

SHOPRITE HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
Registration no. 1936/007721/06
ISIN: ZAE000012084
JSE share code: SHP
NSX share code: SRH
LuSE share code: SHOPRITE ("The Group")

OPERATIONAL UPDATE

The Shoprite Group increased total turnover by 0.03% to approximately R72.9bn billion in the 6 months to December 2018. Including the impact of the Angolan hyperinflation accounting adjustment, the Group's turnover declined by 0.01%.

In difficult circumstances, the Group managed to increase the number of customer visits by 1.7% and product volumes by 0.2%. Segmental sales performance for the six months to December 2018 (excluding the impact of hyperinflation) is as follows:

	Q1 ended Sep 2018	Q2 ended Dec 2018	H1 Total 2018/2019
Supermarkets RSA	1.89%	3.18%	2.58%
Supermarkets Non-RSA	-8.62%	-17.24%	-13.27%
*Angola	-39.25%	-49.55%	-44.95%
Furniture	8.67%	1.34%	4.30%
Other Divisions	5.07%	11.68%	8.40%
Total Group	0.42%	-0.30%	0.03%

The Group adopted IFRS 15 with effect from 2 July 2018. The current results include the required restatements.

The following provides context to the overall turnover growth for the six months:

- The Group's core business, Supermarkets RSA, achieved 2.58% sales growth for the period. Persistently low internal food inflation in South Africa of only 0.2% for the period marks 18 months of near stagnant prices of basic foods in which the Group has a larger market share. The core Shoprite middle income consumer base remains under pressure. This was evidenced in Christmas sales in categories like Back to School essentials which outperformed traditional discretionary purchases such as toys for the first time.
- Supermarkets RSA had stronger Christmas sales of 3.68% in December, achieved on the back of improved customer and volume growth which recovered alongside better product availability towards the end of the period. This is a much improved growth trend and almost double the 1.89% for the first quarter, albeit below our expectations.
- Liquor stores remain a standout performer with 20.09% sales growth for the period.
- As previously reported, product availability challenges stemming from the Group's largest Distribution Centre in Gauteng, which accounts for 53% of total centralised food distribution for the RSA supermarkets business, affected sales in the period. Industrial action followed by the deployment of our new warehousing system shortly after the labour disruption hampered the ability to adequately meet demand which resulted in lost sales opportunities, which the Group was unable to recover.
- Supermarkets Non-RSA recorded a decline in turnover of 13.27% in rand terms (0.05% growth in constant currency terms) which impacted the

overall Group sales performance. This was primarily a result of sharp devaluations in the currencies of the major countries in the rest of Africa negatively impacting the sales performance in rand terms. The lower turnover is mainly attributed to a reset of the sales performance of the Angolan operation, declining 44.95% in rand terms after a significant 85.13% devaluation of the Angolan kwanza to the US dollar since January 2018. This was a severe drag on the performance of the Group given the size of the Angolan operation. The Angolan economy remains in recession with weaker consumer spending evidenced in the second quarter.

- Excluding Angola, Supermarkets Non-RSA managed to achieve a positive sales growth of 4.41% in constant currency.
- During 2018, the currencies of the other large countries in which we trade, namely Zambia (-19.48%) and Nigeria (-16.86%), also showed a sharp decline against the US dollar. Nigeria's Q2 reflected performance was negatively affected by the Group applying the weaker NIFEX rate for the Nigerian naira in December 2018 when converting to reporting currency, whereas the Central Bank of Nigeria's exchange rate has been used historically.

Our largest ever end-to-end system replacement represents a critical and significant investment in improving our global competitiveness. Although the timing was inopportune, the replacement was essential to sustain our future growth. The transformational changes we made during the year-long migration to the new IT system were challenging, but the deployment has been completed. We are now confident that the Group is in a position to deliver improved availability, price and ultimately a better shopping experience for our customers going forward.

The Group's expansion remains on track with 50 new supermarkets opened in the period, and plans are finalised to open another 37 before June 2019.

The Group's Furniture division increased sales by 4.30% for the period. Second quarter sales were lower than expected as excessive demand from Black Friday resulted in suppliers being unable to meet delivery before year-end cut off. Non-RSA Furniture sales were also affected by the Angolan currency devaluation.

Other operating segments (OK Franchise, Medirite Pharmacy and Checkers Food Services) achieved pleasing growth of 8.40% after a strong festive season for the OK Franchise division in particular.

Low food inflation and demanding trading conditions are expected to continue in the second half, but the Group remains positive about its operational strength, customer support for its brands and is making progress on its longer term strategic priorities. These include building a stronger OK Franchise offer and attracting better share of wallet from upmarket consumers. Our Private Label enhancement continues, lead by the recent launch of a pioneering, healthier-eating Simple Truth range in the Checkers banner.

The positive trading trend continued in January with healthy growth in our Back to School promotion. We are confident of a much improved second half as the impact of various once-offs continue to ease and the benefit of the new national minimum wage filters into food expenditure.

PRO FORMA FINANCIAL INFORMATION

Impact of Angola hyperinflation adjustment

For the period ended 30 December 2018, the economy of Angola was still assessed to be hyperinflationary. The Group therefore continued the application of hyperinflation accounting in Angola for the period under review.

The Group discloses the unaudited hyperinflation adjustment information in order to indicate the effect of the restatement due to the change in the general price index of the hyperinflationary economy. It will also facilitate comparisons against the prior period's results which were prepared before the Angolan economy was assessed to be hyperinflationary.

To present this information, the functional currency of Angola is adjusted to take into account the value of money at the end of the reporting period.

The financial impact of hyperinflation on the current period's turnover is shown below:

	Pro Forma	Reported	Reported	Pro Forma	Pro Forma
	Change	Change	26 weeks	Hyper-	26 weeks
	on prior	on prior	to	inflation	to
	period	period	30 December	adjustment	30 December
	%	%	2018		2018
			Rm	Rm	Rm
Total					
Turnover	0.03	-0.01	72 914	30	72 944

Impact of the Group's pro forma constant currency disclosure

The Group discloses unaudited constant currency information to indicate the Group's Supermarkets Non-RSA operating segment performance in terms of sales growth, excluding the effect of foreign currency fluctuations. To present this information, current period turnover for entities reporting in currencies other than ZAR are converted from local currency actuals into ZAR at the prior year's actual average exchange rates on a country-by-country basis. In addition, in respect of Angola, the constant currency information has been prepared excluding the impact of hyperinflation.

The table below sets out the percentage change in turnover, based on the actual results for the period, in reported currency and constant currency for the following major currencies. The total impact on Supermarket Non-RSA is also reflected after consolidating all currencies in this segment.

% Change in turnover on prior period 26 weeks	Reported	Constant
	currency	currency
Angola kwanza	-44.95	-9.93
Nigeria naira	-1.44	8.45
Zambia kwacha	0.68	11.03
Mozambique metical	1.54	-3.98
Total Supermarkets Non-RSA	-13.27	0.05
Supermarkets Non-RSA excluding Angola	0.59	4.41

The above financial information, including estimated financial information, is the responsibility of the directors of Shoprite Holdings Ltd and has not been reviewed or reported on by the Group's auditors. The hyperinflationary adjustment and constant currency information has been prepared for illustrative purposes only. The consolidated financial results for the review period will be published on or about 26 February 2019.

Pieter Engelbrecht

Anton de Bruyn

Chief executive officer

Chief financial officer

Tel 021 980 4000

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