicle fleet	4.0 years	5.0 years
Multifunctional printers	3.3 years	3.0 years

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.11 Leases | continued

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 amount 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 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 investments in insurance cell captive arrangements classified as financial assets held at FVPL, 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 at 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 occurs.

1.13.3 Offsetting

Financial assets and liabilities are offset and the net amount is 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 ACCOUNTING POLICIES | continued

1.13 Other financial instruments | continued

1.13.4 Classification and subsequent measurement

Financial assets

The Group classifies financial assets according to the following categories:

- Financial assets at amortised cost
- Financial assets held at FVPL

Financial assets 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:

- 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.
- 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.
- 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.
- 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.

Financial assets held at FVPL

The first-party insurance cell captive arrangements are measured at FVPL as they do not meet the criteria for amortised cost or fair value through other comprehensive income. At the reporting date, the fair value is determined based on the net asset value of the underlying cell captive arrangements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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 1.20 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 the 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.

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 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.

1.15 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.

1.16 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.

1.16.1 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 the 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.

1.16.2 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.

1.16.3 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.17 Employee benefits

1.17.1 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.

1.17.2 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.

1.17.3 Cash-settled share-based payments

The Group recognises a liability for cash-settled share-based payments calculated at the 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.

1.17.4 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.

1.17.5 Bonus plans

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

1 ACCOUNTING POLICIES | continued

1.18 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.

1.18.1 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 an 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.

1.18.2 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.

1.18.3 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 the 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.

1.18.4 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 operating 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.

1.18.5 Franchise fees received

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

1.18.6 Marketing revenue

Revenue from marketing is recognised as other operating income over the period of the campaign or promotion.

1.18.7 Delivery recoveries

The Group recognises the revenue as other operating income upon delivery of products to customers.

1.18.8 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.19 Other operating income

Other operating income is recognised as follows:

1.19.1 Effective interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount 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 amount (i.e. gross carrying amount less impairment provision). The effective interest rate calculation does not consider expected credit losses but includes initiation fees as they are integral to the effective interest rate.

1.19.2 Rental income

Rental income in respect of operating leases with a fixed escalation clause is recognised on a straight-line basis over the lease term. All other rental income is recognised as it becomes due. Refer note 1.11.2.

1.19.3 Premium income

Premium income is recognised in the period it is earned. Net premiums earned are all written premiums relating to policies inceptioned during the period less amounts that are unearned at reporting date. Refer note 1.27.2.

1.19.4 Dividend income

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

1.20 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.

1.21 Rebates from suppliers

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

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

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

1.22 Cost of sales

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

1 ACCOUNTING POLICIES | continued

1.23 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 amounts 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 substantively 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 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.

Up to 30 June 2019, 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).

1.24 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 1/2021 issued by the South African Institute of Chartered Accountants as required by the JSE Listings Requirements.

1.25 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.

1.26 Dividends distributed to shareholders

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.27 Basis of accounting for underwriting activities

1.27.1 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.

1.27.2 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) Income from cell captive contracts

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.

c) 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.

d) 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.

e) 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.

f) 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).

g) 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 ACCOUNTING POLICIES | continued

1.28 Related parties

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

1.29 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:

- 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.
- Supermarkets Non-RSA:** all retail operations under the Shoprite, Checkers, Checkers Hyper and Usave brands (as well as certain Hungry Lion brands during the previous year) outside of South Africa, retailing products such as food, clothing, general merchandise, cosmetics and liquor.
- 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.
- 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.

Information about the Group's discontinued segments is provided in note 32. The Group's operations in Nigeria, Kenya, Uganda and Madagascar were classified as discontinued operations during the year under review (2020: Nigeria).

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.30 Standards, interpretations and amendments that are not yet effective at 4 July 2021

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 4 July 2021:

Number	Title	Effective for the year ending
Amendments to IAS 1	Classification of Liabilities as Current or Non-current and Disclosure of Accounting Policies	2024
IFRS 17	Insurance Contracts	2024
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform Phase 2	2022

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.

Title of standard	IFRS 17: Insurance Contracts
Nature of change	<p>IFRS 17 was issued as a replacement for IFRS 4: Insurance Contracts. 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, as the cell owner of the insurance cell structures, will be attending workshops with the cell providers during the next 12 months to assess the impact of IFRS 17.
Mandatory application date/ Date of adoption by the Group	IFRS 17 is mandatory for financial years commencing on or after 1 January 2023, subject to being adopted by the EU.
	At this stage, the Group does not intend to adopt the standard before its effective date.

1.31 New standards, interpretations and amendments effective for the year ended 4 July 2021

The following new standards, interpretations and amendments to existing standards are effective for the year ended 4 July 2021:

Number	Title
Amendments to IAS 1 and IAS 8	Disclosure Initiative (Definition of Material)
Amendments to IFRS 3	Business Combinations (Definition of a Business)
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
The Conceptual Framework for Financial Reporting	

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

1.32 Comparative figures

Where necessary, comparative figures have been restated following the classification of the Group's operations in Kenya, Uganda and Madagascar as discontinued operations during the current year, with disclosure of the restatements detailed in note 42.

2 OPERATING SEGMENT INFORMATION

2.1 Analysis per reportable segment

	Supermarkets RSA Rm	Supermarkets Non-RSA Rm	Furniture Rm	Other operating segments Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
Continuing operations							
2021							
Sale of merchandise							
External	133 852	15 453	6 818	11 907	168 030	–	168 030
Inter-segment	4 397	30	–	49	4 476	–	4 476
	138 249	15 483	6 818	11 956	172 506	–	172 506
Trading profit	9 401	307	382	291	10 381	(49)	10 332
Interest revenue included in trading profit	44	186	264	48	542	–	542
Depreciation and amortisation	4 804	641	308	48	5 801	49	5 850
Impairments/ (impairment reversals)							
Property, plant and equipment	69	412	5	–	486	374	860
Right-of-use assets	53	85	(43)	–	95	103	198
Intangible assets	3	–	–	27	30	–	30
	125	497	(38)	27	611	477	1 088
Total assets ¹	57 015	10 971	4 566	3 374	75 926	771	76 697
Restated* 2020							
Sale of merchandise							
External	122 412	16 707	5 470	10 820	155 409	–	155 409
Inter-segment	4 558	24	–	59	4 641	–	4 641
	126 970	16 731	5 470	10 879	160 050	–	160 050
Trading profit/(loss)	8 024	73	(15)	316	8 398	(126)	8 272
Interest revenue included in trading profit	54	238	255	51	598	–	598
Depreciation and amortisation	4 189	680	342	58	5 269	93	5 362
Impairments							
Property, plant and equipment	–	266	12	1	279	176	455
Right-of-use assets	35	178	235	–	448	–	448
Intangible assets	86	–	–	13	99	–	99
	121	444	247	14	826	176	1 002
Total assets ¹	56 866	13 736	4 378	3 687	78 667	1 508	80 175

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

* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.

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 R369 million at 4 July 2021 (2020: R2.6 billion).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

2 OPERATING SEGMENT INFORMATION | continued

2.2 Geographical analysis

	South Africa Rm	Outside South Africa Rm	Total operating segments Rm	Hyperinflation effect Rm	Consolidated Rm
Continuing operations					
2021					
Sale of merchandise – external	149 500	18 530	168 030	–	168 030
Non-current assets ^{2 and 3}	33 204	4 135	37 339	771	38 110
Restated* 2020					
Sale of merchandise – external	135 882	19 527	155 409	–	155 409
Non-current assets ^{2 and 3}	31 367	5 211	36 578	1 715	38 293

* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.

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 had no non-current assets at 4 July 2021 (2020: R297 million).

3 PROPERTY, PLANT AND EQUIPMENT

3.1 Reconciliation of carrying amounts

	Land Rm	Buildings Rm	Machinery, equipment and vehicles* Rm	Leasehold improvements Rm	Total Rm
Carrying amount 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 classified as held for sale (note 4)	(106)	(183)	(239)	(150)	(678)
Transfer from assets classified as held for sale (note 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 amount 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)
Additions	4	273	2 311	120	2 708
Borrowing costs capitalised (note 3.2)	–	14	–	–	14
Transfer to assets classified as held for sale (note 4)	(32)	(29)	(82)	(58)	(201)
Transfer from assets classified as held for sale (note 4)	–	1	–	62	63
Acquisition of operations	–	–	2	–	2
Disposal	(225)	(1 770)	(392)	(35)	(2 422)
Proceeds on disposal	(269)	(1 889)	(274)	(38)	(2 470)
Profit/(loss) on disposal and scrapping	44	119	(118)	3	48
Depreciation	–	(79)	(2 082)	(99)	(2 260)
Impairment (note 7)	–	(150)	(180)	(533)	(863)
Foreign currency translation differences	(21)	(131)	(272)	(508)	(932)
Carrying amount at 4 July 2021	1 130	3 558	8 099	1 587	14 374
Cost	1 130	4 133	17 329	2 945	25 537
Accumulated depreciation and impairment	–	(575)	(9 230)	(1 358)	(11 163)

* Includes aircraft with a carrying amount of R110 million (2020: R161 million) and vehicles with a carrying amount of R279 million (2020: R475 million).

3 PROPERTY, PLANT AND EQUIPMENT | continued

3.2 Borrowing costs capitalised

Borrowing costs were capitalised against qualifying items of property, plant and equipment during the year under review.

The weighted average borrowings rate was 5.2%.

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

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

	Land Rm	Buildings Rm	Leasehold improvements Rm	Total Rm
Carrying amount 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 classified as held for sale (note 4.2)	(13)	(75)	(14)	(102)
Depreciation	–	(17)	(9)	(26)
Impairment	–	–	(13)	(13)
Foreign currency translation differences	(1)	(7)	(58)	(66)
Carrying amount at 28 June 2020	238	1 140	391	1 769
Cost	238	1 254	464	1 956
Accumulated depreciation and impairment	–	(114)	(73)	(187)
Additions	–	31	11	42
Borrowing costs capitalised (note 3.2)	–	2	–	2
Transfer to assets classified as held for sale (note 4.2)	(11)	(10)	(18)	(39)
Assets no longer subject to an operating lease	(6)	(260)	(20)	(286)
Assets previously not subject to an operating lease	2	3	86	91
Disposal	–	(2)	(2)	(4)
Depreciation	–	(21)	(13)	(34)
Impairment	–	(13)	(71)	(84)
Foreign currency translation differences	(1)	(9)	(61)	(71)
Carrying amount at 4 July 2021	222	861	303	1 386
Cost	222	965	486	1 673
Accumulated depreciation and impairment	–	(104)	(183)	(287)

3.4 Property, plant and equipment not yet in use

Included in the gross amounts of land, buildings and leasehold improvements is R126 million (2020: R426 million) that relates to cost capitalised for assets not yet available for use. This relates mainly to buildings and leasehold properties under construction. The gross amount of property, plant and equipment not yet in use was evaluated for impairment by the Directors at the reporting date.

	Land Rm	Buildings Rm	Leasehold improvements Rm	Total Rm
Carrying amount 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 amount at 28 June 2020	239	131	56	426
Additions	21	236	8	265
Transfer to property, plant and equipment	(233)	(268)	(40)	(541)
Impairment	–	–	(9)	(9)
Foreign currency translation differences	–	–	(15)	(15)
Carrying amount at 4 July 2021	27	99	–	126

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	2021 Rm	2020 Rm
4 ASSETS CLASSIFIED AS HELD FOR SALE		
Land and buildings	218	355
Total assets of disposal group held for sale (note 32)	314	1 701
	532	2 056
4.1 Reconciliation of carrying amount		
Carrying amount at the beginning of the year	2 056	814
Transfer from property, plant and equipment (note 3)	201	678
Transfer to property, plant and equipment (note 3)	(63)	(261)
Transfer from right-of-use assets (note 5)	80	764
Transfer from inventories	112	549
Transfer from trade and other receivables	–	47
Transfer from current income tax assets	–	4
Transfer from cash and cash equivalents	89	–
Disposal of discontinued operations	(1 249)	–
Derecognition of right-of-use assets	(237)	–
Disposal of land and buildings	(124)	(554)
Proceeds on disposal	(255)	(793)
Profit on disposal and scrapping	131	239
Additions	9	13
Foreign currency translation differences	(342)	2
Carrying amount at the end of the year	532	2 056

4.2 Transfer to/(from) assets classified as 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 classified as 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.

During the current and previous 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.

Furthermore, the Group's operations in Uganda and Madagascar (2020: Nigeria) were classified as discontinued operations as the Group is actively engaging with potential buyers to dispose of these operations (refer to note 32). Accordingly, right-of-use assets, inventories and other assets associated with these disposal groups in the Supermarkets Non-RSA operating segment have been transferred to assets classified as held for sale.

5 RIGHT-OF-USE ASSETS

5.1 Reconciliation of carrying amounts

	Land Rm	Buildings Rm	Machinery, equipment and vehicles Rm	Total Rm
Carrying amount at 30 June 2019	754	14 987	–	15 741
Additions	14	4 610	1 004	5 628
Transfer to assets classified as held for sale (note 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 amount at 28 June 2020	513	15 771	872	17 156
Additions	–	7 147	469	7 616
Transfer to assets classified as held for sale (note 4)	(6)	(74)	–	(80)
Derecognition	–	(156)	(172)	(328)
Depreciation	(9)	(2 948)	(292)	(3 249)
Impairment (note 7)	(138)	(59)	–	(197)
Foreign currency translation differences	(108)	(290)	–	(398)
Carrying amount at 4 July 2021	252	19 391	877	20 520

6 INTANGIBLE ASSETS

6.1 Reconciliation of carrying amounts

	Goodwill Rm	Software Rm	Trademarks Rm	Customer relationships Rm	Total Rm
Carrying amount 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 amount 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)
Acquisition of operations	12	–	–	–	12
Additions	–	107	–	10	117
Internally generated	–	393	–	–	393
Borrowing costs capitalised (note 6.3)	–	4	–	–	4
Loss on disposal and scrapping	–	(37)	(1)	–	(38)
Amortisation	–	(378)	(4)	–	(382)
Impairment (note 7)	(29)	–	(1)	–	(30)
Foreign currency translation differences	–	(21)	–	–	(21)
Carrying amount at 4 July 2021	255	2 733	12	10	3 010
Gross amount	449	3 854	55	10	4 368
Accumulated amortisation and impairment losses	(194)	(1 121)	(43)	–	(1 358)

6.2 Goodwill

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

	2021			2020		
	Gross amount Rm	Accumulated impairment losses Rm	Carrying amount Rm	Gross amount Rm	Accumulated impairment losses Rm	Carrying amount Rm
Supermarkets RSA	262	(68)	194	250	(65)	185
Supermarket stores	148	(12)	136	148	(12)	136
Liquor stores	38	–	38	29	–	29
Other	76	(56)	20	73	(53)	20
Supermarkets Non-RSA	26	(8)	18	26	(8)	18
Supermarket stores	26	(8)	18	26	(8)	18
Other operating segments	161	(118)	43	161	(92)	69
Computicket	27	(13)	14	27	(13)	14
Transpharm	76	(47)	29	76	(47)	29
Metcash Seven Eleven	58	(58)	–	58	(32)	26
Total goodwill	449	(194)	255	437	(165)	272

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

6 INTANGIBLE ASSETS | continued

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 5.2% (2020: 8.0%).

6.4 Software not yet in use

Included in the gross amount of software is R417 million (2020: R351 million) that relates to cost capitalised for software not yet available for use. The Group is committed to investing in the development of alternative revenue streams through its retail media business. The majority of the spend relates to the implementation of our digital commerce platform and enhancement of our data analytics capabilities which will support our retail media business, as well as data lead future strategy. Prior year costs related mainly to the development and implementation of software to analyse customer data and improve customer relationship management. 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/(reversed)

	Property, plant and equipment Rm	Right-of-use assets Rm	Goodwill Rm	Other intangible assets Rm	Total Rm
2021					
Supermarkets RSA	69	53	3	–	125
Supermarkets Non-RSA	412	85	–	–	497
Furniture	5	(43)	–	–	(38)
Other operating segments	–	–	26	1	27
Total operating segments	486	95	29	1	611
Hyperinflation effect	374	103	–	–	477
Consolidated continuing operations	860	198	29	1	1 088
Discontinued operations	3	(13)	–	–	(10)
Restated* 2020					
Supermarkets RSA	–	35	27	59	121
Supermarkets Non-RSA	266	178	–	–	444
Furniture	12	235	–	–	247
Other operating segments	1	–	13	–	14
Total operating segments	279	448	40	59	826
Hyperinflation effect	176	–	–	–	176
Consolidated continuing operations	455	448	40	59	1 002
Discontinued operations	277	20	–	–	297

* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.

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. In addition to the aforementioned, the uncertainty regarding the recovery of the lower commodity prices experienced in the commodity dependent regions also contributed to the impairment charges in the previous year.

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.

7 IMPAIRMENT OF NON-FINANCIAL ASSETS | continued

7.2 Impairment methodology | continued

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.

7.3 Key assumptions and sensitivity analyses

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	
	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %
South Africa	12.3	13.3	3.1	2.6	3.1	2.8	7.5 – 9.0	8.0
Angola	24.8	29.4	11.2	21.5	11.2	13.1	19.0	10.0
Botswana	6.0	5.4	4.2	2.4	4.2	2.6	–	–
Kenya	16.7	9.0	5.5	5.0	5.5	5.0	–	–
Mozambique	21.2	24.9	5.6	5.5	5.6	6.4	19.0	10.0
Zambia	29.9	31.6	11.6	12.7	11.6	9.7	10.0	10.0
Other countries outside South Africa	10.3 – 18.3	21.6 – 30.9	4.3 – 12.2	5.0 – 12.4	4.3 – 12.3	5.0 – 11.8	10.0	8.5 – 10.0

The forecast trading profit growth rates, 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		Discount rate		Long-term growth rate	
	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %
Supermarket operations	3.9 – 4.8	2.0 – 4.0	10.2 – 12.3	9.9 – 13.3	3.1 – 4.8	2.8 – 4.0
Other operations	1.0	1.8	12.3	13.3	3.1	2.8

Management has performed sensitivity analyses 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 R39 million (2020: R49 million). The possible increase mainly relates to Angola (2021: R22 million; 2020: R14 million), Botswana (2021: R7 million; 2020: R32 million) and Zambia (2021: R4 million; 2020: N/A).
- A decrease of one percentage point in the long-term growth rate would increase the impairment by R24 million (2020: R35 million). The possible increase mainly relates to Angola (2021: R11 million; 2020: R4 million), Botswana (2021: R6 million; 2020: R28 million) and South Africa (2021: R3 million; 2020: R1 million).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

			2021 Rm	2020 Rm
8 EQUITY ACCOUNTED INVESTMENTS				
Associates			2 025	–
Carrying amount at the beginning of the year			–	–
Investment in ordinary shares acquired			1 951	–
Share of total comprehensive income			120	–
Share of post-acquisition profits/(losses)			120	(38)
Share of other comprehensive income			–	38
Dividends received from associates			(44)	–
Impairment			(2)	–
Carrying amount at the end of the year			2 025	–
The associates listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. These are private companies and no quoted market prices are available for their shares.				
	% Owned by the Group			
			2021	2020
Retail Logistics Fund (RF) (Pty) Ltd (note 8.1)	49.9%	–	1 980	–
Resilient Africa (Pty) Ltd (note 8.2)	39.1%	39.1%	–	–
Resilient Africa Managers (Pty) Ltd	39.1%	39.1%	–	–
LBB Foods (Pty) Ltd	41.0%	–	11	–
Red Baron Agri (Pty) Ltd	41.0%	–	10	–
Zulzi On Demand (Pty) Ltd	26.0%	–	24	–
			2 025	–

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

The Directors consider Retail Logistics Fund (RF) (Pty) Ltd and Resilient Africa (Pty) Ltd (2020: Resilient Africa (Pty) Ltd) to be material associates to the Group's consolidated financial statements. Retail Logistics Fund (RF) (Pty) Ltd is incorporated in South Africa and is involved in the investment and letting of commercial properties in South Africa. Retail Logistics Fund (RF) (Pty) Ltd is considered to be a strategic partner as it leases three distribution centres to the Group. 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 Retail Logistics Fund (RF) (Pty) Ltd and Resilient Africa (Pty) Ltd (2020: Resilient Africa (Pty) Ltd) is measured using the equity method.

All other associates are not material to the Group's consolidated financial statements and therefore no summary financial information is presented for these associates.

8 EQUITY ACCOUNTED INVESTMENTS | continued

8.1 Summary financial information of Retail Logistics Fund (RF) (Pty) Ltd

Statement of financial position

	2021 Rm	2020 Rm
Total assets	4 272	–
Current assets	955	–
Non-current assets	3 317	–

Total liabilities

Current liabilities	10	–
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Net assets

Attributable to other owners of Retail Logistics Fund (RF) (Pty) Ltd	2 135	–
Attributable to the Shoprite Holdings Ltd Group	2 127	–

Statement of comprehensive income

Revenue	297	–
Profit for the year	255	–
Attributable to other owners of Retail Logistics Fund (RF) (Pty) Ltd	128	–
Attributable to the Shoprite Holdings Ltd Group	127	–

Total comprehensive income for the year

Attributable to other owners of Retail Logistics Fund (RF) (Pty) Ltd	128	–
Attributable to the Shoprite Holdings Ltd Group	127	–

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

Reconciliation to carrying amount:

Net assets attributable to the Group at the beginning of the year	–	–
Investment in ordinary shares acquired	1 897	–
Profit for the year attributable to the Group	127	–
Dividends received by the Group	(44)	–
Carrying amount at the end of the year	1 980	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	2021 Rm	2020 Rm
8 EQUITY ACCOUNTED INVESTMENTS continued		
8.2 Summary financial information of Resilient Africa (Pty) Ltd		
Statement of financial position		
Total assets	1 934	2 313
Current assets	63	41
Non-current assets	1 871	2 272
Total liabilities	2 107	2 179
Current liabilities	48	53
Non-current liabilities	2 059	2 126
Net (liabilities)/assets	(173)	134
Attributable to other owners of Resilient Africa (Pty) Ltd	(186)	(13)
Attributable to the Shoprite Holdings Ltd Group	(119)	(9)
Non-controlling interest	132	156
Statement of comprehensive income		
Revenue	143	146
Loss for the year	(179)	(46)
Attributable to other owners of Resilient Africa (Pty) Ltd	(108)	(25)
Attributable to the Shoprite Holdings Ltd Group	(70)	(17)
Non-controlling interest	(1)	(4)
Other comprehensive (loss)/income for the year	(131)	147
Attributable to other owners of Resilient Africa (Pty) Ltd	(64)	73
Attributable to the Shoprite Holdings Ltd Group	(41)	46
Non-controlling interest	(26)	28
Total comprehensive (loss)/income for the year	(310)	101
Attributable to other owners of Resilient Africa (Pty) Ltd	(172)	48
Attributable to the Shoprite Holdings Ltd Group	(111)	29
Non-controlling interest	(27)	24
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	(36)	(65)
Loss for the year attributable to the Group	(70)	(17)
Other comprehensive (loss)/income for the year attributable to the Group	(41)	46
Net liabilities attributable to the Group at the end of the year	(147)	(36)
Unrecognised share of losses at the end of the year	106	36
Unrecognised share of other comprehensive loss at the end of the year	41	–
Carrying amount at the end of the year	–	–
Unrecognised share of losses:		
Unrecognised share of losses at the beginning of the year	36	57
Unrecognised share of losses for the year	70	17
Decrease in unrecognised share of losses for the year	–	(38)
Unrecognised share of losses at the end of the year	106	36
Unrecognised share of other comprehensive loss:		
Unrecognised share of other comprehensive loss at the beginning of the year	–	8
Unrecognised share of other comprehensive loss for the year	41	–
Decrease in unrecognised share of other comprehensive loss for the year	–	(8)
Unrecognised share of other comprehensive loss at the end of the year	41	–

	2021 Rm	2020 Rm
9 INVESTMENT IN INSURANCE CELL CAPTIVE ARRANGEMENTS		
Third-party cell captive contracts (note 9.1)	32	–
First-party cell captive contracts (note 9.2)	132	–
	164	–
Analysis of investment in insurance cell captive arrangements:		
Non-current	69	–
Current	95	–
	164	–
9.1 Third-party cell captive contracts		
The investments listed below relates to third-party insurance cells and have share capital consisting of variable rate preference shares and share premium, which are held by the Group.		
	% Owned by the Group	
	2021	2020
Old Mutual Life Insurance Company (Namibia) Ltd	100%	–
Centriq Insurance Company Ltd	100%	–
		19
		13
		32
		–
		–
		–
Summary financial information		
Statement of financial position		
Total assets	235	–
Current assets	229	–
Non-current assets	6	–
Total liabilities	203	–
Current liabilities	172	–
Non-current liabilities	31	–
Net assets attributable to the Shoprite Holdings Ltd Group	32	–
Statement of comprehensive income		
Net premium income	192	–
Profit for the year attributable to the Shoprite Holdings Ltd Group	20	–
The information disclosed reflects the amounts presented in the consolidated management accounts of Old Mutual Life Insurance Company (Namibia) Ltd and Centriq Insurance Company Ltd.		
Reconciliation to carrying amount:		
Net assets at the beginning of the year	–	–
Investment in preference shares acquired	61	–
Fair value adjustment	(13)	–
Dividends received by the Group	(16)	–
Net assets attributable to the Shoprite Holdings Ltd Group at the end of the year	32	–
9.2 First-party cell captive contracts		
Reconciliation to carrying amount		
Carrying amount at the beginning of the year	–	–
Investment in preference shares acquired	25	–
Fair value adjustment (included in premiums and other insurance income earned)	107	–
Carrying amount at the end of the year	132	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	2021 Rm	2020 Rm
10 GOVERNMENT BONDS AND BILLS		
AOA, USD Index Linked, Angola Government Bonds (note 10.1)	876	2 238
AOA, Angola Government Bonds (note 10.2)	560	264
Angola Treasury Bills (note 10.3)	58	–
	1 494	2 502
Analysis of total government bonds and bills:		
Non-current	972	62
Current	522	2 440
	1 494	2 502
Reconciliation of movement in government bonds and bills:		
Carrying amount at the beginning of the year	2 502	3 016
Increase in loss allowance recognised in profit or loss during the year	(76)	(8)
Unused loss allowance reversed	59	8
Additional investments	2 779	–
Investments matured and sold	(3 373)	(924)
Interest income (note 23.4)	162	210
Interest received	(185)	(242)
Exchange rate differences	208	1 374
Foreign currency translation differences	(582)	(932)
Carrying amount at the end of the year	1 494	2 502
10.1 AOA, USD Index Linked, Angola Government Bonds	876	2 238
Gross amount	912	2 304
Provision for impairment	(36)	(66)
The AOA, USD Index Linked, Angola Government Bonds are to be settled in Angola kwanza, earn interest at an average rate of 6.9% (2020: 7.0%) p.a. and mature after two to 38 months from the reporting date. Accrued interest is payable bi-annually.		
10.2 AOA, Angola Government Bonds	560	264
Gross amount	589	269
Provision for impairment	(29)	(5)
The AOA, Angola Government Bonds are denominated in Angola kwanza, earn interest at an average rate of 15.6% (2020: 14.0%) p.a. and mature after two to 38 months from the reporting date. Accrued interest is payable bi-annually.		
10.3 Angola Treasury Bills	58	–
Gross amount	62	–
Provision for impairment	(4)	–
The Angola Treasury Bills are denominated in Angola kwanza, earn interest at an average rate of 17.0% (2020: 19.0%) p.a. and mature after 11 months from the reporting date. Accrued interest is payable at maturity.		

	2021 Rm	2020 Rm
11 LOANS RECEIVABLE		
Amounts receivable from associate (note 11.1)	995	1 206
Amounts receivable from franchisees (note 11.2)	578	545
Amounts receivable from Circle Mall Mauritius Ltd (note 11.3)	200	244
Amounts receivable from Kin Oasis Investments Ltd (note 11.4)	129	173
Other	–	14
	1 902	2 182
Analysis of total loans receivable:		
Non-current	1 619	1 953
Current	283	229
	1 902	2 182
11.1 Amounts receivable from associate		
Shareholder loan receivable from Resilient Africa (Pty) Ltd (note 11.1.1)	342	434
Other amounts receivable from Resilient Africa (Pty) Ltd (note 11.1.2)	653	772
	995	1 206
The Group is committed to provide a shareholder loan to Resilient Africa (Pty) Ltd to a maximum capital amount of R333 million (2020: R333 million) of which Resilient Africa (Pty) Ltd has drawn down R328 million (2020: R328 million).		
11.1.1 Shareholder loan receivable from Resilient Africa (Pty) Ltd	342	434
Gross amount	528	494
Provision for impairment	(186)	(60)
The shareholder loan is denominated in South Africa rand, earns interest at an average rate of 6.6% (2020: 6.6%) p.a. and is repayable on demand, subject to certain conditions.		
11.1.2 Other amounts receivable from Resilient Africa (Pty) Ltd	653	772
Gross amount	653	772
Provision for impairment	–	–
The other loan is denominated in US dollar, earns interest at an average rate of 3.0% (2020: 2.7%) p.a. and is repayable after three years from the reporting date, subject to certain conditions.		
11.2 Amounts receivable from franchisees	578	545
Gross amount	643	587
Provision for impairment	(65)	(42)
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 8.0% (2020: 8.2%) p.a. and are repayable between one and five years from the reporting date.		
11.3 Amounts receivable from Circle Mall Mauritius Ltd	200	244
Gross amount	206	245
Provision for impairment	(6)	(1)
The amount owing by Circle Mall Mauritius Ltd is denominated in US dollar, earns interest at an average rate of 3.0% (2020: 3.0%) p.a. and is repayable after one year from the reporting date, subject to certain conditions. The average interest rate has been calculated until October 2020 due to a fire at the mall and the Group not being entitled to receive interest as per contract terms.		
11.4 Amounts receivable from Kin Oasis Investments Ltd	129	173
Gross amount	146	173
Provision for impairment	(17)	–
The amount owing by Kin Oasis Investments Ltd is denominated in US dollar, earns interest at an average rate of 3.0% (2020: 3.0%) p.a. and is repayable after four years from the reporting date, subject to certain conditions.		

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	2021 Rm	2020 Rm
12 DEFERRED INCOME TAX		
Deferred income tax assets (note 12.1)	2 214	2 184
Deferred income tax liabilities (note 12.2)	(8)	(824)
Net deferred income tax assets	2 206	1 360
The movement in the net deferred income tax assets is as follows:		
Carrying amount at the beginning of the year	1 360	1 091
Charge to profit for the year	331	477
Provisions and accruals	51	340
Allowances on property, plant and equipment	577	43
Fixed escalation operating lease accruals	1	(21)
Leases	232	362
Allowances on intangible assets	(126)	(93)
Investment in associates	(279)	–
Unrealised exchange rate differences	75	(258)
Tax losses	(204)	104
Tax rate change	4	–
Charged to other comprehensive income	141	96
Foreign currency translation differences	374	(304)
Carrying amount at the end of the year	2 206	1 360
12.1 Deferred income tax assets		
Provisions and accruals	1 383	1 348
Allowances on property, plant and equipment	(715)	(726)
Fixed escalation operating lease accruals	–	(1)
Leases	2 021	1 705
Allowances on intangible assets	(454)	(355)
Investment in associates	(279)	–
Unrealised exchange rate differences	58	94
Tax losses	200	119
	2 214	2 184
Net deductible/(taxable) temporary differences to be recovered/(settled) after more than 12 months	61	(31)
Net deductible temporary differences to be recovered within 12 months	2 153	2 215
	2 214	2 184
12.2 Deferred income tax liabilities		
Provisions and accruals	1	91
Allowances on property, plant and equipment	7	1 059
Unrealised exchange rate differences	–	(325)
Tax losses	–	(1)
	8	824
Net taxable temporary differences to be settled after more than 12 months	9	852
Net deductible temporary differences to be recovered within 12 months	(1)	(28)
	8	824

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
Applied in the provision for deferred income tax

	2021 Rm	2020 Rm
Calculated income tax losses and net deductible temporary differences at year-end	12 116	13 629
Applied in the provision for deferred income tax	(7 982)	(7 694)
	4 134	5 935

The utilisation of the income tax relief on net calculated income tax losses, to the value of R1.2 billion (2020: R1.7 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

2021 Financial year-end	–	59
2022 Financial year-end	3	225
2023 Financial year-end	130	26
2024 Financial year-end	28	34
2025 Financial year-end	58	100
2026 Financial year-end	161	13
2027 Financial year-end	4	–
2029 Financial year-end	–	28
2030 Financial year-end	–	27
	384	512

Calculated temporary differences on consolidation associated with investments in subsidiaries for which deferred income tax liabilities have not been created

	310	223
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13 TRADE AND OTHER RECEIVABLES

Trade receivables from contracts with customers (note 13.1)
Instalment sale receivables from contracts with customers (note 13.2)
Other receivables (note 13.3)
Prepayments and indirect taxes receivable
Fixed escalation operating lease accruals

Trade receivables from contracts with customers (note 13.1)	1 999	2 268
Instalment sale receivables from contracts with customers (note 13.2)	901	803
Other receivables (note 13.3)	813	788
Prepayments and indirect taxes receivable	367	410
Fixed escalation operating lease accruals	47	51
	4 127	4 320

Analysis of trade and other receivables:

Non-current	206	214
Current	3 921	4 106
	4 127	4 320

13.1 Trade receivables from contracts with customers

Gross amount
Provision for impairment

Trade receivables from contracts with customers	1 999	2 268
Gross amount	2 202	2 475
Provision for impairment	(203)	(207)

Analysis of total trade receivables:

Receivables from franchisees	1 417	1 683
Gross amount	1 449	1 702
Provision for impairment	(32)	(19)

Receivables from medical aid schemes, pharmacies and doctors

Receivables from medical aid schemes, pharmacies and doctors	305	264
Gross amount	349	295
Provision for impairment	(44)	(31)

Buying aid societies and other receivables

Buying aid societies and other receivables	277	321
Gross amount	404	478
Provision for impairment	(127)	(157)

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. These amounts are mainly denominated in South Africa rand.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	2021 Rm	2020 Rm
13 TRADE AND OTHER RECEIVABLES continued		
13.2 Instalment sale receivables from contracts with customers	901	803
Gross amount	1 666	1 621
Provision for impairment (note 40.4.1(c))	(765)	(818)
<p>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 19.5% (2020: 19.8%) p.a. These amounts are mainly denominated in South Africa rand.</p> <p>Instalment sale receivables expected to be recovered</p> <p>Not later than one year 583 529</p> <p>Later than one year 318 274</p> <p style="text-align: right;">901 803</p>		
<p>These amounts are reflected as current as they form part of the normal operating cycle.</p>		
13.3 Other receivables	813	788
Gross amount	1 041	1 046
Provision for impairment	(228)	(258)
<p>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.</p>		
14 INVENTORIES		
Trading goods	18 396	18 845
15 STATED CAPITAL AND TREASURY SHARES		
15.1 Stated capital	7 516	7 516

Authorised:

1 300 000 000 (2020: 1 300 000 000) no par value ordinary shares

Issued:

591 338 502 (2020: 591 338 502) no par value ordinary shares

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

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

	Number of shares	
	2021	2020
Issued ordinary share capital	591 338 502	591 338 502
Treasury shares (note 15.2)	(43 164 607)	(38 632 000)
	548 173 895	552 706 502

The unissued ordinary shares are under the control of the Directors who may issue them on such terms and conditions as they deem fit until the Company's next Annual General Meeting.

All shares are fully paid up.

Details of special resolutions passed by the Company and its subsidiaries during the reporting period are provided in the Directors' report.

	2021 Rm	2020 Rm
15 STATED CAPITAL AND TREASURY SHARES continued		
15.2 Treasury shares	1 455	806
<p>43 164 607 (2020: 38 632 000) ordinary shares</p>		

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

	Number of shares	
	2021	2020
Balance at the beginning of the year	38 632 000	36 941 101
Shares purchased during the year under the authorised share buy-back programme*	3 352 973	–
Shares purchased during the year for equity-settled share-based payments**	1 635 742	2 076 613
Shares disposed during the year	(66 235)	(49 023)
Shares utilised for settlement of equity-settled share-based payment arrangements	(389 873)	(336 691)
Balance at the end of the year	43 164 607	38 632 000
<p>Consisting of:</p> <p>Shares owned by Shoprite Checkers (Pty) Ltd 38 789 545 35 436 572</p> <p>Shares held by Shoprite Checkers (Pty) Ltd for the benefit of participants to equity-settled share-based payment arrangements (refer to note 16.2) 4 375 062 3 195 428</p> <p style="text-align: right;">43 164 607 38 632 000</p>		

* The average market price of the shares purchased under the authorised share buy-back programme was R153.05 per share.

** The average market price of the shares purchased for equity-settled share-based payments was R131.95 per share.

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, Dr 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 1 635 742 (2020: 2 076 613) 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 on the next page.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

16 SHARE-BASED COMPENSATION PLANS | continued

16.2 Equity-settled share-based payments | continued

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 prior 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.

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	
	2021	2020	2021	2020
Balance at the beginning of the year	R115.50	–	855 088	–
Shares granted during the year	R149.27	R115.50	825 906	861 638
Shares vested during the year	R129.52	–	(2 397)	–
Shares forfeited during the year	R129.25	R115.50	(21 039)	(6 550)
Balance at the end of the year	R132.13	R115.50	1 657 558	855 088
Vesting dates of performance shares outstanding at the end of the year:				
5 September 2022	R115.50	R115.50	841 216	855 088
25 September 2023	R149.27	–	816 342	–
	R132.13	R115.50	1 657 558	855 088

The market price of performance shares vested during the year was R155.66 per share.

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 R149.27 per share. The following assumptions were used in calculating the fair value:

	2021
Total number of performance shares awarded	825 906
Grant date	11 September 2020
Vesting date	11 September 2023
Share price on grant date	R149.27
Exercise price	R0.00
Forfeiture rate	5.0%

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	
	2021	2020	2021	2020
Balance at the beginning of the year	R115.50	–	211 304	–
Shares granted during the year	R149.27	R115.50	176 674	211 565
Shares vested during the year	R128.40	–	(1 717)	–
Shares forfeited during the year	R128.69	R115.50	(2 492)	(261)
Balance at the end of the year	R130.90	R115.50	383 769	211 304
Vesting dates of co-investment shares outstanding at the end of the year:				
5 September 2022	R115.50	R115.50	208 724	211 304
25 September 2023	R149.27	–	175 045	–
	R130.90	R115.50	383 769	211 304

The market price of co-investment shares vested during the year was R152.25 per share.

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 R149.27 per share. The following assumptions were used in calculating the fair value:

	2021
Total number of co-investment shares awarded	176 674
Grant date	11 September 2020
Vesting date	11 September 2023
Share price on grant date	R149.27
Exercise price	R0.00
Forfeiture rate	5.0%

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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	
	2021	2020	2021	2020
Balance at the beginning of the year	R115.50	–	285 391	–
Shares granted during the year	R149.27	R115.50	273 722	288 132
Shares vested during the year	R129.35	–	(2 667)	–
Shares forfeited during the year	R129.26	R115.50	(7 126)	(2 741)
Balance at the end of the year	R132.08	R115.50	549 320	285 391
Vesting dates of retention shares outstanding at the end of the year:				
5 September 2022	R115.50	R115.50	279 596	285 391
25 September 2023	R149.27	–	269 724	–
	R132.08	R115.50	549 320	285 391

The market price of retention shares vested during the year was R151.96 per share.

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 R149.27 per share. The following assumptions were used in calculating the fair value:

	2021
Total number of retention shares awarded	273 722
Grant date	11 September 2020
Vesting date	11 September 2023
Share price on grant date	R149.27
Exercise price	R0.00
Forfeiture rate	5.0%

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	
	2021	2020	2021	2020
Balance at the beginning of the year	R166.97	R188.01	1 843 645	1 504 529
Shares granted during the year	R128.66	R132.39	359 440	715 278
Shares vested during the year	R190.21	R186.12	(383 092)	(336 691)
Shares forfeited during the year	R163.74	R178.84	(35 578)	(39 471)
Balance at the end of the year	R154.33	R166.97	1 784 415	1 843 645
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:				
30 September 2020	–	R195.43	–	321 958
30 September 2021	R189.24	R189.22	331 612	356 222
30 September 2022	R161.52	R161.83	479 601	509 461
30 September 2023	R140.85	R151.96	748 392	420 239
30 September 2024	R132.39	R132.39	224 810	235 765
	R154.33	R166.97	1 784 415	1 843 645

The market price of share grants vested during the year was R137.49 (2020: R126.96) per share.

16 SHARE-BASED COMPENSATION PLANS | continued

16.2 Equity-settled share-based payments | continued

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

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 R128.66 per share. The following assumptions were used in calculating the fair value:

	2021
Total number of full share grants awarded	359 440
Grant date	20 November 2020
Vesting date	30 September 2023
Share price on grant date	R128.66
Exercise price	R0.00
Forfeiture rate	6.0%

16.2.5 Share awards held by Executive Directors

Award granted	Grant date	Award grant price	Vesting date	2021			
				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	30/9/2020	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
ESP performance shares	11/9/2020	R0.00	11/9/2023	–	94 757	–	94 757
ESP co-investment shares	11/9/2020	R0.00	11/9/2023	–	18 956	–	18 956
ESP retention shares	11/9/2020	R0.00	11/9/2023	–	12 635	–	12 635
Total				149 715	126 348	(16 963)	259 100
A de Bruyn							
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
ESP performance shares	11/9/2020	R0.00	11/9/2023	–	21 121	–	21 121
ESP co-investment shares	11/9/2020	R0.00	11/9/2023	–	4 526	–	4 526
ESP retention shares	11/9/2020	R0.00	11/9/2023	–	4 526	–	4 526
Total				46 769	30 173	(2 329)	74 613

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

16 SHARE-BASED COMPENSATION PLANS | continued

16.2 Equity-settled share-based payments | continued

16.2.5 Share awards held by Executive Directors | continued

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

17 RESERVES

	2021 Rm	2020 Rm
Retained earnings	23 599	21 048
Other reserves (note 17.1)	(8 583)	(7 907)
	15 016	13 141

17.1 Other reserves

	2021 Rm	2020 Rm
Share-based payments reserve (note 17.1.1)	299	203
Foreign currency translation reserve (note 17.1.2)	(8 882)	(8 110)
	(8 583)	(7 907)

17.1.1 Share-based payments reserve

	2021 Rm	2020 Rm
Reconciliation of carrying amount		
Carrying amount at the beginning of the year	203	149
Share-based payments – value of employee services	153	101
Modification of cash bonus arrangement transferred from provisions	17	16
Realisation of share-based payment reserve	(74)	(63)
Carrying amount at the end of the year	299	203

17.1.2 Foreign currency translation reserve

	2021 Rm	2020 Rm
Reconciliation of carrying amount		
Carrying amount at the beginning of the year	(8 110)	(4 425)
Foreign currency translation differences, net of income tax	(613)	(3 375)
Group	(1 155)	(3 413)
Income tax effect of foreign currency translation differences	95	–
Release on disposal of discontinued operations	447	–
Equity accounted investments	–	38
Loss on effective net investment hedge, net of income tax	(159)	(310)
Loss on effective net investment hedge	(207)	(406)
Related income tax	48	96

	2021 Rm	2020 Rm
Carrying amount at the end of the year	(8 882)	(8 110)

18 LEASE LIABILITIES

	2021 Rm	Restated* 2020 Rm
Reconciliation of carrying amounts:		
Balance at the beginning of the year	23 271	21 478
New leases and remeasurements	8 534	5 540
Lease termination	(590)	(255)
Lease payments	(5 432)	(4 590)
Principal lease liability payments	(2 951)	(2 585)
Interest paid	(2 481)	(2 005)
Interest accrual	2 481	1 984
Exchange rate differences	149	404
Transfer to liabilities directly associated with assets classified as held for sale (note 32)	(134)	(1 481)
Foreign currency translation differences	(557)	191
Balance at the end of the year	27 722	23 271

Analysis of total lease liabilities:

	2021 Rm	2020 Rm
Non-current	24 801	20 168
Current	2 921	3 103
	27 722	23 271

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.

The Group is exposed to the following potential future undiscounted cash outflows which are not included in the measurement of lease liabilities:

	2021 Rm	2020 Rm
Extension and termination options not reasonably assured	68 744	61 818
Leases not yet commenced to which the Group is committed	2 935	2 575

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:

	2021 Rm	2020 Rm
Depreciation charge of right-of-use assets (note 24)	3 232	2 593
Impairment charge of right-of-use assets (included in items of a capital nature, note 28)	198	448
Interest expense (included in finance costs, note 30)	2 471	1 912
Expense relating to short-term leases (included in other operating expenses, note 27)	311	525
Expense relating to variable lease payments not included in lease liabilities (included in other operating expenses, note 27)	371	433

* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.

Total cash outflows for leases amounted to R6.1 billion (2020: R5.6 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 three of its distribution centres, namely the Brackenfell, Centurion and Whitey Basson distribution centres (2020: commercial vehicle fleet). The sale of the Whitey Basson distribution centre generated cash inflows of R1.2 billion and R12 million profit. The Brackenfell and Centurion distribution centres were exchanged for shares in a company called Retail Logistics Fund (RF) (Pty) Ltd (refer to note 8). Shoprite Checkers (Pty) Ltd has a 49.9% shareholding in Retail Logistics Fund (RF) (Pty) Ltd and the remainder of the shares is held by Equites Property Fund Ltd. The exchange resulted in a profit of R148 million. The sale of the Group's commercial vehicle fleet during the previous year generated cash inflows of R1.1 billion and no profit or loss.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

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	2021 Rm	2020 Rm
18 LEASE LIABILITIES continued		
Sale and leaseback transactions continued		
The impact of the Group's sale and leaseback transactions as well as its key terms and conditions are disclosed below:		
Cash proceeds received	1 192	1 058
Shares in Retail Logistics Fund (RF) (Pty) Ltd	2 044	–
Market value at disposal date	3 236	1 058
Carrying amount at disposal date	(1 995)	(1 058)
Right-of-use asset recognised	1 469	815
Lease liability recognised	(2 403)	(815)
Elimination of 49.9% of gain on sale and leaseback transaction due to rights retained through Retail Logistics Fund (RF) (Pty) Ltd investment	(147)	–
Profit on sale and leaseback transactions	160	–
Interest rate implicit to the lease	12.6%	Prime minus 2%
Average lease term (years)	20	5
The age and the minimum estimated useful life of the distribution centres were used to determine a fair lease period and rental based on market values (2020: 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 distribution centres include any operational costs, security and insurance costs, administration and maintenance costs, rates and taxes and any other municipal costs for water, electricity, sewerage and refuse (2020: monthly managed maintenance fees of R60 per vehicle and administration fees of R100 per vehicle). Only the rental portion, directly related to the market value of the properties (2020: commercial vehicle fleet), is included in the measurement of the lease liability. 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.		
19 BORROWINGS		
Consisting of:		
ABSA Bank Ltd (note 19.2)	2 000	2 035
FirstRand Bank Ltd (note 19.3)	2 004	2 004
ABSA Bank (Mauritius) Ltd (note 19.4)	335	469
Standard Chartered Bank (Mauritius) Ltd (note 19.5)	656	945
Standard Finance (Isle of Man) Ltd (note 19.6)	–	6 007
Stanbic Bank Kenya Ltd (note 19.7)	–	238
Stanbic Bank Botswana Ltd (note 19.8)	284	311
	5 279	12 009
Analysis of total borrowings:		
Non-current	2 280	8 826
Current	2 999	3 183
	5 279	12 009
19.1 Reconciliation of movement in liabilities arising from financing activities		
Carrying amount at the beginning of the year	12 009	11 706
Cash inflows	1 279	4 854
Cash outflows	(7 142)	(5 995)
Foreign currency translation differences	(867)	1 444
Carrying amount at the end of the year	5 279	12 009

	2021 Rm	2020 Rm
19 BORROWINGS continued		
19.2 ABSA Bank Ltd		
This loan is denominated in South Africa rand and unsecured. R1.0 billion is payable after three months from the reporting date and bears interest at an average rate of 5.0% (2020: 7.9%) p.a. The remaining balance is payable after 27 months from the reporting date and bears interest at an average rate of 5.3% (2020: 8.2%) p.a.		
19.3 FirstRand Bank Ltd		
This loan is denominated in South Africa rand and unsecured. R1.0 billion is payable within 12 months from the reporting date and bears interest at an average rate of 5.0% (2020: 7.9%) p.a. The remaining balance is payable after 36 months from the reporting date and bears interest at an average rate of 5.0% (2020: 8.0%) p.a.		
19.4 ABSA 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 2.0% (2020: 3.2%) p.a.		
19.5 Standard Chartered Bank (Mauritius) Ltd		
The amount outstanding at 28 June 2020 was repaid during the current year, denominated in US dollar, unsecured and carried interest at an average rate of 2.8% p.a. The Group entered into a new loan agreement during the year. This loan is denominated in US dollar, unsecured, payable after two months from the reporting date and bears interest at an average rate of 3.0% p.a.		
19.6 Standard Finance (Isle of Man) Ltd		
This loan is denominated in US dollar and unsecured. R4.3 billion of the amount outstanding at 28 June 2020 carried interest at a fixed rate of 4.3% (2020: 4.3%) p.a. and was repaid during the year before settlement was due, resulting in a breakage cost of R178 million being payable. The remaining balance was repaid during the period and carried interest at a fixed rate of 3.5% (2020: 3.5%) p.a.		
19.7 Stanbic Bank Kenya Ltd		
The outstanding balance as at 28 June 2020 was repaid during the period, denominated in Kenya shilling, unsecured and carried interest at an average rate of 9.0% (2020: 9.7%) p.a.		
19.8 Stanbic Bank Botswana Ltd		
This loan is denominated in Botswana pula, unsecured, payable after 16 months from the reporting date and bears interest at an average rate of 6.0% (2020: 6.5%) p.a.		
20 PROVISIONS		
Provision for post-employment medical benefits	20	26
Provision for outstanding claims	3	11
Provision for long-term employee benefits	392	329
Reinstatement provision	151	87
	566	453

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20 PROVISIONS | continued

Reconciliation of carrying amounts	Post-employment medical benefits Rm	Outstanding claims Rm	Long-term employee benefits Rm	Reinstatement provision Rm	Total Rm
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
Additional provisions	–	–	139	52	191
Additions against right-of-use assets	–	–	–	16	16
Unused amounts reversed	–	(8)	(22)	(4)	(34)
Re-measurements recognised directly in other comprehensive income	(8)	–	–	–	(8)
Utilised during the year	(1)	–	(77)	(1)	(79)
Accretion of discount	3	–	45	3	51
Modification of cash bonus arrangement transferred to share-based payments reserve	–	–	(17)	–	(17)
Foreign currency translation differences	–	–	(5)	(2)	(7)
Balance at 4 July 2021	20	3	392	151	566
Analysis of total provisions:					
2020					
Non-current	24	–	256	61	341
Current	2	11	73	26	112
	26	11	329	87	453
2021					
Non-current	18	–	357	113	488
Current	2	3	35	38	78
	20	3	392	151	566
Discount rates used					
2020	10.3%	N/A	5.8%	13.3%	
2021	11.0%	N/A	6.4%	12.3%	

21 TRADE AND OTHER PAYABLES

	2021 Rm	2020 Rm
Trade payables	12 651	13 407
Other payables and accruals (note 21.1)	3 900	3 670
Deposits and third-party payments liability	488	477
Employee benefit accruals	1 808	1 628
Indirect taxes payable	504	646
Insurance contract allowances		
– Unearned premiums (note 21.2)	98	182
Refund liability	51	46
Cash-settled share-based payment accrual (note 16.1)	149	101
	19 649	20 157

21.1 Deferred shares

Authorised:
720 000 000 (2020: 720 000 000) non-convertible, non-participating, non-transferable no par value deferred shares

Issued:
305 621 601 (2020: 305 621 601) non-convertible, non-participating, non-transferable no par value deferred shares

The deferred share liability of R0.3 million (2020: 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 to 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	182	193
Change in allowance for unearned premiums	(84)	(11)
Premiums written during the year	47	190
Amortisation charged to income	(131)	(201)
Balance at the end of the year	98	182

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	2021 Rm	2020 Rm
22 CONTRACT LIABILITIES		
Gift vouchers, saving stamps and layaway sales	873	864
Reconciliation of contract liabilities:		
Balance at the beginning of the year	864	791
Prepayments received during the year	3 580	3 170
Revenue recognised upon redemption	(3 526)	(3 077)
Prepayments included in opening balance	(854)	(781)
Prepayments received during the year	(2 672)	(2 296)
Revenue recognised upon expiry date	(22)	(13)
Breakage amount recognised as revenue during the year	(15)	(1)
Transfer to liabilities directly associated with assets classified as held for sale (note 32)	–	(4)
Foreign currency translation differences	(8)	(2)
Balance at the end of the year	873	864
		Restated*
23 REVENUE		
Revenue from contracts with customers	169 948	156 973
Sale of merchandise (note 23.1)	168 030	155 409
Commissions received (note 23.2)	867	845
Franchise fees received	117	108
Marketing	189	55
Delivery recoveries	205	87
Other revenue	540	469
Operating lease income (note 23.3)	423	484
Premiums and other insurance income earned	263	235
Other income	11	19
Dividends received from unlisted share investments	1	1
Finance income (note 23.4)	542	598
	171 188	158 310
Consisting of:		
Sale of merchandise	168 030	155 409
Other operating income	2 616	2 303
Interest revenue	542	598
	171 188	158 310
* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.		
23.1 Sale of merchandise has been disaggregated as follows:		
Supermarkets RSA	133 852	122 412
Shoprite and Usave	72 632	66 783
Checkers and Checkers Hyper**	53 811	48 520
LiquorShop and other	7 409	7 109
Supermarkets Non-RSA	15 453	16 707
Shoprite and Usave	14 135	15 555
Checkers and Checkers Hyper	1 148	947
LiquorShop and other	170	205
Furniture	6 818	5 470
RSA	5 385	4 211
Non-RSA	1 433	1 259
Other operating segments	11 907	10 820
Drop-shipment sales to franchisees	6 327	5 965
Other sales	5 580	4 855
Consolidated sale of merchandise	168 030	155 409

** Checkers and Checkers Hyper includes sale of merchandise through the Checkers Sixty60 application which is less than 5% of the Group's consolidated sale of merchandise.

	2021 Rm	Restated* 2020 Rm
23 REVENUE continued		
23.2 Commissions received		
Commission on Computicket ticket sales	110	153
Commission on money transfers	169	196
Commission on third-party account and insurance payments	162	147
Commission on third-party products	240	192
Other commissions received	186	157
	867	845
23.3 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 (2020: one and 20 years). Rental comprises mainly minimum monthly payments. Rental escalations vary, but average at a rate of 9.1% (2020: 8.5%) p.a.		
23.4 Finance income		
Finance income earned from instalment sale receivables	263	255
Interest received from government bonds and bills	162	210
Interest received from associates	56	52
Interest received other	61	81
	542	598
24 DEPRECIATION AND AMORTISATION		
Property, plant and equipment	2 238	2 411
Right-of-use assets	3 232	2 593
Intangible assets	380	358
	5 850	5 362
Disclosed as cost of sales	(514)	(390)
	5 336	4 972
* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.		
25 EMPLOYEE BENEFITS		
Wages, salaries and other staff benefits	14 044	13 118
Share-based payment arrangements (note 25.1)	201	50
Post-employment medical benefits	3	3
Retirement benefit contributions (note 39)	585	548
	14 833	13 719
Disclosed as cost of sales	(1 280)	(1 227)
	13 553	12 492
* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.		
25.1 Share-based payment arrangements		
Cash-settled share-based payments (note 16.1)	48	(50)
Equity-settled share-based payments (note 16.2)	153	100
	201	50

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	2021 Rm	2020 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% (2020: 28%).		
Mandatory grants received	18	17
Discretionary grants received	9	17
	27	34
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 to 31 August 2020. The Group received relief of R18 million (2020: R17 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. The resulting reduction in employee benefit expenses is set out below.		
Employment tax incentive	282	335
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 to 31 July 2020. This resulted in an increase in the incentive amount received by employers for the applicable months of the current and prior reporting period.		
26 DIRECTORS' REMUNERATION		
Executive Directors	57	50
Non-executive Directors	7	6
	64	56

26 DIRECTORS' REMUNERATION | continued

The only prescribed officers of the Group are listed below.

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

R'000	Remuneration	Short-term performance bonus	Long-term incentive bonus ¹	Retirement and medical benefits	Other benefits	Total
2021						
Executive Directors and alternates						
A de Bruyn	3 955	2 688	2 781	317	264	10 005
PC Engelbrecht	16 121	11 984	11 198	463	231	39 997
B Harisunker	4 246	2 414	–	–	583	7 243
	24 322	17 086	13 979	780	1 078	57 245
2020						
Executive Directors and alternates						
A de Bruyn	3 758	2 018	1 940	249	345	8 310
PC Engelbrecht	16 121	7 648	10 651	231	519	35 170
B Harisunker	4 033	2 083	–	–	509	6 625
	23 912	11 749	12 591	480	1 373	50 105

R'000	2021			Restated* 2020		
	Board fees paid	Committee fees paid	Total	Board fees paid	Committee fees paid	Total
Non-executive Directors						
JJ Fouché (retired 27/2/2019)	–	–	–	148	54	202
JF Basson	537	492	1 029	509	648	1 157
EC Kieswetter (resigned 6/5/2019)	321	392	713	–	–	–
AM le Roux	537	304	841	467	168	635
WE Lucas-Bull (appointed 1/10/2020)	45	–	45	–	–	–
ATM Mokgokong	1 217	454	1 671	509	317	826
JA Rock	470	373	843	445	198	643
CH Wiese**	1 754	343	2 097	1 383	327	1 710
S Zinn (resigned 6/11/2019)	–	–	–	621	356	977
	4 881	2 358	7 239	4 082	2 068	6 150

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

* Non-executive Directors' remuneration reflects approved fees paid during the reporting period, excluding VAT to the extent that VAT is apportioned to the taxable supplies of the Company. Comparative figures have been restated to remove proposed amounts included in the prior year which were only approved after 28 June 2020. The restatement impact per Director is presented below.

** Paid to Titan Financial Services (Pty) Ltd.

R'000	As previously reported 2020	Restatement 2020	Restated 2020
Non-executive Directors			
JJ Fouché (retired 27/2/2019)	–	202	202
JF Basson	1 104	53	1 157
EC Kieswetter (resigned 6/5/2019)	250	(250)	–
AM le Roux	692	(57)	635
ATM Mokgokong	1 218	(392)	826
JA Rock	794	(151)	643
CH Wiese**	1 722	(12)	1 710
S Zinn (resigned 6/11/2019)	488	489	977
	6 268	(118)	6 150

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	2021 Rm	Restated* 2020 Rm
27 OTHER OPERATING EXPENSES		
Advertising	2 872	2 326
Cleaning	1 016	880
Commission paid	1 003	937
Electricity and water	3 463	3 325
Fees for professional services	662	695
Motor vehicle expenses	1 054	991
Lease expenses (note 18)	682	957
Repairs and maintenance	1 896	1 755
Security services	1 744	1 664
Other expenses	2 609	2 470
	17 001	16 000
Disclosed as cost of sales	(2 073)	(2 051)
	14 928	13 949
* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.		
28 ITEMS OF A CAPITAL NATURE		
Profit on disposal and scrapping of property (note 3)	3	–
Profit on disposal of assets classified as held for sale (note 4)	131	239
Profit on sale and leaseback transaction (note 18)	160	–
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 and note 6)	(133)	(91)
Impairment of property, plant and equipment (note 3)	(860)	(455)
Impairment of right-of-use assets (note 5)	(198)	(448)
Impairment of intangible assets (note 6)	(30)	(99)
Insurance claims receivable	102	11
Profit on disposal of subsidiary	–	46
(Loss)/profit on other investing activities	(3)	3
	(828)	(794)
* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.		
29 OPERATING PROFIT		
Determined after taking into account the following:		
Auditors' remuneration for audit services	48	44
Fair value gains/(losses) on financial instruments	95	(2)
Policyholder claims and benefits paid:	6	1
– Claims paid	14	13
– Movement in accumulated outstanding claims (note 20)	(8)	(12)
30 FINANCE COSTS		
Lease liability finance charges	2 471	1 912
Borrowings and other finance charges**	642	977
	3 113	2 889
Borrowing costs capitalised	(18)	(11)
	3 095	2 878
* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.		
** Includes breakage cost of R178 million. Refer to note 19.6.		

	2021 Rm	Restated* 2020 Rm
31 INCOME TAX EXPENSE		
31.1 Classification		
South African income tax	2 264	1 777
Foreign income tax	(23)	(3)
	2 241	1 774
* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.		
31.2 Consisting of:		
Current income tax	2 496	2 195
Prior year income tax	32	12
Withholding income tax	44	44
	2 572	2 251
Deferred income tax	(331)	(477)
	2 241	1 774
	%	%
31.3 Reconciliation of the effective tax rate		
South African current income tax at 28% (2020: 28%)	28.0	28.0
Net adjustments	4.2	3.4
Exempt income ¹	(13.1)	(6.5)
Non-deductible expenses ²	5.4	4.4
Income tax allowances	(0.1)	(0.2)
Deferred income tax asset previously not recognised	–	(1.5)
Prior year income tax	0.5	0.2
Effect of foreign income tax rates	5.1	1.0
Withholding income tax	0.6	0.8
Deferred income tax asset not recognised ³	5.8	5.2
	32.2	31.4
Effective tax rate	32.2	31.4

- ¹ 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.
- ² Non-deductible expenses mainly comprise amortisations in refurbishments, professional fees, corporate social investment donations, bad debt written off and interest on shareholder loans (2020: professional fees, bad debt written off and interest on shareholder loans).
- ³ The increase in the deferred income tax asset not recognised, mainly relate to the derecognition of deferred income tax assets previously recognised, where the current economic environment of certain countries deteriorated during the current year to such an extent that it is no longer certain that the accumulated assessed tax losses will be utilised in the future.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	2021 Rm	2020 Rm
32 DISCONTINUED OPERATIONS		
32.1 Retail Supermarkets Nigeria Ltd		
In December 2020, the sale agreement to sell the majority stake of the Group's Nigeria subsidiary, Retail Supermarkets Nigeria Ltd, was concluded with conditions precedent met in May 2021.		
32.1.1 Financial performance and cash flow information		
Profit/(loss) from discontinued operations		
Sale of merchandise	2 536	2 734
Gross profit	702	739
Depreciation and amortisation	–	(176)
Employee benefits	(179)	(175)
Other operating expenses	(382)	(358)
Trading profit	141	30
Exchange rate losses	(7)	(22)
Profit on lease modifications and terminations	34	–
Items of a capital nature	26	(31)
Operating profit/(loss)	194	(23)
Net finance costs	(26)	(64)
Profit/(loss) before income tax	168	(87)
Income tax expense	(27)	–
Profit/(loss) after income tax	141	(87)
Profit on disposal of subsidiary after income tax (note 32.1.2)	21	–
Profit/(loss) from discontinued operations	162	(87)
Other comprehensive income/(loss) from discontinued operations		
Foreign currency translation differences from discontinued operations	42	(40)
Net cash inflows/(outflows) attributable to discontinued operations		
Operating activities	253	154
Investing activities	335	(22)
Financing activities	(205)	(261)
Net increase/(decrease) in cash generated by the subsidiary	383	(129)
32.1.2 Details of the disposal of the subsidiary		
Consideration received or receivable		
Cash received	441	–
Proceeds receivable in four equal instalments	90	–
Total disposal consideration	531	–
Carrying amount of net assets disposed	(63)	–
Profit on disposal before income tax and reclassification of foreign currency translation reserve	468	–
Reclassification of foreign currency translation reserve	(447)	–
Income tax expense on profit on disposal of subsidiary	–	–
Profit on disposal of subsidiary after income tax	21	–
The carrying amounts of assets and liabilities at the disposal date were as follows:		
Property, plant and equipment	281	–
Right-of-use assets	410	–
Inventories	382	–
Trade and other receivables	87	–
Cash and cash equivalents	89	–
Total assets	1 249	–
Lease liabilities	802	–
Provisions	9	–
Trade and other payables	353	–
Contract liabilities	12	–
Current income tax liabilities	10	–
Total liabilities	1 186	–
Net assets at disposal date	63	–
Net inflow of cash on disposal of investment in subsidiary comprise of the following:		
Cash proceeds on disposal	441	–
Cash and cash equivalents disposed	(89)	–
Cash inflow on disposal of investment in subsidiary	352	–

	2021 Rm	2020 Rm
32 DISCONTINUED OPERATIONS continued		
32.1 Retail Supermarkets Nigeria Ltd continued		
32.1.3 Assets and liabilities of disposal group classified as held for sale		
The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation:		
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 classified as held for sale	–	1 701
Lease liabilities	–	1 481
Trade and other payables	–	423
Contract liabilities	–	4
Provisions	–	3
Total liabilities of disposal group directly associated with assets classified as held for sale	–	1 911
The cumulative foreign currency translation losses recognised in other comprehensive loss in relation to the discontinued operations at 28 June 2020 were R488 million.		
32.2 Shoprite Checkers Kenya Ltd		
The Group decided to exit the Kenya market during the previous financial year. The last store was closed at the end of January 2021 and consequently the results of Shoprite Checkers Kenya Ltd have been classified as discontinued operations in the statement of comprehensive income.		
32.2.1 Financial performance and cash flow information		
Profit/(loss) from discontinued operations		
Sale of merchandise	113	442
Gross profit	5	71
Depreciation and amortisation	(2)	(29)
Employee benefits	(16)	(44)
Other operating expenses	(56)	(143)
Trading loss	(69)	(145)
Exchange rate losses	(4)	(9)
Profit on lease modifications and terminations	75	–
Items of a capital nature	20	(242)
Operating profit/(loss)	22	(396)
Net finance costs	(12)	(25)
Profit/(loss) before income tax	10	(421)
Income tax expense	–	–
Profit/(loss) after income tax	10	(421)
Other comprehensive income/(loss) from discontinued operations		
Foreign currency translation differences from discontinued operations	103	(69)
Net cash inflows/(outflows) attributable to discontinued operations		
Operating activities	(42)	(88)
Investing activities	23	(69)
Financing activities	(263)	112
Net decrease in cash generated by the subsidiary	(282)	(45)
The cumulative foreign currency translation gains recognised in other comprehensive loss in relation to the discontinued operations as at 4 July 2021 were R23 million.		

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	2021 Rm	2020 Rm
32 DISCONTINUED OPERATIONS continued		
32.3 Shoprite Checkers Uganda Ltd		
During June 2021, management had received a binding offer from a potential buyer for the properties, in-store assets and leases of Shoprite Checkers Uganda Ltd. The sale agreement has been signed after year-end, with suspensive conditions to be met before the end of October 2021. Management considers it highly probable that the operations will be sold after the reporting date. The associated assets and liabilities are consequently presented as held for sale in the 2021 statement of financial position.		
32.3.1 Financial performance and cash flow information		
(Loss)/profit from discontinued operations		
Sale of merchandise	399	433
Gross profit	95	105
Other operating income	25	23
Depreciation and amortisation	(23)	(13)
Employee benefits	(31)	(25)
Other operating expenses	(51)	(51)
Trading profit	15	39
Exchange rate gains	1	2
Items of a capital nature	(28)	–
Operating (loss)/profit	(12)	41
Net finance costs	(4)	(6)
(Loss)/profit before income tax	(16)	35
Income tax expense	(5)	(6)
(Loss)/profit after income tax	(21)	29
Other comprehensive income/(loss) from discontinued operations		
Foreign currency translation differences from discontinued operations	10	(8)
Net cash inflows/(outflows) attributable to discontinued operations		
Operating activities	52	27
Investing activities	(17)	(9)
Financing activities	(12)	(11)
Net increase in cash generated by the subsidiary	23	7
32.3.2 Assets and liabilities of disposal group classified as held for sale		
The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation:		
Property, plant and equipment	99	–
Right-of-use assets	54	–
Inventories	45	–
Total assets of disposal group classified as held for sale	198	–
Lease liabilities	100	–
Total liabilities of disposal group directly associated with assets classified as held for sale	100	–

The cumulative foreign currency translation losses recognised in other comprehensive loss in relation to the discontinued operations as at 4 July 2021 were R50 million.

	2021 Rm	2020 Rm
32 DISCONTINUED OPERATIONS continued		
32.4 Shoprite Madagascar S.A.		
The Group decided to dispose of its operations in Madagascar and embarked on a process to find a suitable buyer. At the reporting date, management had received a non-binding offer for the in-store assets and leases of Shoprite Madagascar S.A. The main terms of the sale agreement were summarised in a term sheet and management expects to finalise the transaction agreements during the first half of the 2022 financial year and expect the transaction to conclude during the third quarter of the year. The associated assets and liabilities are consequently presented as held for sale in the 2021 statement of financial position.		
32.4.1 Financial performance and cash flow information		
Loss from discontinued operations		
Sale of merchandise	543	571
Gross profit	88	92
Depreciation and amortisation	(16)	(17)
Employee benefits	(28)	(24)
Other operating expenses	(36)	(46)
Trading profit	8	5
Exchange rate losses	–	(4)
Items of a capital nature	(11)	(19)
Operating loss	(3)	(18)
Net finance costs	(2)	(1)
Loss before income tax	(5)	(19)
Income tax expense	(3)	(3)
Loss after income tax	(8)	(22)
Other comprehensive loss from discontinued operations		
Foreign currency translation differences from discontinued operations	(1)	(1)
Net cash inflows/(outflows) attributable to discontinued operations		
Operating activities	37	10
Investing activities	(2)	(21)
Financing activities	(9)	(8)
Net increase/(decrease) in cash generated by the subsidiary	26	(19)
32.4.2 Assets and liabilities of disposal group classified as held for sale		
The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation:		
Property, plant and equipment	34	–
Right-of-use assets	22	–
Inventories	60	–
Total assets of disposal group classified as held for sale	116	–
Lease liabilities	28	–
Total liabilities of disposal group directly associated with assets classified as held for sale	28	–

The cumulative foreign currency translation losses recognised in other comprehensive loss in relation to the discontinued operations as at 4 July 2021 were R19 million.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

33 EARNINGS/(LOSS) PER SHARE

	Gross Rm	Income tax effect Rm	Net Rm
2021			
Net profit attributable to owners of the parent			4 841
Profit from discontinued operations			(143)
Earnings from continuing operations			4 698
Profit on disposal and scrapping of property (note 3)	(3)	1	(2)
Profit on disposal of assets classified as held for sale (note 4)	(131)	23	(108)
Profit on sale and leaseback transaction (note 18)	(160)	(32)	(192)
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 and note 6)	133	(36)	97
Impairment of property, plant and equipment (note 3)	860	(186)	674
Impairment of right-of-use assets (note 5)	198	(42)	156
Impairment of intangible assets (note 6)	30	–	30
Insurance claims receivable	(102)	22	(80)
Loss on other investing activities	3	–	3
Headline earnings from continuing operations	828	(250)	5 276
Profit from discontinued operations			143
Income of a capital nature from discontinued operations	(28)	–	(28)
Headline earnings	800	(250)	5 391
Restated* 2020			
Net profit attributable to owners of the parent			3 356
Loss from discontinued operations			501
Earnings from continuing operations			3 857
Profit on disposal of assets classified as held for sale (note 4)	(239)	54	(185)
Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 and note 6)	91	(26)	65
Impairment of property, plant and equipment (note 3)	455	(135)	320
Impairment of right-of-use assets (note 5)	448	(125)	323
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	794	(256)	4 395
Loss from discontinued operations			(501)
Expenditure of a capital nature from discontinued operations	292	–	292
Headline earnings	1 086	(256)	4 186

* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.

	2021 '000	2020 '000
Number of ordinary shares		
– In issue	548 174	552 707
– Weighted average	551 672	553 046
– Weighted average adjusted for dilution	553 856	553 896
Reconciliation of weighted average number of ordinary shares in issue during the year:		
Weighted average number of ordinary shares	551 672	553 046
Adjustments for dilutive potential of full share grants	2 184	850
Weighted average number of ordinary shares for diluted earnings per share	553 856	553 896

33 EARNINGS/(LOSS) PER SHARE | continued

Earnings/(loss) per share (cents)	2021			Restated* 2020		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
– Basic earnings/(loss)	851.6	25.9	877.5	697.5	(90.6)	606.9
– Diluted earnings/(loss)	848.2	25.8	874.0	696.5	(90.5)	606.0
– Basic headline earnings/(loss)	956.3	20.8	977.1	794.7	(37.8)	756.9
– Diluted headline earnings/(loss)	952.5	20.7	973.2	793.4	(37.7)	755.7

* Restated for newly classified discontinued operations in accordance with IFRS 5. Refer to note 42 for details of the adjustments recognised for each individual line item.

34 DIVIDENDS PER SHARE

34.1 Dividends per share paid

No 143 paid 5 October 2020 (2020: No 141 paid 9 September 2019)
No 144 paid 12 April 2021 (2020: No 142 paid 16 March 2020)

	2021 Cents	2020 Cents
	227.0	163.0
	191.0	156.0
	418.0	319.0

34.2 Dividends per share declared

No 145 payable 4 October 2021 (2020: No 143 paid 5 October 2020)

	2021 Cents	2020 Cents
	353.0	227.0

35 CASH FLOW INFORMATION

35.1 Non-cash items

	Rm	Rm
Depreciation of property, plant and equipment	2 260	2 526
Depreciation of right-of-use assets	3 249	2 713
Amortisation of intangible assets	382	360
Credit impairment losses on loans receivable and government bonds and bills	191	–
Net fair value (gains)/losses on financial instruments	(95)	2
Exchange rate losses/(gains)	37	(544)
Profit on lease modifications and terminations	(296)	(69)
Profit on disposal and scrapping of property	(3)	–
Profit on disposal of assets classified as held for sale	(131)	(239)
Profit on sale and leaseback transaction	(160)	–
Loss on disposal and scrapping of plant and equipment and intangible assets	162	91
Impairment of property, plant and equipment	863	732
Impairment of right-of-use assets	209	468
Impairment of intangible assets	30	99
Profit on disposal of discontinued operations	(21)	–
Profit on disposal of subsidiary	–	(46)
Movement in provisions	134	13
Movement in cash-settled share-based payment accrual	48	(50)
Movement in share-based payment reserve	153	101
Movement in fixed escalation operating lease accruals	6	4
	7 018	6 161

35.2 Changes in working capital

	Rm	Rm
Inventories	(166)	1 184
Trade and other receivables	84	(20)
Trade and other payables	(182)	1 322
Contract liabilities	27	79
	(237)	2 565

35.3 Dividends paid

Shareholders for dividends at the beginning of the year
Dividends distributed to equity holders
Dividends distributed to non-controlling interest
Shareholders for dividends at the end of the year

	2021 Cents	2020 Cents
	(8)	(10)
	(2 320)	(1 773)
	(13)	(11)
	11	8
	(2 330)	(1 786)

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Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

	2021 Rm	2020 Rm
35 CASH FLOW INFORMATION continued		
35.4 Income tax paid		
(Payable)/prepaid at the beginning of the year	(1 001)	57
Per statement of comprehensive income	(2 572)	(2 251)
Income tax expense from discontinued operations	(35)	(9)
Transfer from/(to) assets classified as held for sale (note 4)	4	(4)
Foreign currency translation differences	21	58
Disposal of discontinued operations	10	–
Payable at the end of the year	58	1 001
	(3 515)	(1 148)
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 13)	–	3
Inventories (note 14)	–	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.	677	966
The decrease in contingent liabilities from the previous year is primarily a result of certain tax authorities where the Group traded having finalised and reduced certain tax assessments previously issued. 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 have been adequately provided for. Where these payments are considered not probable, these are disclosed as contingent liabilities.		
36.2 In 2011, AIC 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.		

	2021 Rm	2020 Rm
37 COMMITMENTS		
37.1 Capital commitments		
Contracted for property, plant and equipment	1 237	1 052
Contracted for intangible assets	17	11
Authorised by Directors, but not contracted for	3 496	3 726
Total capital commitments	4 750	4 789
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	331	376
– Later than one year, not later than two years	219	298
– Later than two years, not later than three years	126	162
– Later than three years, not later than four years	76	110
– Later than four years, not later than five years	37	62
– Later than five years	30	51
	819	1 059
Less: fixed escalation operating lease accruals	(47)	(51)
	772	1 008
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 81.4% (2020: 74.9%) of employees and 7.5% (2020: 7.1%) 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:	585	548

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Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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 155.6% (2020: 176.5%) at the reporting date.

With the adoption of IFRS 16 in the previous year and the financial restatement that followed for the June 2019 financial year, the Group's restated dividend cover equated to 1.7 times, however, the two times dividend cover based on diluted headline earnings per share from continuing operations was maintained up to June 2020. As a result of the Group achieving its US dollar debt reduction target, together with significantly reduced capital expenditure and working capital at the interim reporting date, the Board has resolved to change the dividend policy for the full financial year to a 1.75 times dividend cover based on diluted headline earnings per share from continuing operations.

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 Group's investment in Centriq Insurance Company Ltd first-party cell captive insurance arrangements are measured at fair value and classified at level 3 (refer to note 9.2). The fair value is based on the net asset value of the insurance cells at the statement of financial position date. There were no transfers between levels 1 and 2 during the year.

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

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.

40 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

40.2 Fair value of financial instruments | continued

Note	Carrying amount				Fair value			
	Financial assets at amortised cost Rm	Financial assets at fair value through profit and loss Rm	Financial liabilities at amortised cost Rm	Total Rm	Level 2 Rm	Level 3 Rm	Total Rm	Borrowing rate used
2021								
	Financial asset measured at fair value							
	First-party cell captive contracts							
9.2	-	132	-	132	-	132	132	
	Financial assets not measured at fair value							
	Government bonds and bills							
	1 494	-	-	1 494	1 524	-	1 524	
	AOA, USD Index Linked, Angola							
10.1	876	-	-	876	883	-	883	3.6%
	Government Bonds							
10.2	560	-	-	560	580	-	580	20.5%
	AOA, Angola Government Bonds							
10.3	58	-	-	58	61	-	61	17.4%
	Angola Treasury Bills							
	Loans receivable							
	1 902	-	-	1 902	1 891	-	1 891	
	Shareholder loan receivable from Resilient Africa (Pty) Ltd							
11.1.1	342	-	-	342	328	-	328	4.2%
	Other amounts receivable from Resilient Africa (Pty) Ltd							
11.1.2	653	-	-	653	651	-	651	2.6%
	Amounts receivable from franchisees							
11.2	578	-	-	578	578	-	578	7.3%
	Amounts receivable from Circle Mall Mauritius Ltd							
11.3	200	-	-	200	203	-	203	2.6%
	Amounts receivable from Kin Oasis Investments Ltd							
11.4	129	-	-	129	131	-	131	3.0%
	Instalment sale receivables*							
	901	-	-	901	-	901	901	
	Trade receivables from contracts with customers*							
	1 999	-	-	1 999	-	1 999	1 999	
	Other receivables excluding prepayments and taxes receivable*							
	813	-	-	813	-	813	813	
	Cash and cash equivalents*							
	7 950	-	-	7 950	-	7 950	7 950	
	Total financial assets							
	15 059	132	-	15 191	3 415	11 795	15 210	
	* The maximum exposure to credit risk at the reporting date is the carrying amount which approximates fair value due to the short-term nature of these current receivables.							
	Financial liabilities not measured at fair value							
	Borrowings							
	-	-	5 279	5 279	5 712	-	5 712	
	ABSA Bank Ltd							
19.2	-	-	2 000	2 000	2 184	-	2 184	5.4%
	FirstRand Bank Ltd							
19.3	-	-	2 004	2 004	2 255	-	2 255	5.7%
	ABSA Bank (Mauritius) Ltd							
19.4	-	-	335	335	335	-	335	2.0%
	Standard Chartered Bank (Mauritius) Ltd							
19.5	-	-	656	656	655	-	655	4.0%
	Stanbic Bank Botswana Ltd							
19.8	-	-	284	284	283	-	283	6.0%
	Trade payables**							
	-	-	12 651	12 651	-	12 651	12 651	
	Other payables and accruals excluding taxes payable and employee benefit accruals**							
	-	-	3 900	3 900	-	3 900	3 900	
	Deposits and third-party payments liability**							
	-	-	488	488	-	488	488	
	Refund liability**							
	-	-	51	51	-	51	51	
	Contract liabilities**							
	-	-	873	873	-	873	873	
	Bank overdrafts**							
	-	-	1 221	1 221	-	1 221	1 221	
	Total financial liabilities excluding lease liabilities							
	-	-	24 463	24 463	5 712	19 184	24 896	
	Lease liabilities							
18 & 32	-	-	27 850	27 850	-	-	-	
	Total financial liabilities							
	-	-	52 313	52 313	-	-	-	

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

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Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

40 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

40.2 Fair value of financial instruments | continued

2020	Note	Carrying amount			Fair value			Borrowing rate used
		Financial assets at amortised cost Rm	Financial liabilities at amortised cost Rm	Total Rm	Level 2 Rm	Level 3 Rm	Total Rm	
Financial assets not measured at fair value								
		2 502	–	2 502	2 739	–	2 739	
		Government bonds and bills						
		AOA, USD Index Linked, Angola						
	10.1	2 238	–	2 238	2 475	–	2 475	4.7%
	10.2	264	–	264	264	–	264	20.7%
		2 182	–	2 182	2 156	–	2 156	
		Loans receivable						
		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%
	11.2	545	–	545	587	–	587	10.3%
		Amounts receivable from franchisees						
		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%
		14	–	14	13	–	13	7.0%
		803	–	803	–	803	803	
		Instalment sale receivables*						
		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	
		20 692	–	20 692	4 895	16 008	20 903	
		* The maximum exposure to credit risk at the reporting date is the carrying amount which approximates fair value due to the short-term nature of these current receivables.						
Financial liabilities not measured at fair value								
		–	12 009	12 009	12 623	–	12 623	
		Borrowings						
	19.2	–	2 035	2 035	2 301	–	2 301	5.6%
	19.3	–	2 004	2 004	2 364	–	2 364	5.8%
	19.4	–	469	469	469	–	469	3.3%
	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%
	19.7	–	238	238	234	–	234	10.7%
	19.8	–	311	311	302	–	302	8.3%
		–	13 720	13 720	–	13 720	13 720	
		Trade payables**						
		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	
	18 & 32	–	24 752	24 752	–	–	–	
		–	57 711	57 711	–	–	–	

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

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.

2021	Financial assets			Financial liabilities		
	Trade receivables Rm	Cash and cash equivalents Rm	Total assets Rm	Trade payables Rm	Bank overdrafts Rm	Total liabilities Rm
	3 696	8 383	12 079	(14 348)	(1 654)	(16 002)
	(1 697)	(433)	(2 130)	1 697	433	2 130
	1 999	7 950	9 949	(12 651)	(1 221)	(13 872)
	Related amounts not offset in the statement of financial position*					
	(98)	–	(98)	98	–	98
	1 901	7 950	9 851	(12 553)	(1 221)	(13 774)
	2020					
	3 599	12 482	16 081	(15 043)	(2 463)	(17 506)
	(1 323)	(368)	(1 691)	1 323	368	1 691
	2 276	12 114	14 390	(13 720)	(2 095)	(15 815)
	Related amounts not offset in the statement of financial position*					
	(105)	–	(105)	105	–	105
	2 171	12 114	14 285	(13 615)	(2 095)	(15 710)

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

40 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

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 and cash and cash equivalents.

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.

	2021 Rm	2020 Rm
Instalment sale receivables from contracts with customers (note 13.2)	62	324
Trade receivables from contracts with customers (note 13.1)	5	99
Government bonds and bills (note 10)	17	–
Loans receivable (note 11)	174	10
Other receivables (note 13.3)	(36)	47
Net impairment losses on financial assets	222	480

Of the previously mentioned impairment losses, R67 million (2020: R423 million) 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 PD, 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.

40 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

40.4 Financial risk management | continued

40.4.1 Credit risk | continued

Qualitative criteria

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

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

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

Measurement of ECL in terms of the simplified model

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

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

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

Measurement of ECL in terms of the provision matrix

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

Definition of default and credit-impaired assets

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

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

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

40 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

40.4 Financial risk management | continued

40.4.1 Credit risk | continued

Curing

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

Government bonds and bills

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

Loans receivable

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

Instalment sale receivables:

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

Trade receivables:

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

Other receivables

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

Write-off policy

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

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	2021				2020			
			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	3.9%	912	(36)	876	2.9%	2 304	(66)	2 238
		AOA, Angola Government Bonds	4.9%	589	(29)	560	1.9%	269	(5)	264
		Angola Treasury Bills	6.5%	62	(4)	58	0.0%	–	–	–
Total government bonds and bills				1 563	(69)	1 494		2 573	(71)	2 502

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:

	2021	2020
	Under-performing (stage 2) Rm	Under-performing (stage 2) Rm
Balance at the beginning of the year	71	101
New financial assets originated or purchased during the year	76	–
Changes in risk parameters*	–	8
Unused amounts reversed	(59)	(8)
Foreign currency translation differences	(19)	(30)
Balance at the end of the year	69	71

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

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 or over the remaining lifetime of the obligation. The underlying PD (including their term structure) used to construct the estimates of PD are sourced from Moody's publications of historical default ratings for sovereign debt and no adjustments are made to these historical PDs. In the previous year, this calculation assumed a minimum marginal default rate of 0.01% p.a. and the cumulative PD were 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. A flat LGD assumption of 40% was applied across all bonds and time periods. This is in line with historical statistics that are available from Moody's publications for comparable instruments. In the previous year, all the treasury instruments were exposed to the Angola Central Bank and Government, therefore the Basel LGD of 45% was used. The PD curves are built on the credit ratings published by Standard & Poor's for Angola.

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Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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)

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 the 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 R600 million (2020: R550 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	2021				2020			
			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	Amounts receivable from franchisees	0.0%	199	–	199	0.0%	191	–	191
		Amounts receivable from Circle Mall Mauritius Ltd	2.9%	206	(6)	200	0.4%	245	(1)	244
		Amounts receivable from Kin Oasis Investments Ltd	11.6%	146	(17)	129	0.0%	173	–	173
		Other	0.0%	–	–	–	0.0%	14	–	14
Under-performing (stage 2)	Lifetime ECL	Shareholder loan receivable from Resilient Africa (Pty) Ltd	35.2%	528	(186)	342	12.1%	494	(60)	434
		Other amounts receivable from Resilient Africa (Pty) Ltd	0.0%	653	–	653	0.0%	772	–	772
		Amounts receivable from franchisees	0.0%	85	–	85	0.0%	127	–	127
Non-performing (stage 3)	Lifetime ECL	Amounts receivable from franchisees	18.1%	359	(65)	294	15.6%	269	(42)	227
Total loans receivable				2 176	(274)	1 902		2 285	(103)	2 182

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.

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

Reconciliation of loss allowance for loans receivable:

	2021				2020			
	Performing (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total loans receivable Rm	Performing (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total loans receivable Rm
Balance at the beginning of the year	1	60	42	103	61	–	32	93
New financial assets originated or purchased during the year	1	–	23	24	–	–	10	10
Individual financial assets transferred to underperforming (lifetime expected credit losses)	–	–	–	–	(60)	60	–	–
Changes in risk parameters*	24	126	–	150	–	–	–	–
Foreign currency translation differences	(3)	–	–	(3)	–	–	–	–
Balance at the end of the year	23	186	65	274	1	60	42	103

* The increase in the loss allowance is due to an increase in the PD used to calculate the 12-month ECL for the performing and under-performing loans receivable.

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 or over the remaining lifetime of the obligation. Global Corporate Average Cumulative Default Rates With Rating Modifiers (1981 – 2020) (%) as published on 7 April 2021 by Standard and Poor's for corporate exposures are used as input to these calculations. The rating is then adjusted to represent the appropriate risk appetite for a specific instrument.

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

(c) Trade and other receivables

Instalment sale receivables from contracts with customers (note 13.2)

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:

- **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 customers in good standing, 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.

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Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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 13.2) | 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 original 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.

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 13.2) | continued

Analysis of instalment sale receivables at 4 July 2021

Customer grouping	Total number of customers	Gross carrying amount 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	133 061 55.1%	750 44.9%	173 22.6%	23.1%	179	67	39	73
Slow payers	30 993 12.8%	238 14.3%	104 13.6%	43.7%	56	8	7	41
Non-performing accounts	77 380 32.1%	678 40.7%	488 63.8%	72.0%	164	6	4	154
Total instalment sale receivables	241 434	1 666	765	45.9%	399	81	50	268

Analysis of credit-impaired instalment sale receivables at 4 July 2021 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 amount	678	11	66	11	7	10	23	806
ECL allowance	(488)	(3)	(30)	(2)	(4)	(4)	(5)	(536)
Amortised cost	190	8	36	9	3	6	18	270

Analysis of instalment sale receivables at 28 June 2020

Customer grouping	Total number of customers	Gross carrying amount 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 amount	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

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Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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 13.2) | continued

Reconciliation of loss allowance for instalment sale receivables:

	2021			2020		
	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	231	587	818	140	432	572
New financial assets originated or purchased during the year	131	56	187	399	22	421
Individual financial assets transferred to non-performing (credit-impaired financial assets)	(128)	128	–	(282)	282	–
Amounts recovered during the year	–	(117)	(117)	(42)	(76)	(118)
Changes in risk parameters	6	(14)	(8)	11	10	21
Amounts written off during the year as uncollectible	–	(82)	(82)	–	(89)	(89)
Foreign currency translation differences	(11)	(22)	(33)	5	6	11
Balance at the end of the year	229	536	765	231	587	818

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 model considers a number of macroeconomic variables including gross domestic product (GDP), consumer price index, prime overdraft rate and unemployment rate. At the end of the previous year, the gross domestic product (GDP) was identified as having statistical significance.

The impact of the COVID-19 pandemic on the South African consumer affected the forward-looking economic overlay applied on the impairment provision. 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.

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 13.2) | continued

The GDP forecasts used for South Africa are in the following table. The IMF GDP forecasts were used for the other African countries.

Scenario	Calendar year		
	2021	2022	2023
Upside	7.4%	5.8%	4.1%
Base	4.4%	2.8%	1.2%
Downside	0.8%	-1.0%	-0.2%

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 0% (2020: 20%) to the upside scenario, 60% (2020: 50%) to the base scenario and 40% (2020: 30%) to the downside scenario for the 12-month forecast for South Africa.

Impact of forward-looking information on ECL:	2021		2020	
	South Africa Rm	% change	South Africa Rm	% change
Probability-weighted impact of all three scenarios	380		407	
100% upside scenario	352	-7.4%	378	-7.1%
100% base scenario	372	-2.1%	398	-2.1%
100% downside scenario	393	3.2%	441	8.3%

Trade receivables from contracts with customers (note 13.1)

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

The Group has policies in place to ensure that all sales of goods and services on credit are made to customers with an appropriate credit history. Balances are due within 30 days of statement date and the age analysis of these amounts are reviewed on a monthly basis. Franchisees comprise a wide-spread client base and the credit history of all franchisees are verified with an external credit bureau. Notarial and mortgage bonds and bank guarantees to the value of R1.1 billion (2020: R1.2 billion) are held as collateral for these amounts. Long standing trading relationships exist with the buying aid societies and the Group reviews the credit history of these societies, based on its own records as well as information from an external credit bureau, on a cyclical basis. Based on this, the Group considers the credit quality of all fully performing amounts as satisfactory.

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

	Trade receivables – days past due					Total Rm
	Current 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 4 July 2021						
Gross carrying amount	1 604	240	77	45	236	2 202
Lifetime ECL	(51)	(10)	(5)	(37)	(100)	(203)
Net carrying amount	1 553	230	72	8	136	1 999
Expected credit loss rate	3.2%	4.2%	6.5%	82.2%	42.4%	9.2%
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%

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Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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 13.1) | continued

Reconciliation of loss allowance for trade receivables:

	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	
2021							
Balance at the beginning of the year	102	102	19	31	55	105	207
New financial assets originated or purchased during the year	51	51	13	15	1	29	80
Individual financial assets transferred to non-performing (credit-impaired financial assets)	(2)	(2)	–	–	2	2	–
Amounts recovered during the year	(69)	(69)	–	(1)	(1)	(2)	(71)
Amounts written off during the year as uncollectible	(6)	(6)	–	(1)	(1)	(2)	(8)
Unused amounts reversed	–	–	–	–	(4)	(4)	(4)
Foreign currency translation differences	5	5	–	–	(6)	(6)	(1)
Balance at the end of the year	81	81	32	44	46	122	203
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

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.

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 13.1) | continued

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

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

Due to the relatively 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 13.3)

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	2021				2020			
			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	4.0%	126	(5)	121	0.0%	31	–	31
		Staff debtors and bursaries	1.1%	88	(1)	87	2.2%	90	(2)	88
		Various other receivables	6.5%	566	(37)	529	7.6%	669	(51)	618
Under-performing (stage 2)	Lifetime ECL	Staff debtors and bursaries	0.0%	2	–	2	50.0%	2	(1)	1
Non-performing (stage 3)	Lifetime ECL	Staff debtors and bursaries	100.0%	30	(30)	–	100.0%	34	(34)	–
		Various other receivables	67.7%	229	(155)	74	69.6%	253	(176)	77
Total other receivables				1 041	(228)	813		1 079	(264)	815

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.

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Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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 13.3) | continued

Reconciliation of loss allowance for other receivables:

	2021				2020			
	Performing (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total other receivables Rm	Performing (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total other receivables Rm
Balance at the beginning of the year	53	1	210	264	111	–	106	217
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	–	(1)	(4)	(5)	–	–	(3)	(3)
Changes in risk parameters*	(10)	–	(21)	(31)	27	–	22	49
Balance at the end of the year	43	–	185	228	53	1	210	264

* The (decrease)/increase in the loss allowances is due to a decrease/increase 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 or over the remaining lifetime 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 relatively 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 a 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.

	National Scale	Global Scale	2021 Rm	2020 Rm
Standard Chartered Bank		P-1	1 074	448
Citibank		P-1	40	8
Standard Bank	P-1	NP	3 045	5 082
ABSA	P-1	NP	1 247	3 232
Nedbank	P-1	NP	1 077	1 284
FirstRand	P-1	NP	447	458
Investec	P-1	NP	2	580
Zenith		NP	–	102
Other banks			147	413
Cash on hand and in transit			871	507
Total cash and cash equivalents			7 950	12 114

Local currency cash and short-term deposits of R810 million (2020: R712 million in Angola) are held in Angola and Nigeria and are subject to onerous local exchange control regulations. These local exchange control regulations impose restrictions on exporting capital from these countries, 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.

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, is 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 (2021: R596 million liability; 2020: R1.8 billion liability) and South Africa rand (2021: R844 million liability; 2020: R775 million liability). This US dollar currency risk is mitigated by the investment in AOA, USD Index Linked, Angola Government Bonds (2021: R876 million asset; 2020: R2.2 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	
	2021 Rm	2020 Rm	2021 Rm	2020 Rm
Foreign currency				
South Africa rand	–	–	56	12
United States dollar	1 606	3 244	59	197
Nigeria naira	–	–	430	–
Other currencies	–	–	58	7
	1 606	3 244	603	216

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

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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, joint control or significant influence due to the disposal or abandonment 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:

	2021 US\$m	2020 US\$m
Nominal amount of US dollar denominated lease liabilities (non-current liabilities)	88	141
Nominal amount of US dollar denominated lease liabilities (current liabilities)	16	27
Nominal amount of US dollar denominated lease liabilities included in liabilities directly associated with assets classified as held for sale (current liabilities)	7	21
	Rm	Rm
Carrying amount of US dollar denominated lease liabilities (non-current liabilities)	1 281	2 416
Carrying amount of US dollar denominated lease liabilities (current liabilities)	225	460
Carrying amount of US dollar denominated lease liabilities included in liabilities directly associated with assets classified as held for sale (current liabilities)	100	368
Total carrying amount of US dollar denominated lease liabilities	1 606	3 244
Change in carrying amount of designated lease liabilities as a result of foreign currency losses	(207)	(406)
Change in value of hedged item used to determine hedge effectiveness	207	406
Hedge ratio	100%	100%
Reconciliation of amounts accumulated in the FCTR relating to hedges of net investments in foreign operations:		
Balance at the beginning of the year	(310)	-
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)	(159)	(310)
Balance at the end of the year	(469)	(310)

40 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

40.4 Financial risk management | continued

40.4.2 Market risk | continued

(a) Currency risk | continued

Sensitivity analysis of material concentrations of currency risk

Where material concentrations of currency risk exist 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 4 July 2021, the total possible decrease in Group post-tax profit, calculated for all estimated currency movements, was R73 million with the Zambia kwacha exchange rate to the US dollar and South Africa rand (with an expected decline of 4.1% against the US dollar and 4.7% against the South Africa rand) contributing R29 million and R4 million respectively to this number. 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. 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 the sale of merchandise and payments 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.

Foreign currency	2021 Rm	2020 Rm
Angola kwanza	1 874	1 669
United States dollar	(1 429)	(9 722)

(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 13.2) 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 4.3% (2020: 7.0%).

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. At 28 June 2020, the Group had 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) which were repaid during the year under review. No interest rate swaps were entered into during the current year.

Exposure to interest rate risk on other monetary items consists of amounts receivable from franchisees (note 11.2).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

40 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

40.4 Financial risk management | continued

40.4.2 Market risk | continued

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

Sensitivity analysis of material concentrations of interest rate risk

Where material concentrations of interest rate risk exist 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 4 July 2021, the total possible decrease in Group post-tax profit, calculated for all estimated interest rate movements, was R14 million. The estimated decrease of 45 basis points in the South African prime rate would have resulted in a possible decrease in Group post-tax profit of R14 million. At 28 June 2020, the total possible decrease in Group post-tax profit, calculated for all estimated interest rate movements, was R32 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 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 do 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 the sale of merchandise and payments 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 (2021: R10.4 billion; 2020: R10.4 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: Leases 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 FirstRand 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 ratio's measured as follows:

	2021 times	2020 times
- Leverage	(0.22)	0.24
- Net finance costs cover	18.29	15.29
- Finance costs cover	10.44	8.45

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
2021							
Lease liabilities**	27 850	46 108	5 105	4 812	11 347	13 463	11 381
Borrowings	5 279	5 720	3 186	418	2 116	-	-
Trade payables	12 651	12 651	12 651	-	-	-	-
Other payables and accruals excluding taxes payable and employee benefit accruals	3 900	3 900	3 900	-	-	-	-
Deposits and third-party payments liability	488	488	488	-	-	-	-
Refund liability	51	51	51	-	-	-	-
Contract liabilities	873	873	873	-	-	-	-
Bank overdrafts	1 221	1 221	1 221	-	-	-	-
Financial commitment	-	5	5	-	-	-	-
	52 313	71 017	27 480	5 230	13 463	13 463	11 381
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	-	-	-	-
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

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

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 conditions of the policy, and extended guarantees which covers the repair or replacement of faulty products as an extension of the suppliers' guarantees.

The Group is exposed to insurance risk through its investment in insurance cell captive arrangements. The insurance risk relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the insurance cell captive arrangements.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

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 consolidated annual financial statements on consolidation.

Details of the remuneration of Directors and share-based payment instruments issued to Directors, are disclosed in notes 16 and 26. Included in payables (note 21) is an amount of R149 million (2020: R101 million) in respect of the cash-settled share-based payments granted to Dr CH Wiese, via a management company (refer to note 16.1).

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.

Key management personnel compensation	2021 Rm	2020 Rm
Short-term employee benefits	100	85
Post-employment benefits	3	2
Long-term incentive bonuses including share-based payments	34	20
Directors' fees	7	6
	144	113

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 Director CH Wiese or his direct family members have a significant influence. These transactions are insignificant in terms of the Group's total operations for the year.

These transactions and related balances were as follows:

Purchase of merchandise	8	–
Year-end balances owed by the Group	6	–

The Group has a 39.1% interest in Resilient Africa (Pty) Ltd and Resilient Africa Managers (Pty) Ltd (refer to note 8). The Group has started a process of acquiring the remaining interest in the entities after year-end to increase its investment to full ownership.

The following transactions took place between the Resilient Africa associates and the Group during the year under review:

Rent paid to the associates	17	10
Interest received by the Group	56	52

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

The Group has a 49.9% interest in Retail Logistics Fund (RF) (Pty) Ltd (refer to note 8).

The following transactions took place between Retail Logistics Fund (RF) (Pty) Ltd and the Group during the year under review:

Rent paid to associate	157	–
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The Group has an interest in LBB Foods (Pty) Ltd (41.0%), Red Baron Agri (Pty) Ltd (41.0%) and Zulzi On Demand (26.0%) (refer to note 8).

The following transactions took place between associates LBB Foods (Pty) Ltd, Red Baron Agri (Pty) Ltd and Zulzi On Demand (Pty) Ltd and the Group during the year under review:

Purchase of merchandise	38	–
Services rendered by the associates	18	–
Year-end balances owed by the Group	1	–

42 COMPARATIVE FIGURES

Discontinued operations

Following the classification of the Group's Kenya, Uganda and Madagascar subsidiaries as discontinued operations in accordance with IFRS 5 (refer to note 32), comparative statement of comprehensive income figures have been restated. The adjustments recognised for each individual line item affected in the Group's consolidated statement of comprehensive income for the year ended 28 June 2020 is detailed below.

	Previously reported 52 weeks 2020 Rm	Discontinued operations 52 weeks 2020 Rm	Restated 52 weeks 2020 Rm
Sale of merchandise	156 855	(1 446)	155 409
Cost of sales	(119 323)	1 178	(118 145)
GROSS PROFIT	37 532	(268)	37 264
Other operating income	2 326	(23)	2 303
Interest revenue	598	–	598
Depreciation and amortisation	(5 031)	59	(4 972)
Employee benefits	(12 585)	93	(12 492)
Credit impairment losses	(480)	–	(480)
Other operating expenses	(14 189)	240	(13 949)
TRADING PROFIT	8 171	101	8 272
Exchange rate gains	566	11	577
Profit on lease modifications and terminations	69	–	69
Items of a capital nature	(1 055)	261	(794)
OPERATING PROFIT	7 751	373	8 124
Interest received from bank account balances	443	–	443
Finance costs	(2 910)	32	(2 878)
Share of loss of equity accounted investments	(38)	–	(38)
PROFIT BEFORE INCOME TAX	5 246	405	5 651
Income tax expense	(1 783)	9	(1 774)
PROFIT FROM CONTINUING OPERATIONS	3 463	414	3 877
Loss from discontinued operations (attributable to owners of the parent)	(87)	(414)	(501)
PROFIT FOR THE YEAR	3 376	–	3 376
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX	(3 683)	–	(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 from continuing operations	(3 373)	78	(3 295)
Foreign currency translation differences from discontinued operations	(40)	(78)	(118)
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 LOSS FOR THE YEAR	(307)	–	(307)
PROFIT ATTRIBUTABLE TO:	3 376	–	3 376
Owners of the parent	3 356	–	3 356
Non-controlling interest	20	–	20
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:	(307)	–	(307)
Owners of the parent	(327)	–	(327)
Non-controlling interest	20	–	20
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT ARISES FROM:	(327)	–	(327)
Continuing operations	(200)	492	292
Discontinued operations	(127)	(492)	(619)
EARNINGS PER SHARE FOR PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE PARENT:			
Basic earnings per share from continuing operations (cents)	622.6	74.9	697.5
Diluted earnings per share from continuing operations (cents)	621.6	74.9	696.5
Basic headline earnings per share from continuing operations (cents)	767.0	27.7	794.7
Diluted headline earnings per share from continuing operations (cents)	765.8	27.6	793.4
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT:			
Basic earnings per share (cents)	606.9	–	606.9
Diluted earnings per share (cents)	606.0	–	606.0
Basic headline earnings per share (cents)	756.9	–	756.9
Diluted headline earnings per share (cents)	755.7	–	755.7

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd and its subsidiaries for the year ended 4 July 2021

43 EVENTS AFTER THE REPORTING DATE

43.1 South Africa's political and social unrest

At the beginning of July 2021, the South African provinces of KwaZulu-Natal and Gauteng experienced extreme social and political unrest, manifesting in wide scale looting and burning of infrastructure including, but not limited to stores, shopping centres, warehouses, distribution centres, schools, medical facilities, manufacturing facilities and banking outlets. This event resulted in 231 Group stores being severely impacted, ranging in severity from extreme vandalism and looting to complete destruction due to arson. Furthermore, the Group's Durban based KwaZulu-Natal fresh foods distribution centre was partially looted and the Pietermaritzburg Furniture distribution centre burned. As a result of this direct impact, the Group took precautionary measures which included the closing of a considerable number of stores operating in the KwaZulu-Natal province and in its central Gauteng region during that same week. All of these stores that were closed on a precautionary basis have since re-opened, as has the Durban based distribution centre. Our assessments with regard to the stores directly impacted by the unrest are ongoing, but at this stage, of the 231 stores impacted we have classified 177 as looted and 54 as burnt. Of the 177 looted stores, 141 have since re-opened and of the 54 burnt stores, seven have since re-opened. The decision was made that six loss-making stores will not be re-opened. It is too early to estimate the full financial impact of the event as it is in the process of being assessed. The Group, however, estimates its stock losses at this stage at R876 million. The Group is insured for loss of assets and business interruption and as such, it is foreseen that the potential loss to the Group as a consequence of this incident should not be material.

43.2 COVID-19 update

The Group's LiquorShop business operated under various levels of COVID-19 lockdown regulations throughout the current financial year. Aside from the cost of maintaining protocols, the main impact was the loss of sales due to the mandatory closure of its liquor business for significant periods as required by COVID-19 regulations.

At the end of the current financial year, South Africa was experiencing its third wave of COVID-19 and as such operating under level 4 modified COVID-19 lockdown regulations. Included in the lockdown regulations, was the requirement that all liquor business (both on- and off-site consumption) be completely closed. This mandated closure was enforced until 27 July 2021 at which point off-site consumption and retail liquor sales were again permitted, but restricted to Monday to Thursday 10am-6pm. Based on history, the Group's LiquorShop business is a high growth category for the Supermarkets RSA segment and its closure due to lockdown regulations negatively impacts the Group's sales growth. Trading for four days a week does not compensate for the trade lost over Fridays, weekends and public holidays.

43.3 Acquisition of Resilient Africa (Pty) Ltd and Resilient Africa Managers (Pty) Ltd

At the reporting date, the Group held a 39.1% equity interest in Resilient Africa (Pty) Ltd and Resilient Africa Managers (Pty) Ltd, classified as equity accounted investments in associates (refer to note 8). After the reporting date, the Group entered into discussions with Resilient Properties (Pty) Ltd, being the owner of the remaining 60.9% shareholding, and initiated the process to acquire their equity interest. The terms of the sale agreement are still being finalised. Pending fulfilment of the conditions precedent, the Group will increase its ownership percentage to 100%.

43.4 Acquisition of selected businesses from Massmart Holdings Ltd

During August 2021, the Group acquired Cambridge Food, Massfresh as well as Masscash Cash and Carry from Massmart Holdings Ltd. The effective date is subject to the fulfilment of both regulatory and commercial suspensive conditions which includes Competition Commission approval.

44 GOING CONCERN

The Board of Directors evaluated the going concern assumption at 4 July 2021, 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 as well as the civil unrest, 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 27 July 2021. 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.



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COMPANY
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SEPARATE STATEMENT OF FINANCIAL POSITION

Shoprite Holdings Ltd as at 4 July 2021

	Notes	2021 Rm	2020 Rm
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries	2	12 169	10 752
Investments in associates	3	–	6
Deferred income tax asset	4	2	2
CURRENT ASSETS			
Trade and other receivables	5	1 839	2 330
Amounts receivable from subsidiaries	2	–	14
Cash and cash equivalents		1 817	1 199
		22	1 117
TOTAL ASSETS			
		14 008	13 082
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT			
Stated capital	6	7 516	7 516
Retained earnings		6 459	5 505
TOTAL EQUITY			
		13 975	13 021
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	33	61
Current income tax liabilities		16	12
		17	49
TOTAL LIABILITIES			
		33	61
TOTAL EQUITY AND LIABILITIES			
		14 008	13 082

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

Shoprite Holdings Ltd for the year ended 4 July 2021

	Notes	53 weeks 2021 Rm	52 weeks 2020 Rm
REVENUE			
Dividend income	8	8 486	2 421
Interest received from subsidiaries	8	41	56
Guarantee fees	8	101	107
Other revenue	8	3	5
		8 631	2 589
Expenses	10	(44)	(37)
Impairment losses	11	(5 151)	–
PROFIT BEFORE INTEREST RECEIVED FROM BANK ACCOUNT BALANCES			
Interest received from bank account balances		3 436	2 552
		44	59
PROFIT BEFORE INCOME TAX			
Income tax expense	12	(54)	(63)
PROFIT FOR THE YEAR			
		3 426	2 548
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
		3 426	2 548

SEPARATE STATEMENT OF CHANGES IN EQUITY

Shoprite Holdings Ltd for the year ended 4 July 2021

Rm	Total equity	Stated capital	Retained earnings
BALANCE AT 30 JUNE 2019	12 359	7 516	4 843
Total comprehensive income			
Profit for the year	2 548	–	2 548
Dividends distributed to shareholders	(1 886)	–	(1 886)
BALANCE AT 28 JUNE 2020	13 021	7 516	5 505
Total comprehensive income			
Profit for the year	3 426	–	3 426
Dividends distributed to shareholders	(2 472)	–	(2 472)
BALANCE AT 4 JULY 2021	13 975	7 516	6 459

SEPARATE STATEMENT OF CASH FLOWS

Shoprite Holdings Ltd for the year ended 4 July 2021

	Notes	53 weeks 2021 Rm	52 weeks 2020 Rm
CASH FLOWS FROM OPERATING ACTIVITIES		6 055	693
Profit before interest received from bank account balances		3 436	2 552
Less: investment income and finance income earned		(8 527)	(2 477)
Non-cash items	14.1	5 151	–
Changes in working capital	14.2	15	(11)
Cash generated from operations		75	64
Interest received		44	115
Dividends received		8 486	2 421
Dividends paid	14.3	(2 464)	(1 887)
Income tax paid	14.4	(86)	(20)
CASH FLOWS (UTILISED BY)/FROM INVESTING ACTIVITIES		(7 150)	51
Amounts paid to subsidiaries		(20 412)	(9 373)
Amounts received from subsidiaries		13 262	10 799
Investment in subsidiaries		–	(1 375)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(1 095)	744
Cash and cash equivalents at the beginning of the year		1 117	373
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	16.3.1(b)	22	1 117

1 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and are consistent with those applied in the previous year, except where the Company has applied new accounting policies or adopted new accounting standards effective for year-ends starting on or after 1 January 2020.

The Company's separate financial statements were authorised for issue by the Board of Directors on 30 September 2021. Other than the facts presented in the annual financial statements, there have been no material changes in the affairs or financial position of the Company from 4 July 2021 that have an impact on the financial results or disclosures in these annual financial statements.

1.1 Basis of preparation

The Company 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 53-week period, ended 4 July 2021, 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. The financial statements are prepared on a going concern basis.

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 Company's accounting policies. The most significant judgement in applying the Company's accounting policies relate to the following:

- a) **Change in income tax rates substantively enacted:** The Company considers the lowering of the South African corporate income tax rate for the year of assessment commencing on or after 1 April 2022 not to be substantively enacted as announced at the budget speech of 24 February 2021.

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 Company's accounting policies relate to the following:

- a) **Allowance for expected credit losses (ECL) on financial assets:** The Company assesses on a forward-looking basis the ECL associated for all debt instruments not held at fair value through profit or loss and the Company 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 Company uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on the Company'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 16.3.1.

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 amount of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any affected future periods.

1 ACCOUNTING POLICIES | continued

1.2 Investment in subsidiaries

Subsidiaries are entities (including structured entities) which are, directly or indirectly, controlled by the Company. Control is established where the Company 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 Company the current ability to direct the relevant activities of the entity are considered when assessing whether the Company controls another entity.

The Company's investments in the ordinary shares of its subsidiaries 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.

1.3 Investment in associates

Associates are those entities over which the Company exercises significant influence but not control. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting rights of another entity.

The Company's investments in the ordinary shares of its 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.

1.4 Other financial instruments

1.4.1 Initial recognition and measurement

Financial instruments recognised on the statement of financial position include trade and other receivables, amounts receivable from subsidiaries, cash and cash equivalents and trade and other payables.

These financial instruments are recognised when the Company 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.

1.4.2 Derecognition

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

1.4.3 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.

1.4.4 Classification and subsequent measurement

Financial assets

The Company classifies its financial assets as subsequently measured at amortised cost.

The classification and subsequent measurement of debt investments depend on the Company'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 Company 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 Company applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

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

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

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.4 Other financial instruments | continued

1.4.4 Classification and subsequent measurement | continued

Financial assets | continued

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

- a) **Trade and other receivables:** Trade and other receivables consist of interest accrued.
- b) **Amounts receivable from subsidiaries:** Amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money or services directly to a subsidiary with no intention of trading the receivable. The Company holds the amounts receivable with the objective to collect contractual cash flows and the contractual terms of the amounts 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 amounts receivable is recognised in the statement of comprehensive income as part of interest received from subsidiaries.
- c) **Cash and cash equivalents:** 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.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities measured at amortised cost on the statement of financial position include trade and other payables.

- d) **Trade and other payables:** Trade and other payables mainly comprise of other payables and accruals 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.

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is subsequently valued at the higher of the amount determined in accordance with the ECL model under IFRS 9: Financial Instruments and the amount initially recognised in accordance with the principles of IFRS 15: Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

1.4.5 Impairment

The Company assesses on a forward-looking basis the ECL associated for all debt instruments not held at fair value through profit or loss and the Company 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 Company 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 Company has the following types of financial assets measured at amortised cost that are subject to impairment under the general impairment approach:

- Other receivables
- Amounts receivable from subsidiaries
- Cash and cash equivalents

1 ACCOUNTING POLICIES | continued

1.4 Other financial instruments | continued

1.4.5 Impairment | continued

General impairment approach

The Company applies the general impairment approach to measure ECL for other receivables, amounts receivable from subsidiaries and cash and cash equivalents. The Company 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 Company 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 Company. 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).

The Company 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 16.3.1 provides more detail on how the Company determines a significant increase in credit risk and how the expected credit loss allowance is measured.

1.5 Stated capital

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

1.6 Revenue

Revenue is recognised as follows:

1.6.1 Dividend income

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

1.6.2 Effective interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount 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 amount (i.e. gross carrying amount 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.

1.6.3 Guarantee fees

Guarantee fees are recognised over the period of the financial guarantee contract at a percentage of the amount guaranteed.

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd for the year ended 4 July 2021

1 ACCOUNTING POLICIES | continued

1.7 Current and deferred income tax

The income tax expense for the period comprises current income tax. Income tax is recognised in the statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date.

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 amounts 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 substantively 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 and associates, except where the timing of the reversal of the temporary difference can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

1.8 Dividends distributed to shareholders

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

1.9 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.

1.10 Standards, interpretations and amendments that are not yet effective at 4 July 2021

The Company has considered the following new standards, interpretations and amendments to existing standards, which are relevant to the Company's operations and had been issued by the reporting date, but are not yet effective as at 4 July 2021:

Number	Title	Effective for the year ending
Amendments to IAS 1	Classification of Liabilities as Current or Non-current and Disclosure of Accounting Policies	2024
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform Phase 2	2022

The Company 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 Company's reported results, financial position and cash flows.

1.11 New standards, interpretations and amendments effective for the year ended 4 July 2021

The following new standards, interpretations and amendments to existing standards are effective for the year ended 4 July 2021 and had no significant effect on the Company's operations:

Number	Title
Amendments to IAS 1 and IAS 8	Disclosure Initiative (Definition of Material)
Amendments to IFRS 3	Business Combinations (Definition of a Business)
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
The Conceptual Framework for Financial Reporting	

	2021 Rm	2020 Rm
2 INTERESTS IN SUBSIDIARIES		
Investments in ordinary shares (note 2.1)	12 167	10 744
Amounts receivable from subsidiaries (note 2.2)	1 817	1 199
	13 984	11 943
Analysis of total interests in subsidiaries:		
Non-current	12 167	10 744
Current	1 817	1 199
	13 984	11 943
Details of interests in subsidiaries are disclosed in Annexure A.		
2.1 Investments in ordinary shares		
Cost	17 312	10 744
Accumulated impairment	(5 145)	–
	12 167	10 744
Reconciliation of investments in subsidiaries		
Balance at the beginning of the year	10 744	9 369
Increase in investment in subsidiaries*	6 568	1 375
Impairment of investments in subsidiaries	(5 145)	–
Balance at the end of the year	12 167	10 744

* The increase in investment was paid by a subsidiary of the Company, Shoprite Checkers (Pty) Ltd, during the current financial year.

The Company impaired its investment in Shoprite International Ltd to its recoverable amount. The impairment is due to currency devaluations and constrained future growth expectations in the countries where Shoprite International Ltd subsidiaries trade. Furthermore, the South Africa rand appreciation to the US dollar from R17.14 at the end of the prior financial year to R14.49 at the current financial year-end, decreased the South Africa rand value of the US dollar denominated subsidiary.

Impairment methodology

The Company considers its investments in subsidiaries for impairment at each reporting date. The investments' carrying amounts are written down to its recoverable amounts if the investments' carrying amounts are greater than its estimated recoverable amounts. Shoprite International Ltd is the holding company for the majority of the Group's non-South African retail and property investments. Shoprite International Ltd's investment in each country is seen as a separate cash generating unit (CGU).

The recoverable amount of each CGU is the higher of its value-in-use and its fair value less costs of disposal.

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 countries and countries 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 Company'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. The value of properties are determined by using the capitalisation rate per country.

Fair value less costs of disposal

In determining the fair value less costs of disposal, external valuations are obtained or recent offers received for a possible sale of the CGU is considered.

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd for the year ended 4 July 2021

2 INTERESTS IN SUBSIDIARIES | continued

2.1 Investments in ordinary shares | continued

Key assumptions

The key assumptions in the value-in-use calculations are the expected sales growth rates, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the country'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		Sales growth rate		Long-term growth rate		Market capitalisation rate	
	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %
Angola	24.8	29.4	10.0 – 14.0	14.1 – 23.9	11.2	13.1	19.0	10.0
Botswana	6.0	5.4	6.0 – 7.0	8.5 – 10.7	4.2	2.6	–	–
Mozambique	21.2	24.9	6.5 – 7.0	7.0 – 8.0	5.6	6.4	19.0	10.0
Other countries	7.5 – 29.9	13.2 – 31.6	8.0 – 20.0	3.0 – 13.1	7.2 – 11.6	8.6 – 10.7	10.0	10.0

2.2 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 4.4% (2020: 6.5%). 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 Company'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 amount. None of the amounts receivable from subsidiaries are either past due or impaired.

3 INVESTMENTS IN ASSOCIATES

Associates
Gross amount
Provision for impairment

Carrying amount at the beginning of the year
Impairment
Carrying amount at the end of the year

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 Company		2021 Rm	2020 Rm
	2021	2020		
Resilient Africa (Pty) Ltd	39.1%	39.1%	–	6
Resilient Africa Managers (Pty) Ltd	39.1%	39.1%	–	–
			–	6

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

4 DEFERRED INCOME TAX ASSET

Provisions and accruals

Net deductible temporary differences to be recovered within 12 months

5 TRADE AND OTHER RECEIVABLES

Interest accrued

6 STATED CAPITAL

Stated capital

Authorised:
1 300 000 000 (2020: 1 300 000 000) no par value ordinary shares

Issued:
591 338 502 (2020: 591 338 502) no par value ordinary shares

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

The unissued ordinary shares are under the control of the Directors who may issue them on such terms and conditions as they deem fit until the Company's next Annual General Meeting.

All shares are fully paid up.

Details of special resolutions passed by the Company during the reporting period are provided in the Directors' report.

7 TRADE AND OTHER PAYABLES

Other payables and accruals

16 12

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd for the year ended 4 July 2021

	2021 Rm	2020 Rm
8 REVENUE		
Dividends received from subsidiaries	8 486	2 421
Interest received from subsidiaries	41	56
Guarantee fees	101	107
Other revenue	3	5
	8 631	2 589
9 DIRECTORS' REMUNERATION		
Executive Directors	57	50
Non-executive Directors	7	6
	64	56
Less: paid by subsidiaries	(57)	(50)
	7	6
Refer to notes 16 and 26 of the consolidated annual financial statements for details of share-based payment instruments issued to Directors' and Directors' remuneration.		
10 EXPENSES		
Fees for professional services	15	23
Other expenses	29	14
	44	37
11 IMPAIRMENT LOSSES		
Impairment of investment in associate	6	–
Impairment of investment in subsidiary	5 145	–
	5 151	–
12 INCOME TAX EXPENSE		
12.1 Consisting of		
Current income tax	54	63
	%	%
12.2 Reconciliation of the effective tax rate		
South African current income tax at 28% (2020: 28%)	28.0	28.0
Net adjustments	(26.4)	(25.6)
Dividend income	(68.2)	(26.0)
Non-deductible expenses ¹	41.8	0.4
	1.6	2.4
¹ Non-deductible expenses mainly comprise impairments recognised.		
	Cents	Cents
13 DIVIDENDS PER SHARE		
13.1 Dividends per share paid		
No 143 paid 5 October 2020 (2020: No 141 paid 9 September 2019)	227.0	163.0
No 144 paid 12 April 2021 (2020: No 142 paid 16 March 2020)	191.0	156.0
	418.0	319.0
13.2 Dividends per share declared		
No 145 payable 4 October 2021 (2020: No 143 paid 5 October 2020)	353.0	227.0

14 CASH FLOW INFORMATION

	2021 Rm	2020 Rm
14.1 Non-cash items		
Impairment of investment in associate	6	–
Impairment of investment in subsidiary	5 145	–
	5 151	–
14.2 Changes in working capital		
Trade and other receivables	14	(10)
Trade and other payables	1	(1)
	15	(11)
14.3 Dividends paid		
Shareholders for dividends at the beginning of the year	(6)	(7)
Dividends distributed to equity holders	(2 472)	(1 886)
Shareholders for dividends at the end of the year	14	6
	(2 464)	(1 887)
14.4 Income tax paid		
Payable at the beginning of the year	(49)	(6)
Per statement of comprehensive income	(54)	(63)
Payable at the end of the year	17	49
	(86)	(20)

15 BORROWING POWERS

In terms of the Memorandum of Incorporation of the Company the borrowing powers of Shoprite Holdings Ltd are unlimited.

16 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 Company. The Company follows the Shoprite Holdings Ltd Group's risk management policies which 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 of the Group oversees how management monitors compliance with these risk and control policies.

This note discloses information about the Company's capital risk management and exposure to risks from its use of financial instruments.

16.1 Capital risk management

The Company's objectives when managing capital are to safeguard its 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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

16.2 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.

All financial instruments held by the Company are measured at amortised cost.

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

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd for the year ended 4 July 2021

16 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

16.3 Financial risk management

The Company's activities expose it to a variety of financial risks which include the effects of changes on debt and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

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 interest rate risk, credit risk and investing excess liquidity.

16.3.1 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. Potential concentration of credit risk consists primarily of amounts receivable from subsidiaries, cash and cash equivalents as well as financial guarantee contracts.

The Company'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 Company 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 Company 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 PD, which varies by type of financial asset.

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

The Company 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 Company 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.

Write-off policy

The Company 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 Company's in-house collection department and external collection companies which supplement the Company's collection activities are unable to recover outstanding balances.

16 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued

16.3 Financial risk management | continued

16.3.1 Credit risk | continued

(a) Amounts receivable from subsidiaries

The following table reflects the maximum exposure to credit risk on amounts receivable from subsidiaries at the reporting date.

Internal credit rating category	Basis of reconciliation of ECL allowance	ECL rate	Gross amount Rm	ECL allowance Rm	Carrying amount Rm
2021					
Stage 1	12-month ECL	0.0%	1 817	–	1 817
2020					
Stage 1	12-month ECL	0.0%	1 199	–	1 199

Internal credit rating categories are determined 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 SICR. A SICR is presumed if interest and/or principle repayments are 30 days past due.
- **Non-performing (stage 3):** Interest and/or principal repayments are 60 days past due.

(b) Cash and cash equivalents

The Company uses rated South African financial institutions as its bankers and 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 Company's cash and cash equivalents. ECL were therefore limited to 12-month expected losses and the identified impairment loss was immaterial.

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

	National Scale	Global Scale	2021 Rm	2020 Rm
Standard Bank	P-1	NP	22	1 117
Total cash and cash equivalents			22	1 117

(c) Financial guarantee contracts

The Company has guaranteed various revolving credit facilities of R23.0 billion (2020: R29.3 billion). The fair value of these guarantees is estimated at R59 million (2020: R30 million) at the reporting date. The guarantees have also been disclosed as part of the liquidity risk hereafter. Financial guarantees are kept to an operational minimum and reassessed regularly. The maximum potential exposure to credit risk under financial guarantee contracts amounts to R23.0 billion (2020: R29.3 billion).

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS | continued

Shoprite Holdings Ltd for the year ended 4 July 2021

16 RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE | continued**16.3 Financial risk management | continued****16.3.2 Market risk****Cash flow and fair value interest rate risk**

The Company's interest rate risk arises mainly from daily call accounts. The Company 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. At 28 June 2020, fixed rate financial instruments included amounts receivable from subsidiaries (refer to note 2), which were changed to a floating rate during the current financial year.

Daily call accounts and bank overdrafts carry interest at rates fixed on a daily basis and expose the Company to cash flow interest rate risk. The Company 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 reinvesting and/or renewal/cancellation of existing positions and alternative investing. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for cash that represent the major interest-bearing positions. The weighted average effective interest rate on call accounts was 4.3% (2020: 7.0%).

16.3.3 Liquidity risk

The risk of illiquidity is managed by using cash flow forecasts and unlimited borrowing powers. The unlimited borrowing powers are controlled by the Company's treasury department in accordance with a treasury mandate as approved by the Board of Directors.

The following table analyses the Company'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 Company can be required to pay and include both interest and principal cash flows. All the balances are due within 12 months and equal their carrying balances as the impact of discounting is not significant.

Non-derivative financial liabilities	Book value Rm	Not later than one year Rm
2021		
Other payables and accruals excluding taxes payable and employee benefit accruals	16	16
Financial guarantees	–	22 956
	16	22 972
2020		
Other payables and accruals excluding taxes payable and employee benefit accruals	12	12
Financial guarantees	–	29 330
	12	29 342

17 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.

Details of the remuneration of Directors are disclosed in note 9.

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.

Details of the Company's interests in subsidiaries are provided in note 2 and Annexure A.

The Company paid dividends of R151 million (2020: R113 million) to Shoprite Checkers (Pty) Ltd during the year under review.

	2021 Rm	2020 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	7 806	2 421
Dividends received from Shoprite Insurance Company Ltd	680	–
Guarantee fee received from Shoprite International Ltd	93	103
Guarantee fee received from Retail Holdings Botswana (Pty) Ltd	8	4
Interest received from Shoprite Investments Ltd	41	56



4 ANNEXURES

ANNEXURE A – INTERESTS IN SUBSIDIARIES

Shoprite Holdings Ltd as at 4 July 2021

Country of incorporation and place of business	Issued ordinary and preference share capital and premium	Percentage shares held by Group	Investment in shares		Amount owing by	
			2021	2020	2021	2020
			Rm	Rm	Rm	Rm
DIRECT SUBSIDIARIES						
Shoprite Checkers (Pty) Ltd	South Africa	100	174	174	785	206
Shoprite DTMC (Pty) Ltd	South Africa*	100	1 187	653	–	–
Shoprite Investments Ltd	South Africa	100	400	400	927	886
Shoprite International Ltd	Mauritius*	100	10 386	9 497	93	103
Shoprite Insurance Company Ltd	South Africa	100	20	20	–	–
			12 167	10 744	1 805	1 195
INDIRECT SUBSIDIARIES						
Africa Supermarkets Ltd	Zambia*	100	657			
Checkers (Chatsworth) Ltd**	South Africa	48	2			
Computicket (Pty) Ltd	South Africa	100	69			
Mercado Fresco de Angola Lda	Angola*	100	225			
OK Bazaars (Lesotho) (Pty) Ltd**	Lesotho*	50	–			
OK Bazaars (Namibia) Ltd	Namibia*	100	1			
OK Bazaars (Swaziland) (Pty) Ltd	Eswatini*	100	–			
OK Bazaars (Venda) Ltd**	South Africa	50	2			
Shoprite Mozambique Lda	Mozambique*	100	149			
Rainmaker Services (Pty) Ltd	South Africa	100	1 239			
Retail Holdings Botswana (Pty) Ltd	Botswana*	100	165		12	4
Senra Namibia Ltd	Namibia*	100	6			
Shophold (Mauritius) Ltd	Mauritius*	100	189			
Shoprite (Mauritius) Ltd	Mauritius*	100	266			
Shoprite Angola Imobiliaria Lda	Angola*	100	1 634			
Shoprite Checkers Uganda Ltd	Uganda*	100	148			
Shoprite Ghana (Pty) Ltd	Ghana*	100	108			
Shoprite Lesotho (Pty) Ltd	Lesotho*	100	–			
Shoprite Madagascar S.A.	Madagascar*	100	262			
Shoprite Namibia (Pty) Ltd	Namibia*	100	–			
Shoprite RDC SARL	DRC*	100	82			
Shoprite Supermercados Lda	Angola*	100	836			
Shoprite Trading Ltd	Malawi*	100	127			
			12 167	10 744	1 817	1 199

* 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 4 July 2021

Shareholder spread	No of Shareholdings	%	No of Shares	%
1 – 1 000 shares	44 408	85.19	10 078 332	1.71
1 001 – 10 000 shares	6 117	11.73	16 640 641	2.81
10 001 – 100 000 shares	1 187	2.28	40 223 790	6.80
100 001 – 1 000 000 shares	345	0.66	107 931 484	18.25
Over 1 000 001 shares	75	0.14	416 464 255	70.43
Totals	52 132	100.00	591 338 502	100.00

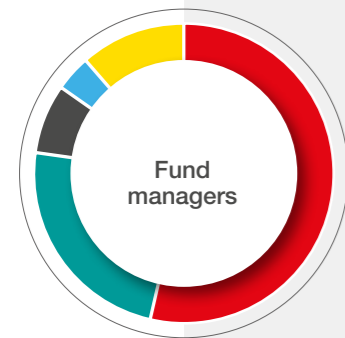
Distribution of shareholders	No of Shareholdings	%	No of Shares	%
Banks/Brokers	268	0.51	155 829 270	26.35
Close Corporations	291	0.56	1 080 629	0.18
Endowment Funds	280	0.54	2 765 824	0.47
Individuals	42 856	82.21	24 608 453	4.16
Insurance Companies	292	0.56	21 460 986	3.63
Investment Companies	10	0.02	1 175 581	0.20
Medical Schemes	53	0.10	1 310 629	0.22
Mutual Funds	630	1.21	94 390 644	15.96
Other Corporations	245	0.47	235 067	0.04
Private Companies	1 131	2.17	73 526 267	12.44
Public Companies	13	0.02	188 854	0.03
Retirement Funds	713	1.37	149 227 982	25.24
Sovereign Wealth Funds	17	0.03	13 851 831	2.34
Treasury Shares	6	0.01	38 789 545	6.56
Trusts	5 327	10.22	12 896 940	2.18
Totals	52 132	100.00	591 338 502	100.00

Public/non-public shareholders	No of Shareholdings	%	No of Shares	%
Non-public shareholders	25	0.05	178 414 764	30.17
Directors of the Company	19	0.04	64 564 373	10.92
Shares held for benefit of participants to equity-settled share-based payments arrangements*	1	0.00	3 147 798	0.53
Strategic Holding more than 10%	1	0.00	71 913 048	12.16
Treasury shares	4	0.01	38 789 545	6.56
Public shareholders	52 107	99.95	412 923 738	69.83
Totals	52 132	100.00	591 338 502	100.00

* Excludes shares held by Directors in Shoprite Holdings Ltd Executive Share Plan.

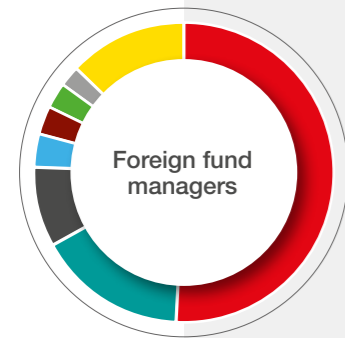
Beneficial shareholders holding 1% or more	No of Shares	%
Government Employees Pension Fund	91 914 557	15.54
Wiese, CH	63 110 920	10.67
Shoprite Checkers (Pty) Ltd	38 789 545	6.56
T. Rowe Price	19 545 072	3.31
Old Mutual	18 721 398	3.17
Vanguard	17 677 663	2.99
Coronation Fund Managers	17 419 923	2.95
GIC Private Limited	15 729 563	2.66
Blackrock	11 867 470	2.01
Namibian Government Institutions Pension Fund	10 642 662	1.80
Le Roux, JF	7 581 737	1.28
Sanlam	7 233 763	1.22
People's Bank of China	6 896 637	1.17
Schroders	5 906 020	1.00
Eskom Pension & Provident Fund	5 885 521	1.00
Totals	338 922 451	57.33

SHAREHOLDERS' COUNTRY CLASSIFICATION



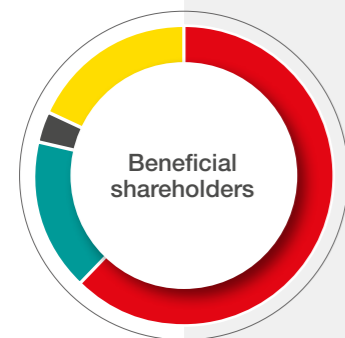
- 53.8% South Africa
- 23.6% USA
- 7.4% UK
- 4.0% Singapore
- 11.2% Other*

* Other: Namibia, Netherlands, Luxembourg, China, Japan, Australia, UAE, Canada, Sweden, Switzerland, Germany, Denmark, France, Ireland, Italy, Belgium, Slovenia, Norway, South Korea



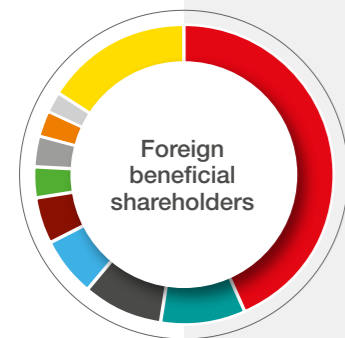
- 51.1% USA
- 16.0% UK
- 8.7% Singapore
- 3.5% Namibia
- 3.1% Netherlands
- 2.7% Luxembourg
- 2.2% China
- 12.7% Other*

* Other: Japan, Australia, UAE, Canada, Sweden, Switzerland, Germany, Denmark, France, Ireland, Italy, Belgium, Slovenia, Norway, South Korea, Cayman Islands, Channel Islands, Austria



- 62.3% South Africa
- 16.4% USA
- 3.4% Singapore
- 17.9% Other*

* Other: UK, Namibia, Luxembourg, China, Netherlands, Ireland, Japan, Saudi Arabia, Australia, Canada, Switzerland, UAE, Norway, Sweden, Denmark, Germany, South Korea, Eswatini, France, Kuwait, Zambia, Taiwan, Belgium, Slovenia, Italy, Cayman Islands, Channel Islands, Thailand



- 43.5% USA
- 9.0% Singapore
- 8.8% UK
- 6.3% Namibia
- 5.1% Luxembourg
- 3.4% China
- 3.2% Netherlands
- 2.8% Ireland
- 2.1% Japan
- 15.8% Other*

* Other: Saudi Arabia, Australia, Canada, Switzerland, UAE, Norway, Sweden, Denmark, Germany, South Korea, Eswatini, France, Kuwait, Zambia, Taiwan, Belgium, Slovenia, Italy, Cayman Islands, Channel Islands, Thailand, Lesotho

ADMINISTRATION

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1936/007721/06

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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	March	April
Financial year-end	Reviewed results	Payment of final ordinary dividend	Annual General Meeting	End of financial half-year	Interim results	Payment of interim ordinary dividend
		Publishing of Integrated Annual Report				

Please consult our website www.shopriteholdings.co.za for the latest published diary dates.

Shoprite Holdings corporate website

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