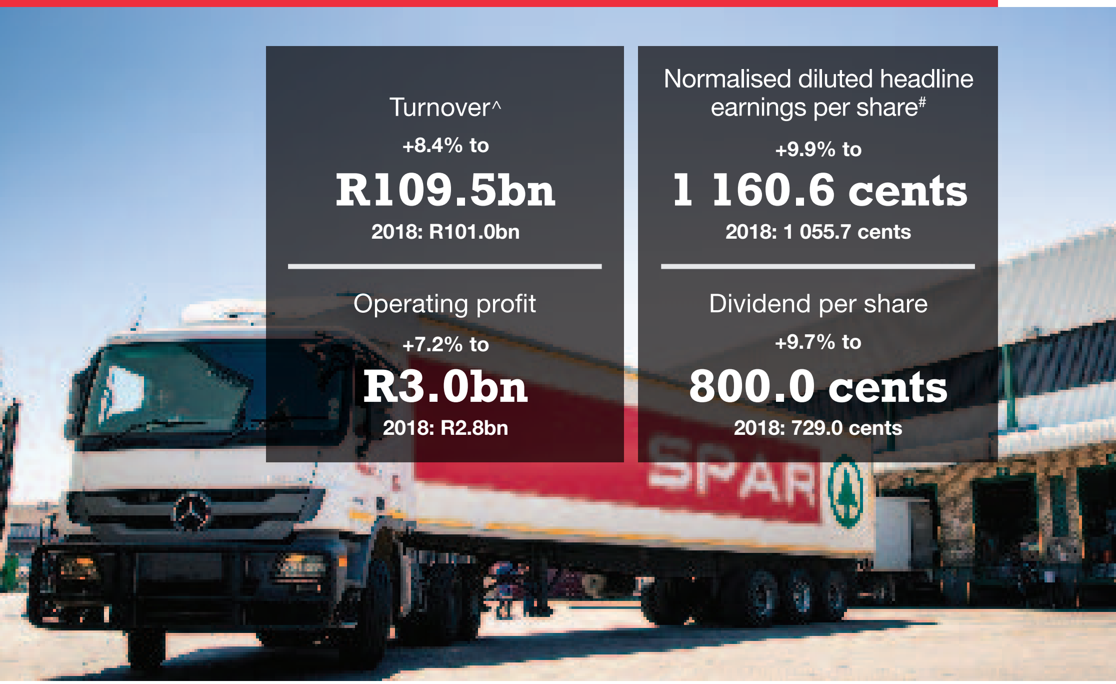
THE SPAR GROUP LTD

PRELIMINARY SUMMARISED RESULTS

for the year ended 30 September 2019
and cash dividend declaration

CONTENTS

SALIENT FEATURES



Turnover^
+8.4% to
R109.5bn
2018: R101.0bn

Normalised diluted headline earnings per share#
+9.9% to
1 160.6 cents
2018: 1 055.7 cents

Operating profit
+7.2% to
R3.0bn
2018: R2.8bn

Dividend per share
+9.7% to
800.0 cents
2018: 729.0 cents

^ *Turnover represents revenue from the sale of merchandise.*

Headline earnings adjusted for expected future profit adjustments and foreign exchange losses on financial liabilities, and business acquisition costs.

Summarised consolidated statement of profit or loss and other comprehensive income

Rmillion		% Change	Year ended September 2019	Restated* 2018
Revenue – sale of merchandise		8.4	**109 477.1**	101 018.0
Cost of sales			**(97 817.2)**	(90 225.0)
Gross profit			**11 659.9**	10 793.0
Revenue other			**2 106.6**	2 037.5
Other income			**151.8**	119.4
Net operating expenses		7.6	**(10 939.4)**	(10 170.6)
Operating profit		7.2	**2 978.9**	2 779.3
Other non-operating items			**(28.1)**	(144.2)
Interest income			**185.5**	169.3
Interest expense			**(201.6)**	(192.9)
Finance costs on financial liabilities at amortised cost			**(59.6)**	(17.2)
Finance costs on financial liabilities at fair value through profit or loss			**(82.7)**	(119.3)
Share of equity accounted associate losses			**(10.6)**	(10.9)
Profit before taxation		12.9	**2 781.8**	2 464.1
Income tax expense			**(618.4)**	(636.9)
Profit for the year attributable to ordinary shareholders		18.4	**2 163.4**	1 827.2
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of post-retirement medical aid			**(2.6)**	(0.3)
Deferred tax relating to remeasurement of post-retirement medical aid			**0.7**	0.1
Remeasurement of retirement funds			**(440.9)**	157.9
Deferred tax relating to remeasurement of retirement funds			**45.6**	(26.8)
Items that may be reclassified subsequently to profit or loss:				
Gain on cash flow hedge			**0.5**	1.6
Tax relating to gain on cash flow hedge			**(0.1)**	(0.2)
Exchange differences from translation of foreign operations			**76.0**	131.9
Total comprehensive income		(11.9)	**1 842.6**	2 091.4
Earnings per share				
Basic	(cents)	18.5	**1 124.1**	948.9
Diluted	(cents)	18.7	**1 118.6**	942.2

* *Restated for the impact relating to the adoption of the new standards, refer to note 11 for further details.*

Summarised consolidated statement of financial position

Rmillion	Notes	2019	Restated* 2018	Restated* 2017
		Year ended September		
ASSETS				
Non-current assets		**14 212.4**	13 079.6	11 956.3
Property, plant and equipment		**7 184.2**	6 651.8	6 276.5
Goodwill and intangible assets		**5 064.0**	4 751.7	4 439.6
Investment in associates and joint ventures		**103.1**	156.7	117.3
Other investments		**19.8**	57.9	57.7
Operating lease receivables		**269.1**	208.3	125.4
Loans and other receivables		**1 131.8**	696.4	406.2
Block discounting loan receivable	10	**365.0**	542.4	512.2
Deferred taxation asset		**75.4**	14.4	21.4
Current assets		**19 766.9**	18 166.3	16 879.5
Inventories		**4 447.0**	3 933.1	3 816.4
Trade and other receivables		**13 122.7**	12 134.4	10 814.3
Prepayments		**256.8**	109.8	78.1
Operating lease receivables		**59.6**	50.4	60.7
Loans		**134.9**	97.9	116.9
Current portion of block discounting loan receivable	10	**258.1**	225.8	248.3
Income tax recoverable		**1.1**	7.7	4.1
Other current financial assets		**0.4**	0.3	0.2
Cash and cash equivalents – SPAR		**1 250.9**	1 377.6	1 565.6
Cash and cash equivalents – Guilds and trusts		**235.4**	229.3	174.9
Assets held for sale		**73.6**	9.6	141.0
Total assets		**34 052.9**	31 255.5	28 976.8
EQUITY AND LIABILITIES				
Capital and reserves		**7 467.3**	7 109.8	6 560.4
Stated capital		**2 231.5**	2 231.5	2 231.5
Treasury shares		**(23.9)**	(10.0)	(16.1)
Currency translation reserve		**257.8**	181.8	49.9
Share-based payment reserve		**285.9**	274.8	293.0
Equity reserve		**(749.7)**	(749.1)	(717.0)
Hedging reserve		**(30.4)**	(30.8)	(32.2)
Retained earnings		**5 496.1**	5 211.6	4 751.3
Non-current liabilities		**8 405.1**	8 037.3	7 875.2
Deferred taxation liability		**297.3**	413.1	361.2
Post employment benefit obligations		**1 268.3**	787.6	940.2
Financial liabilities	5	**1 521.1**	2 042.9	1 700.1
Long-term borrowings		**4 635.3**	3 976.5	4 160.4
Block discounting loan payable	10	**373.6**	553.6	525.1
Operating lease payables		**298.4**	231.0	141.4
Other non-current financial liabilities		**2.8**	3.3	4.9
Long-term provisions		**8.3**	29.3	41.9
Current liabilities		**18 180.5**	16 108.4	14 541.2
Trade and other payables		**14 912.8**	15 236.0	13 452.7
Current portion of financial liabilities		**683.3**		
Current portion of long-term borrowings		**529.5**	433.6	364.4
Current portion of block discounting loan payable	10	**263.6**	232.3	255.7
Operating lease payables		**59.2**	51.5	62.8
Provisions		**35.1**	43.2	45.3
Income tax liability		**143.3**	103.1	91.8
Bank overdrafts		**1 553.7**	8.7	268.5
Total equity and liabilities		**34 052.9**	31 255.5	28 976.8

* *Restated for the impact relating to a prior period restatement, refer to note 9, and the adoption of the new standards, refer to note 11 for further details.*

Summarised consolidated statement of changes in equity

Rmillion	Stated capital	Treasury shares
GROUP		
Capital and reserves at 30 September 2017	2 231.5	(16.1)
Profit for the year attributable to ordinary shareholders		
Amounts recognised through other comprehensive income		
– Gain on cash flow hedge		
– Remeasurement of post-retirement medical aid		
– Remeasurement of retirement funds		
Recognition of share-based payments		
Take-up of share options		227.5
Transfer arising from take-up of share options		
Settlement of share-based payments		59.7
Share repurchases		(281.1)
Dividends paid		
Non-controlling interest arising on business acquisition		
Purchase obligation of non-controlling interest		
Exchange rate translation		
Capital and reserves at 30 September 2018	2 231.5	(10.0)
Change in accounting policy*		
Capital and reserves at 1 October 2018	**2 231.5**	**(10.0)**
Profit for the year attributable to ordinary shareholders		
Amounts recognised through other comprehensive income		
– Gain on cash flow hedge		
– Remeasurement of post-retirement medical aid		
– Remeasurement of retirement funds		
Recognition of share-based payments		
Take-up of share options		**66.4**
Transfer arising from take-up of share options		
Settlement of share-based payments		**29.8**
Share repurchases		**(110.1)**
Dividends paid		
Exchange rate translation		
Capital and reserves at 30 September 2019	**2 231.5**	**(23.9)**

* *Restated for the impact from the implementation of IFRS 9 Financial Instruments, relating to the adoption of expected credit losses for impairment of financial assets.*

Currency translation reserve	Share-based payment reserve	Retained earnings	Equity reserve	Hedging reserve	Non-controlling interest	Attributable to ordinary shareholders
49.9	293.0	4 751.3	(717.0)	(32.2)	–	6 560.4
		1 827.2				1 827.2
				1.4		1.4
		(0.2)				(0.2)
		131.1				131.1
	23.9					23.9
	(122.4)					105.1
	122.4	(122.4)				–
	(42.1)	(17.6)				–
						(281.1)
		(1 357.8)				(1 357.8)
					27.6	27.6
			(26.8)		(27.6)	(54.4)
131.9			(5.3)			126.6
181.8	274.8	5 211.6	(749.1)	(30.8)	–	7 109.8
		(18.2)				(18.2)
181.8	**274.8**	**5 193.4**	**(749.1)**	**(30.8)**	**–**	**7 091.6**
		2 163.4				**2 163.4**
				0.4		**0.4**
		(1.9)				**(1.9)**
		(395.3)				**(395.3)**
	38.7					**38.7**
	(30.8)					**35.6**
	30.8	**(30.8)**				**–**
	(27.6)	**(2.2)**				**–**
						(110.1)
		(1 430.5)				**(1 430.5)**
76.0			**(0.6)**			**75.4**
257.8	**285.9**	**5 496.1**	**(749.7)**	**(30.4)**	**–**	**7 467.3**

Summarised consolidated statement of cash flows

Rmillion	Notes	Year ended September 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		**(303.8)**	1 975.8
Operating profit before:		**2 978.9**	2 779.3
Non-cash items		**877.5**	738.9
Net loss on disposal of property, plant and equipment		**1.4**	37.2
Net working capital changes		**(2 016.3)**	416.3
– (Increase)/decrease in inventories		**(425.5)**	94.7
– Increase in trade and other receivables		**(1 110.3)**	(1 094.0)
– (Decrease)/increase in trade payables and provisions		**(480.5)**	1 415.6
Cash generated from operations		**1 841.5**	3 971.7
Interest received		**110.6**	94.0
Interest paid		**(138.5)**	(123.3)
Taxation paid		**(686.9)**	(608.8)
Dividends paid		**(1 430.5)**	(1 357.8)
CASH FLOWS FROM INVESTING ACTIVITIES		**(1 943.2)**	(1 453.3)
Acquisition of businesses/subsidiaries	4.2	**(487.4)**	(453.2)
Proceeds from disposal of businesses	4.3	**20.1**	47.7
Proceeds on disposal of assets held for sale			27.5
Investment to expand operations		**(685.8)**	(456.1)
Investment to maintain operations		**(374.0)**	(316.2)
– Replacement of property, plant and equipment		**(423.5)**	(352.9)
– Proceeds on disposal of property, plant and equipment		**49.5**	36.7
Proceeds on loans and investments		**470.3**	398.8
Repayments of loans and investments		**(886.4)**	(701.8)
CASH FLOWS FROM FINANCING ACTIVITIES		**557.6**	(428.0)
Proceeds from exercise of share options		**35.6**	105.1
Proceeds from borrowings		**748.9**	
Repayments of borrowings		**(116.8)**	(252.0)
Share repurchases		**(110.1)**	(281.1)
Net movement in cash and cash equivalents		**(1 689.4)**	94.5
Net cash balances at beginning of year		**1 598.2**	1 472.0
Exchange rate translation		**23.8**	31.7
Net cash (overdrafts)/balances at end of year		**(67.4)**	1 598.2

Notes to the summarised consolidated financial results

1. BASIS OF PRESENTATION AND COMPLIANCE WITH IFRS

The summarised consolidated financial statements contained in this preliminary report are prepared in accordance with the requirements of the JSE Limited Listings Requirements (Listings Requirements) for preliminary reports, and the requirements of the Companies Act No. 71 of 2008 (Companies Act) applicable to summarised financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: *Interim Financial Reporting*. The accounting policies applied in the preparation of the consolidated financial statements from which the summarised consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

Neither this announcement nor the preliminary report has been audited but are extracted from the underlying audited information. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of the preliminary report and that the financial information has been correctly extracted from the underlying annual financial statements.

Impact of future amendments to accounting standards and interpretation

IFRS 16

Background

IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise a right-of-use asset representing the underlying asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. Depreciation is recognised on the right-of-use asset and interest is recognised on the lease liability, replacing the straight-line operating lease expense. The right-of-use assets can be measured as the amount of initial measurement of the lease liability and subsequently depreciated over the remaining lease term. However, management has chosen, on a lease-by-lease basis, the option available in the standard to measure the right-of use-assets as if IFRS 16 had been applied since the inception of the lease, using the incremental borrowing rate on the date of initial application. This will result in an adjustment to retained earnings relating to depreciation and impairment, in the instance of some property leases in Ireland. Initial direct costs have not been included in the measurement of right-of-use assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. The standard is mandatory for accounting periods beginning on or after 1 January 2019 and will be applicable for the group for the year ending 30 September 2020 with the date of initial application being 1 October 2019.

Notes to the summarised consolidated financial results

1. BASIS OF PRESENTATION AND COMPLIANCE WITH IFRS continued

The following changes to key financial statement line items based on the expected take-on values at 1 October 2019 and statement of comprehensive income impact for the September 2020 financial year:

Rmillion	Approximate increase/ (decrease)
Statement of financial position	
Property,plant and equipment – right of use asset	5 100
Finance lease receivables	4 250
Net deferred tax asset	130
Finance lease liabilities	10 150
Retained earnings	(670)
Statement of comprehensive income	
Depreciation	780
Profit before interest and tax	180
Finance income	350
Finance costs	520
Profit before tax	10
Tax	3
Headline earnings	7
Headline earnings per share (HEPS) – cents	4

Lease arrangements by segment

The group anticipates a significant impact resulting from the adoption of IFRS 16. As at the reporting date, the group has non-cancellable property operating lease commitments of R13.1 billion which comprise R8.0 billion of operating lease commitments in Southern Africa, R2.1 billion in Switzerland and R3.0 billion in Ireland. Some of the commitments will be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

SPAR Southern Africa leases relate mostly to head lease arrangements on key strategic retail sites that are viewed as fundamental to the group's growth strategy. These include a back-to-back sublease agreement with our independent retailers. IFRS 16 requires the recognition of the obligation to pay rent under the head lease as a lease liability, with a corresponding asset representing the lease receivable. For these back-to-back sublease agreements, the accounting for the head lease and the sublease under IFRS 16 will have an equal and opposite impact on the statement of comprehensive income. To the extent of leased property that is not sublet, the group will recognise a right-of-use asset and a finance lease liability.

SPAR Ireland leases relate mostly to property leases which are franchised to retailers or operated by the group, there are also motor vehicles leases. For both the property leases and motor vehicle leases, a right-of-use asset and finance lease liability will be recognised. For the property leases where the group is a lessor, a finance lease asset will be recognised instead of the right-of-use asset.

SPAR Switzerland has property, trucks and IT hardware leases. The property leases do not include back-to-back sublease agreements, resulting in, a right-of-use asset and finance lease liability being recognised.

Discount rates

The group will apply the standard using the modified retrospective approach, recognising the cumulative effect of initially applying the standard in retained earnings at the date of initial application. As prescribed by IFRS 16, lease liabilities will be measured at the present value of remaining lease payments discounted at the incremental borrowing rate at the date of initial application. The incremental borrowing rate that will be applied for South Africa of 9.74% was determined by obtaining a rate from the group's primary bankers for a collateralized borrowing, at a fixed rate, for an amortising facility over a similar period to the property leases. The Irish operations expect to use a discount rate of 2.8% for property leases, between 3.0% and 5.0% for motor vehicles leases and 9.0% for other leases. The South West England operations expect to use a rate of 4.0% for property leases, and a rate ranging between 1.8% and 3.0% for motor vehicle leases.

1. BASIS OF PRESENTATION AND COMPLIANCE WITH IFRS continued

This is based on the respective operations current rate received on bank debt, adjusted for tenor and additional security obtained from SPAR South Africa. The Swiss operations apply a rate ranging from 0.5% to 1.0%.

Practical expedients

The group has applied a practical expedient available in the standard in order to apply the same discount rate to each portfolio of leases that have reasonably similar terms, underlying assets and economic circumstances. In South Africa, the majority of property leases are on similar underlying assets (stores) within similar economic environments, and with the same lease terms. The same can be said for property leases in Switzerland and in Ireland, however the Irish portfolio of leases is further split into leases based in Ireland and in the UK.

On transition to IFRS 16 the group will reverse onerous lease provisions, and account for the difference between cumulative unavoidable costs and expected economic benefits (if lower) as an IFRS 16 transitional adjustment through retained earnings.

Renewal periods

In determining the number of years of rental payments which should be present valued for the purpose of IFRS 16, renewal options should be considered when the lessee is reasonably certain to exercise.

In South Africa, the majority of property leases are entered into for an initial period of 10 years, with renewal options of 5 years. It has been concluded that these renewal options will only be recognised when it is reasonably certain that they will be entered into which is generally within 6 months of the renewal coming into effect.

In Ireland, management have identified only two leases for which they are reasonably certain not to exercise break clauses. No renewal assumptions/rights have been incorporated into the lease terms for these two properties.

In Switzerland, renewal clauses have been taken into account on a lease-by-lease basis where it is applicable and it is considered to be reasonably certain that the group will exercise the renewal options in order to retain control of the sites.

The group is in the concluding stages of system implementations to accommodate the requirements of IFRS 16 and continues to assess the impact on its annual financial statements in respect of the application of IFRS 16.

2. SALIENT STATISTICS AND HEADLINE EARNINGS

Rmillion		% Change	2019	2018
Salient statistics				
Headline earnings per share	(cents)	16.9	**1 129.1**	965.7
Diluted headline earnings per share	(cents)	17.2	**1 123.6**	958.9
Dividend per share	(cents)	9.7	**800.0**	729.0
Net asset value per share	(cents)	5.1	**3 879.9**	3 692.2
Operating profit margin	(%)		**2.7**	2.8
Return on equity	(%)		**29.7**	26.7
Headline earnings reconciliation				
Profit for the year attributable to ordinary shareholders			**2 163.4**	1 827.2
Adjusted for:				
Loss on disposal of property, plant and equipment			**0.6**	34.2
– Gross			**1.4**	37.2
– Tax effect			**(0.8)**	(3.0)
Profit on disposal of assets held for sale				(4.4)
Fair value adjustment to assets held for sale			**3.9**	
Impairment of goodwill			**5.0**	12.3
Loss/(profit) on disposal of businesses			**0.1**	(9.7)
Headline earnings			**2 173.0**	1 859.6

Notes to the summarised consolidated financial results continued

3. SEGMENT REPORTING

Segment accounting policies are consistent with those adopted for the preparation of the consolidated financial statements.

The principal segments of the group have been identified on a primary basis by geographical segment, which is representative of the internal reporting used for management purposes as well as the source and nature of business risks and returns. These geographical segments also represent operating segments as they meet the quantitative thresholds.

The Chief Executive Officer (the Chief Operating Decision Maker) (CODM) is of the opinion that the operations of the individual distribution centres within Southern Africa are substantially similar to one another and that the risks and returns of these distribution centres are likewise similar. The risks and returns of the Ireland, Switzerland and Poland operations are not considered to be similar to those within Southern Africa or each other.

As a result, the geographical segments of the group have been identified as Southern Africa, Ireland, Switzerland and Poland. All segment revenue and expenses are directly attributable to the segments. Segment assets and liabilities include all operating assets and liabilities used by a segment, with the exception of inter-segment assets and liabilities. These assets and liabilities are all directly attributable to the segments.

The principal activity of the operating segments is the wholesale and distribution of goods and services to SPAR grocery stores and multiple other branded group retail outlets.

The group deals with a broad spread of customers, with no single customer exceeding 10% of the group's revenue.

Analysis per reportable segment:

Rmillion	Southern Africa	Ireland	Switzerland	Poland	Consolidated Total
2019					
Statement of profit or loss					
Revenue from contracts with customers	**75 090.8**	**25 296.4**	**11 195.3**	**1.2**	**111 583.7**
Operating profit	**2 240.0**	**686.1**	**83.3**	**(30.5)**	**2 978.9**
Profit before tax	**2 151.3**	**657.2**	**2.8**	**(29.5)**	**2 781.8**
Interest income	**167.1**	**10.0**	**5.3**	**3.1**	**185.5**
Interest expense	**137.6**	**35.7**	**26.2**	**2.1**	**201.6**
Depreciation and amortisation	**237.8**	**274.1**	**242.8**		**754.7**
Statement of financial position					
Total assets	**17 451.9**	**10 636.2**	**5 487.8**	**477.0**	**34 052.9**
Total liabilities	**13 686.8**	**7 645.4**	**4 749.0**	**504.4**	**26 585.6**
2018 Restated*					
Statement of profit or loss					
Revenue from contracts with customers	69 556.9	22 931.5	10 567.1		103 055.5
Operating profit	2 080.3	574.4	124.6		2 779.3
Profit before tax	1 841.6	537.9	84.6		2 464.1
Interest income	155.1	11.0	3.2		169.3
Interest expense	124.0	42.9	26.0		192.9
Depreciation and amortisation	216.8	236.3	245.0		698.1
Statement of financial position					
Total assets	16 436.1	9 777.5	5 041.9		31 255.5
Total liabilities	12 718.1	7 263.5	4 164.1		24 145.7

Material non-cash items relating to the movement in the group's financial liabilities are presented in note 5.

* *Restated for the impact relating to the adoption of the new standards, refer to note 11 for further details.*

3. SEGMENT REPORTING continued

Rmillion	2019	2018
Disaggregated Revenue		
Southern Africa		
Revenue – sale of merchandise	**74 283.7**	68 753.4
SPAR	**57 566.2**	53 804.3
TOPS at SPAR	**7 646.9**	6 504.3
BUILD IT	**8 035.1**	7 514.5
S BUYS	**1 035.5**	930.3
Revenue – Other	**807.1**	803.5
Revenue from contracts with customers	**75 090.8**	69 556.9
Ireland		
Revenue – sale of merchandise	**24 835.2**	22 495.5
BWG	**22 044.0**	19 760.5
APPLEBY WESTWARD	**2 791.2**	2 735.0
Revenue – Other	**461.2**	436.0
Revenue from contracts with customers	**25 296.4**	22 931.5
Switzerland		
Revenue – sale of merchandise	**10 357.0**	9 769.1
WHOLESALE	**4 588.1**	4 214.4
TOPCC	**4 109.4**	3 859.7
RETAIL	**1 659.5**	1 695.0
Revenue – Other	**838.3**	798.0
Revenue from contracts with customers	**11 195.3**	10 567.1
Poland		
Revenue – sale of merchandise	**1.2**	–
Wholesale	**1.2**	
Revenue – Other		
Revenue from contracts with customers	**1.2**	
Total Revenue – sale of merchandise	**109 477.1**	101 018.0
Total Revenue – other	**2 106.6**	2 037.5
Total Revenue from contracts with customers	**111 583.7**	103 055.5

Notes to the summarised consolidated financial results continued

4. BUSINESS COMBINATIONS

4.1 Acquisition of Roadfield Holdings Ltd

The BWG Group purchased the entire shareholding of Roadfield Holdings Ltd (trading as Corrib Food Products), a wholesaler of predominantly chilled and frozen sectors in Ireland. The business operates from a major distribution centre based near Athenry, Co. Galway, and other distribution depots in Dublin. Approval for the transaction was received from the Competition and Consumer Protection Commission on the 31 October 2018, representing the effective date. This wholesaler was purchased in order to expand operations in Ireland, and the goodwill arising on the business combination is an indication of future profit expected to be made by the group as a result.

Retail stores acquired

During the course of the financial year the group acquired the assets of thirteen (2018: seven) retail stores in South Africa. GCL 2016 Ltd (Gilletts), a subsidiary of The BWG Group, acquired the assets of two (2018: two) retail stores in the United Kingdom (UK). The principal activity of these acquisitions is that of retail trade and all its aspects. These stores were purchased in order to protect strategic sites, and the goodwill arising on the business combinations is an indication of future turnover expected to be made by the group as a result of these acquisitions. These acquisitions were funded from available cash resources.

Assets acquired and liabilities assumed at date of acquisition

Rmillion	2019 Road Field Holdings Ltd "Corrib Foods"	2019 SA retail stores	2019 UK retail stores	2019 Total	2018 S Buys Holdings (Pty) Ltd*	2018 Knowles Shopping Centre Investments (Pty) Ltd	2018 4 Aces Wholesale	2018 SA retail stores	2018 UK retail stores	2018 Total
Assets	**158.9**	**152.1**	**1.6**	**312.6**	196.8	165.0	234.7	32.7	58.5	687.7
Property, plant and equipment	**9.4**	**71.8**	**0.4**	**81.6**	2.8	165.0		31.1	32.7	231.6
Goodwill				**–**	30.0					30.0
Deferred tax asset				**–**	4.9					4.9
Inventories	**25.9**	**2.6**	**0.8**	**29.3**	73.2		63.7	1.5	6.7	145.1
Other financial assets				**–**	0.4					0.4
Current tax receivable				**–**	0.1		0.5			0.6
Trade and other receivables	**69.1**	**7.8**	**0.4**	**77.3**	84.1		110.1		2.0	196.2
Non-current assets held for sale		**67.9**		**67.9**						
Cash and cash equivalents	**54.5**	**2.0**		**56.5**	1.3		60.4	0.1	17.1	78.9
Liabilities	**(72.9)**	**(4.8)**	**–**	**(77.7)**	(127.8)	–	(134.8)	(1.6)	(14.0)	(278.2)
Finance lease liability				**–**	(0.4)					(0.4)
Trade and other payables	**(66.1)**	**(4.8)**		**(70.9)**	(126.5)		(134.8)	(1.6)	(13.9)	(276.8)
Loans	**(6.8)**			**(6.8)**						
Income tax liability				**–**	(0.1)				(0.1)	(0.2)
Bank overdraft				**–**	(0.8)					(0.8)
Total identifiable net assets at fair value	**86.0**	**147.3**	**1.6**	**234.9**	69.0	165.0	99.9	31.1	44.5	409.5
Goodwill arising from acquisition	**178.2**	**125.3**	**8.3**	**311.8**	33.5		81.5	52.4	7.1	174.5
Non-controlling interest				**–**	(27.6)					(27.6)
Purchase consideration transferred	**264.2**	**272.6**	**9.9**	**546.7**	74.9	165.0	181.4	83.5	51.6	556.4
Paid in cash	**240.0**	**272.6**	**9.9**	**522.5**	74.9	165.0	150.2	83.5	41.4	515.0
Contingent consideration	**24.2**			**24.2**			31.2		10.2	41.4
Cash and cash equivalents acquired	**(54.5)**	**(2.0)**		**(56.5)**	(0.5)		(60.4)	(0.1)	(17.1)	(78.1)
Business acquisition costs	**4.9**			**4.9**		0.7	1.1			1.8
Contingent consideration	**(24.2)**			**(24.2)**			(31.2)		(10.2)	(41.4)
Net cash outflow on acquisition	**190.4**	**270.6**	**9.9**	**470.9**	74.4	165.7	90.9	83.4	24.3	438.7

* *Fifth Season Investments 126 (Pty) Ltd changed its name to S Buys Holdings (Pty) Ltd during the current financial year.*

Notes to the summarised consolidated financial results continued

4. BUSINESS COMBINATIONS continued

4.2 Cash flow on acquisition of business/subsidiaries

The cash flow on acquisition of business/subsidiaries is noted as being the amount disclosed in note 4.1, other similar business acquisition costs incurred relating to prospective business acquisitions and contingent consideration of the 4 Aces acquisition.

Rmillion	2019	2018
Net cash outflow	**470.9**	438.7
4 Aces contingent consideration	**8.7**	
Costs on potential acquisitions	**7.8**	14.5
Total net cash outflow relating to acquisitions	**487.4**	453.2

The 4 Aces acquisition included a provision for contingent consideration. The cash outflow relates to the settlement of the contingent consideration which was adjusted for amounts not payable as targets were not met and reclamation of VAT on bad debts written off, offset by an ex gratia payment to the vendors. No further fair value adjustments have been made to the net identifiable assets acquired, the 12 month adjustment window for which expired on 11 May 2019.

4.3 Assets and liabilities at date of disposal

The assets and liabilities disposed of relate to two South African retail stores (2018: four retail stores) and previously disclosed as non-current assets held for sale relating to ADM Londis in the United Kingdom.

	2019		2018		
Rmillion	SA retail stores	Total	ADM Londis	SA retail stores	Total
Non-current assets	**20.2**	**20.2**	101.7	45.2	146.9
Property, plant and equipment	**7.9**	**7.9**		11.5	11.5
Non-current assets held for sale		**–**	101.7		101.7
Goodwill	**12.3**	**12.3**		33.7	33.7
Current liabilities	**–**	**–**	(108.9)	–	(108.9)
Trade & other payables		**–**	(7.4)		(7.4)
Deferred consideration payable for ADM Londis		**–**	(101.5)		(101.5)
Profit on disposal of businesses	**(0.1)**	**(0.1)**	7.2	2.5	9.7
Proceeds	**20.1**	**20.1**	–	47.7	47.7

4. BUSINESS COMBINATIONS continued

4.4 Contribution to results for the year

Rmillion	2019 Road Field Holdings Ltd "Corrib Foods"	SA retail stores	UK retail stores	Total
Revenue	**489.7**	**253.4**	**19.6**	**762.7**
Trading profit/(losses) before acquisition costs	**27.4**	**(4.9)**	**1.4**	**23.9**

Rmillion	S Buys Holdings (Pty) Ltd	Knowles Shopping Centre Invest-ments (Pty) Ltd	2018 SA retail stores	4 Aces Wholesale	UK retail stores	Total
Revenue	952.7	17.5	328.6	319.0	17.2	1 635.0
Trading profit/(losses) before acquisition costs	17.9	8.3	(22.9)	5.5	0.2	9.0

5. FINANCIAL LIABILITIES

Rmillion	2019	2018
PRESENT VALUE		
TIL JV Ltd	**1326.3**	1 216.2
SPAR Holding AG	**840.9**	777.5
S Buys Holdings (Pty) Ltd	**37.2**	49.2
Total financial liabilities	**2 204.4**	2 042.9
Less: short-term portion of financial liabilities	**(683.3)**	
Long-term portion of financial liabilities	**1 521.1**	2 042.9
UNDISCOUNTED VALUE		
TIL JV Ltd	**1 434.3**	1 389.2
SPAR Holding AG	**854.8**	813.2
S Buys Holdings (Pty) Ltd	**55.9**	86.2
	2 345.0	2 288.6
Difference between undiscounted value and the carrying amount of the financial liabilities	**140.6**	245.7

5. FINANCIAL LIABILITIES continued

The undiscounted value of the financial liabilities represents the amount the group is contractually required to pay at maturity to the holder of the obligation.

On 1 August 2014, the SPAR Group Ltd acquired a controlling shareholding of 80% in the BWG Group, which is held by TIL JV Ltd, a wholly owned subsidiary of The SPAR Group Ltd. The SPAR Group Ltd has agreed to acquire the remaining 20% shareholding from the non-controlling shareholders at specified future dates and in accordance with a determined valuation model. An election was made not to recognise a non-controlling interest, but to fair value the financial liability. The financial liability is calculated as the present value of the non-controlling interests share of the expected purchase value and discounted from the expected exercise dates to the reporting date. As at 30 September 2019, the financial liability was valued at R1 326.3 million (2018: R1 216.2 million) based on management's expectation of future profit performance. The group has recognised 100% of the attributable profit.

Repayments will commence in December 2019 and continue in 2020 and 2022. The December 2019 repayment has been disclosed as the current portion financial liability.

Interest is recorded in respect of this liability within finance costs using the effective interest rate method. The net exchange differences on the financial liability have been presented in finance costs. The estimated future purchase price is fair valued at each reporting date and any changes in the value of the liability as a result of changes in the assumptions used to estimate the future purchase price are recorded in profit or loss.

In both 2019 and 2018 a expected future profits adjustment was made to the TIL JV Limited financial liability.

On 1 April 2016 The SPAR Group Ltd acquired a controlling shareholding of 60% in SPAR Holding AG, which is held by SAH Ltd, a wholly owned subsidiary of The SPAR Group Ltd. Part of the purchase price of this 60% shareholding is a deferred consideration of CHF 16.0 million, which will be paid between December 2020 and February 2021 with the purchase of the remaining 40% of SPAR Holding AG. The purchase of the remaining 40% shareholding is at a set price of CHF 40.3million. The total obligation of CHF 56.3 million was accounted for as a financial liability at the present value of the obligation, discounted from the expected settlement date to the reporting date. An election was made not to recognise the non-controlling interest's share of profits or losses in equity, but rather as the movement in the fair value of the discounted financial liability to purchase the remaining 40% shareholding.

Interest is recorded in respect of this liability within finance costs using the effective interest rate method. The net exchange differences on the financial liability have been presented in finance costs.

On 1 October 2017, the SPAR Group Ltd acquired a 60% shareholding in S Buys Holdings (Pty) Ltd which trades as S Buys. The SPAR Group Ltd agreed to purchase the remaining 40% shareholding in S Buys between 30 September 2022 and 31 December 2022 for an amount based on a multiple of the profit after tax for the 2022 financial year. This obligation to purchase the remaining shareholding will be recognised as a financial liability at the present value of the obligation, discounted from the expected settlement date to the reporting date. An election was made not to recognise the non-controlling interest's share of profits or losses in equity, but rather as the movement in the fair value of the discounted financial liability to purchase the remaining 40% shareholding. As at 30 September 2018, the financial liability was valued at R37.2 million (2018: R49.2 million) based on management's expectation of future profit performance.

Interest is recorded in respect of this liability within finance costs using the effective interest rate method. The estimated future purchase price is fair valued at each reporting date and any changes in the value of the liability as a result of changes in the assumptions used to estimate the future purchase price are recorded in profit or loss.

Movements in level 3 financial instruments carried at fair value

The following tables show a reconciliation of the opening and closing balances of level 3 financial instruments carried at fair value:

Rmillion	2019	2018
TIL JV Ltd		
Balance at beginning of year	**1 216.2**	963.8
Finance costs recognised in profit or loss	**69.1**	72.3
Net exchange differences arising during the period	**6.4**	40.6
Expected future profits adjustment	**34.6**	139.5
Balance at end of year	**1 326.3**	1 216.2
S Buys Holdings (Pty) Ltd		
Balance at beginning of year	**49.2**	–
Initial recognition	**–**	54.4
Initial recognition reducing non-controlling interest balance	**–**	27.6
Initial recognition in equity reserve	**–**	26.8
Finance costs recognised in profit or loss	**7.2**	6.4
Expected future profits adjustment	**(19.2)**	(11.6)
Balance at end of year	**37.2**	49.2
Movements in financial liabilities held at amortised cost		
SPAR Holding AG		
Balance at beginning of year	**777.5**	736.3
Finance costs recognised in profit or loss	**22.5**	14.3
Net exchange differences arising during the period	**37.1**	2.9
Foreign exchange translation	**3.8**	24.0
Balance at end of year	**840.9**	777.5
Total financial liabilities	**2 204.4**	2 042.9

6. FINANCIAL RISK MANAGEMENT

Rmillion	2019	2018
Financial instruments classification		
Financial assets held at amorised cost[(1)]		
Net bank balances	**(67.4)**	1 598.2
Loans and other receivables	**1 266.7**	794.3
Block discounting loan receivable	**623.1**	768.2
Trade and other receivables	**13 122.7**	12 134.4
Financial liabilities at amortised cost[(2)]		
Block discounting loan payable	**(637.2)**	(785.9)
Trade and other payables	**(14 912.8)**	(15 236.0)
Borrowings	**(5 164.8)**	(4 410.1)
Financial liabilities at amortised cost	**(840.9)**	(777.5)
Financial assets and liabilities at fair value through profit or loss[(3)]		
Other equity investments	**19.8**	57.9
Forward exchange contract (FEC) asset	**0.4**	0.3
Financial liabilities at fair value through profit or loss	**(1 363.5)**	(1 265.4)
Designated hedging instrument[(4)]		
Interest rate swap liability	**(2.8)**	(3.3)

(1) *Classified under IFRS 9 as financial assets at amortised cost. Previously classified under IAS 39 as loans and receivables.*
(2) *Classified under IFRS 9 as financial liabilities at amortised cost. Previously classified under IAS 39 as financial liabilities measured at amortised cost.*
(3) *Classified under IFRS 9 and previously under IAS 39 as financial assets or liabilities at fair value through profit or loss.*
(4) *Designated as a hedging instrument.*

Notes to the summarised consolidated financial results continued

6. FINANCIAL RISK MANAGEMENT continued

Fair value hierarchy

The group's financial instruments carried at fair value are classified into three categories defined as follows:

Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 financial instruments are those valued using techniques based primarily on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. Financial instruments classified as level 2 mainly comprise other equity investments.

Level 3 financial instruments are those valued using techniques that incorporate information other than observable market data. Instruments in this category have been valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data.

The following financial instruments are carried at fair value and are further categorised into the appropriate fair value hierarchy:

Financial instruments

Rmillion	Carrying value	Fair value Level 1	Level 2	Level 3
2019				
Other equity investments	**2.5**		**2.5**	
Interest rate swap	**(2.8)**		**(2.8)**	
FEC asset at fair value through profit or loss	**0.4**		**0.4**	
Financial liabilities at fair value through profit or loss	**(1 363.5)**			**(1 363.5)**
Total	**(1 363.4)**	**–**	**0.1**	**(1 363.5)**
2018				
Other equity investments	55.3		55.3	
Interest rate swap	(4.9)		(4.9)	
FEC asset at fair value through profit or loss	0.2		0.2	
Financial liabilities at fair value through profit or loss	(1 265.4)			(1 265.4)
Total	(1 214.8)	–	50.6	(1 265.4)

Level 2 valuation methods and inputs

The level 2 financial instruments consists of the investment in Group Risk Holdings (Pty) Ltd (GRH) and the Hypo Vorarlberg bank security deposit. The value of the investment in GRH is based on the group's premium contributions relative to other shareholders in GRH. The Hypo Vorarlberg bank security deposit is a portfolio of listed shares and bonds, the value of which are observable in the market.

Level 3 sensitivity information

The fair value of the level 3 financial liabilities of R1 363.5 million (2018: R1 265.4 million) was estimated by applying an income approach valuation method including a present value discount technique. The fair value measurement is based on significant inputs that are not observable in the market. Key inputs used in the valuation include the assumed future profit targets and the discount rates applied. The assumed profitability was based on historical performances but adjusted for expected growth. In September 2018, the estimated future profit target for TIL JV Ltd was adjusted upward by 3.1% (2018: upward by 12.4%), and the estimated future profit target for S Buys Holdings (Pty) Ltd was adjusted downward by 35.1% (2018: downward by 12.9%).

6. FINANCIAL RISK MANAGEMENT continued

The following tables show how the fair value of the level 3 financial liabilities would change in relation to change in the discount rate by 0.5%.

	Discount rate %	Sensitivity % change	Liability Rmillion
TIL JV Ltd			
2019			
Financial liability	**8.0**	**0.5**	**(6.2)**
Financial liability	**8.0**	**(0.5)**	**6.3**
2018			
Financial liability	6.7	0.5	(11.7)
Financial liability	6.7	(0.5)	11.9
S Buys Holdings (Pty) Ltd			
2019			
Financial liability	**12.6**	**0.5**	**(0.6)**
Financial liability	**12.6**	**(0.5)**	**0.6**
2018			
Financial liability	13.3	0.5	(1.0)
Financial liability	13.3	(0.5)	1.0

The following tables show how the fair value of the level 3 financial liabilities would change in relation to change in the expected future profit targets by 5.0%.

	Sensitivity % change	Liability Rmillion
TIL JV Ltd		
2019		
Financial liability	**5.0**	**66.3**
Financial liability	**(5.0)**	**(66.3)**
2018		
Financial liability	5.0	59.2
Financial liability	(5.0)	(59.1)
S Buys Holdings (Pty) Ltd		
2019		
Financial liability	**5.0**	**1.9**
Financial liability	**(5.0)**	**(1.9)**
2018		
Financial liability	5.0	2.3
Financial liability	(5.0)	(2.3)

Notes to the summarised consolidated financial results continued

7. COMMITMENTS

Rmillion	Land and buildings	Other
7.1 Operating lease commitments		
Future minimum lease payments		
2019		
Payable within one year	**1 817.1**	**71.6**
Payable later than one year but not later than five years	**6 401.8**	**130.9**
Payable later than five years	**4 916.3**	**26.8**
Total	**13 135.2**	**229.3**
2018		
Payable within one year	1 623.6	78.2
Payable later than one year but not later than five years	5 434.0	124.8
Payable later than five years	4 023.9	13.9
Total	11 081.5	216.9

Rmillion	2019	2018
7.2 Operating lease receivables		
Future minimum sub-lease receivables		
Receivable within one year	**1 060.8**	952.7
Receivable later than one year but not later than five years	**3 524.2**	3 132.3
Receivable later than five years	**2 289.0**	1 938.4
Total operating lease receivables	**6 874.0**	6 023.4

Future minimum lease payments relate to obligations under non-cancellable lease contracts.

Rmillion	2019	2018
7.3 Capital commitments		
Contracted	**258.0**	200.5
Approved but not contracted	**91.7**	143.5
Total capital commitments	**349.7**	344.0

Capital commitments will be financed from group resources.

8. FINANCIAL GUARANTEES

Financial guarantees may be provided by the group to subsidiaries and affiliates. These financial guarantees are accounted for under IFRS 4 and initially measured at cost and subsequently in terms of IAS 37 which requires the best estimate of the expenditure to settle the present obligation. Management have assessed that the amount that it would rationally pay to settle the obligation is nil.

Management's assessment is based on the ability of subsidiaries and affiliates having sufficient cash resources, in country, to service the underlying debt instrument's obligations as and when these become due.

The risk relating to financial guarantees is managed per geographical region, through review of cash flow forecasts, budgets and covenants monitoring.

The board has limited the guarantee facility to R190.0 million (2018: R190.0 million) relating to Numlite (Pty) Ltd. Loans extended to retailers by Wesbank are guaranteed by SPAR.

The table below represents the full exposure of the group in relation to these financial guarantees as at 30 September 2019.

Rmillion	2019	2018
Financial Guarantees	**373.5**	169.7
– Guarantee of Wesbank loan agreements	**201.4**	
– Guarantee of Numlite (Pty) Ltd finance obligations	**172.1**	169.7

9 PRIOR PERIOD RESTATEMENT

9.1 Prior period restatement

SPAR has identified that intangible assets relating to computer software was erroneously disclosed in the property, plant and equipment financial statement line item. SPAR in recent years has embarked on modernisation projects which required significant investment in SAP software. SPAR enhanced the disclosure surrounding the categories of property, plant and equipment in the current year and through this process identified the software asset which is required to be disclosed as an intangible asset.

9.2 Prior period restatement impact on statement of financial position

Rmillion	30 September 2018 Originally presented	Effect of restatement	30 September 2018 restated
Property, plant and equipment	6 966.9	(315.1)	6 651.8
Goodwill and intangible assets	4 436.6	315.1	4 751.7

Rmillion	30 September 2017 Original presented	Effect of restatement	30 September 2017 restated
Property, plant and equipment	6 553.9	(277.4)	6 276.5
Goodwill and intangible assets	4 162.2	277.4	4 439.6

10. BLOCK DISCOUNTING LOANS

Rmillion	2019	2018
Block discounting loan receivable	**365.0**	542.4
Current portion of block discounting loan receivable	**258.1**	225.8
Total block discounting loan receivable	**623.1**	768.2
Block discounting loan payable	**373.6**	553.6
Current portion of block discounting loan payable	**263.6**	232.3
Total block discounting loan payable	**637.2**	785.9

SPAR gives out loans at the prime interest rate to retailers which are immediately sold at prime less one percent to an approved financial institution under a block discounting agreement with recourse. The financial institution fulfils all administrative activities relating to the repayment of these loans, and will only revert to SPAR in the unusual instance of default on the part of the retailer.

As these loans have been discounted to the financial institution with full recourse resulting in SPAR still being exposed to the credit risk on this transaction, it has been concluded that these loans receivables do not meet the derecognition criteria for financial assets in terms of IAS 39. This has resulted in the recognition of a financial asset held at amortised cost which represents the amount owing by the retailer, and a financial liability held at amortised cost which represents the amount owing to the financial institution.

Retailer loans are secured by notarial bonds over assets, deeds of suretyship, cession and pledge of shares and in some instances, lease options. The recoverability of amounts owed by retailers is regularly reviewed and assessed on an individual basis. A provision will be raised to the extent a loan is no longer considered recoverable. No provision has been raised at year end as no material amounts are past due at year end. This is estimated considering past experience and additional risk factors such as significant actual or expected changes in the operating results or business conditions of the retailer. To the extent a loan is considered irrecoverable, the debt is written off.

Schedule of repayment of borrowings

Rmillion	2019	2018
Year to September 2019		285.8
Year to September 2020	**258.1**	236.7
Year to September 2021	**204.0**	177.5
Year to September 2022	**150.0**	114.7
Year to September 2023	**76.8**	37.5
Year to September 2024 onwards	**36.5**	
	725.4	852.2

The schedule of borrowings represents the repayments that the retailer will make directly to the financial institution with whom the loans have been discounted.

11. ADOPTION OF NEW ACCOUNTING STANDARDS

11.1 Effect of adopting IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 October 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The group has elected not to restate its comparative information as permitted by IFRS 9. Therefore, the impact of IFRS 9 will be applied retrospectively with an adjustment to opening retained earnings. The comparative information in the prior year annual financial statements will not be amended for the impact of IFRS 9.

The total impact on the group's retained earnings as at 1 October 2018 is as follows:

Rmillion	Notes	
Closing retained earnings 30 September 2018 as previously reported		5 211.6
Adjustment to retained earnings from adoption of IFRS 9 on 1 October 2018		(18.2)
Increase in provision for trade receivables	11.1.2	(23.8)
Increase in provision for loans at amortised cost	11.1.2	(0.9)
Increase in net deferred tax assets relating to impairment provisions		6.5
Opening retained earnings 1 October 2018		5 193.4

11.1.1 Classification and measurement of financial instruments

(a) Financial Assets

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The group has the following types of financial assets that are subject to IFRS 9:

1. Loans receivables
2. Block discounting loans receivable
3. Trade and other receivables
4. Cash and cash equivalents

On 1 October 2018 (the date of initial application of IFRS 9),management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories.

Management is satisfied that these financial assets will be measured at amortised cost under IFRS 9 since the group has a business model to hold these financial assets to collect contractual cash flows and the characteristics of the contractual cash flows are that of solely payments of the principal amount and interest received.

Loan receivables, block discounting loan receivables, and trade and other receivables were classified under IAS 39 as loans and receivables. Under IFRS 9 these are classified as financial assets at amortised cost. This classification is a result of the assets contractual cash flows being solely principal and interest and the business model's objective is achieved by holding the assets to collect the contractual cashflows. There was no impact on the amounts recognised in relation to these assets as a result of the classification of these balances on adoption of IFRS 9.

Notes to the summarised consolidated financial results continued

11. ADOPTION OF NEW ACCOUNTING STANDARDS continued

11.1 Effect of adopting IFRS 9 Financial Instruments continued

11.1.1 Classification and measurement of financial instruments continued

(b) Other equity investments

Equity investments previously held as fair value through profit or loss (FVPL) under IAS 39 are still required to be held as FVPL under IFRS 9 as the business model for these assets is neither held-to-collect nor held-to-collect and for sale, and the collection of contractual cash flows is incidental to the business model. There was no impact on the classification or amounts recognised in relation to these assets from the adoption of IFRS 9.

(c) Other current financial assets

FEC assets within other current financial assets previously held as FVPL under IAS 39 are still required to be held as FVPL under IFRS 9. There was no impact on the classification or amounts recognised in relation to these assets from the adoption of IFRS 9.

(d) Financial liabilities

Financial liabilities previously classified at FVPL under IAS 39, maintain this classification under IFRS 9. This reduces recognition and measurement inconsistencies that would arise if these were measured on different basis. The financial liabilities are managed and performance evaluated on a fair value basis based on information provided internally to key management personnel. Initially the group assessed this as having no impact on the amounts recognised in relation to these liabilities as a result of the classification of these balances on adoption of IFRS 9, however post interim the group identified that fixed value financial liability obligations were to be classified as amortised cost financial instruments.

The main effects resulting from this reclassification are as follows:

Rmillion	FVPL	Loans and receivables	Amortised cost	Investment in subsidiary/ associate
Assets				
Closing balance at 30 September 2018 – IAS 39	58.2	15 295.1	–	156.7
Reclassify cash and cash equivalents from loans and receivables to amortised cost		(1 598.2)	1 598.2	
Reclassify loans from loans and receivables to amortised cost		(794.3)	794.3	
Reclassify block discounting loan receivable from loans and receivables to amortised cost		(768.2)	768.2	
Reclassify trade and other receivables from loans and receivables to amortised cost		(12 134.4)	12 134.4	
Reclassify investment in subsidiary/associate to loans at amortised cost			51.7	(51.7)
Opening balance on 1 October 2018 – IFRS 9	58.2	–	15 346.8	105.0

11. ADOPTION OF NEW ACCOUNTING STANDARDS continued

11.1 Effect of adopting IFRS 9 Financial Instruments continued

11.1.1 Classification and measurement of financial instruments continued

Rmillion	FVPL	Loans and receivables	Amortised cost	Investment in subsidiary/ associate
Liabilities				
Closing balance at 30 September 2018 – IAS 39	2 042.9	–	20 432.0	–
Reclassification of financial liabilities from FVPL to Amortised cost	(777.5)		777.5	
Opening balance on 1 October 2018 – IFRS 9	1 265.4	–	21 209.5	–

11.1.2 Impairment of financial assets under the expected credit loss model

The group has four types of financial assets that are impacted by IFRS 9's new expected credit loss model:

– Trade receivables from the sale of merchandise
– Loans provided by the SPAR Group
– Block discounting loan receivables
– Cash and cash equivalents

The group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the group's retained earnings and equity is disclosed in the table above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The group has adopted the general approach for loans receivable, which involves a three stage approach to the recognition of credit losses and interest.

The group assesses exposure on specific customers taking into consideration the security held.

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.

Trade receivables and loan receivables are written off when there is no reasonable expectation of recovery. Debt is considered to be irrecovarable if continues attempts to collect outstanding amounts are unsuccessful, which have been handed over to legal for collection or if management have identified a specific financial issue with a customer.

The expected loss allowance represents management's estimate of the extent to which trade receivables at the reporting date will not be subsequently recovered. This estimate takes into consideration past trends and makes an assessment of additional risk factors which are likely to impact recoverability such as significant actual or expected changes in the operating results or business conditions of the retailer. To the extent considered irrecoverable, debts are written off.

11. ADOPTION OF NEW ACCOUNTING STANDARDS continued

11.1 Effect of adopting IFRS 9 Financial Instruments continued

11.1.3 Impact on the statement of financial position

Rmillion	Audited Year Ended September 2018 previously reported	IFRS 9 restatement adjustment	1 October 2018
Trade and other receivables	12 134.4	(23.8)	12 110.6
Loans and other receivables	696.4	(0.9)	695.5
Deferred tax assets	14.4	6.5	20.9
Retained Earnings	5 211.6	(18.2)	5 193.4

11.2 Effect of adopting IFRS 15 Revenue from contracts with customers

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer.

The core principle of IFRS 15 is that an entity recognises revenue from contracts with customers to depict the transfer of control of promised goods or services to customers for an amount that reflects the consideration to which an entity expects to be entitled to in exchange for those goods or services. The standard provides a single, principles based five-step to account for revenue from contracts with customers, based on the principle that revenue 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.

The adoption of IFRS 15 with effect from 1 October 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted the new standard retrospectively and has restated comparatives for the 2018 financial year.

The group assessed all income streams in terms of IFRS 15 and this evaluation has resulted in the group classifying its income in terms of three categories:

1. **Revenue – sale of merchandise:** this represents revenue from the group's main trading activities being from the sale of goods which mainly comprises wholesale sales to independent retailers, and to a small degree retail sale of stores owned by the group.

2. **Revenue – other:** this relates to ancillary sales and services which comprise of marketing and promotional activities provided by the group. The group is satisfied that these services are distinct within the context of the relevant contracts.

3. **Other income:** this represents income that is derived from activities that are incidental to the group's main trading activities and ancillary services offered.

Agent versus Principal

The IFRS 15 principles dictate that revenue is recognised as and when the control over goods and services are transferred to customers. The group has assessed its dropshipment sales which is recorded on a gross principal basis and has concluded that this will continue to be recognised on a gross basis having satisfied the requirements of principal accounting under IFRS 15. The group has assessed its marketing and advertising income in the guilds which is recorded on a net agency basis. This net amount is then included in the group's consolidated statement of profit and loss and other comprehensive income.

11. ADOPTION OF NEW ACCOUNTING STANDARDS continued

11.2 Effect of adopting IFRS 15 Revenue from contracts with customers continued

The implementation of the new standard has not impacted the measurement and timing of revenue recognition, however, it had the following impact on the presentation of the statement of comprehensive income:

An amount of R1870.1 million for the year ended 30 September 2018 previously treated as other income and R167.4 million previously offset against operating expenses has been reclassified to Revenue – other due to clarity provided by IFRS 15 regarding distinct goods and services being identifiable and separable not provided by IAS 18.

The following restatements have been applied in the group's results for the year ended 30 September 2018:

11.3 Impact on the consolidated financial statements

The following tables set out the impact of the changes in accounting policies and prior period restatements recognised for each individual line item affected in the consolidated financial statements.

IFRS 15 was adopted with the comparative information being restated and the impact is reflected in the restated comparatives.

The aggregate effect of the changes in accounting policies and prior period restatements on the annual financial statements and interim results presented are as follows:

11.3.1 Impact on the statement of profit or loss and other comprehensive income

Rmillion	Audited year ended September 2018 previously reported	IFRS 15 restatement adjustment	Restated audited year ended September 2018
Revenue – sale of merchandise	101 018.0		101 018.0
Cost of sales	(90 225.0)		(90 225.0)
Gross profit	10 793.0	–	10 793.0
Revenue – other		2 037.5	2 037.5
Other income	1 989.5	(1 870.1)	119.4
Net operating expenses	(10 003.2)	(167.4)	(10 170.6)
Warehousing and distribution expenses	(3 149.4)	(5.0)	(3 154.4)
Marketing and selling expenses	(4 763.0)	(162.4)	(4 925.4)
Administration and information technology expenses	(2 090.8)		(2 090.8)
Operating profit	2 779.3	–	2 779.3
Other non-operating items	(144.2)		(144.2)
Interest income	169.3		169.3
Interest expense	(192.9)		(192.9)
Finance costs including foreign exchange gains and losses	(136.5)		(136.5)
Share of equity accounted associate losses	(10.9)		(10.9)
Profit before taxation	2 464.1	–	2 464.1
Income tax expense	(636.9)		(636.9)
Profit for the period attributable to ordinary shareholders	1 827.2	–	1 827.2

12. EVENTS AFTER THE REPORTING DATE

12.1 Acquisition of Piotr i Pawel Group

On 1 October 2019, SPAR acquired an 80% stake in Piotr i Pawel Sp. z o.o. (PiP) for a consideration 1 euro. PiP is a retail chain of 77 delicatessen and supermarket stores, together with a wholesale distribution network. PiP is currently subject to legally supervised debt restructuring process similar to South African Business Rescue. These sanitation proceedings were still in progress at the acquisition date but do not impact on SPAR's ability to control the relevant activities of the acquired entity. Due to the uncertainty around the finalisation of the debt restructuring and the proximity of the acquisition date to year-end, we are therefore unable to reasonably estimate the fair value of assets and liabilities at acquisition date.

12.2 Acquisition of Monteagle Africa Limited

The SPAR Group Limited has purchased a 50% shareholding in Monteagle Africa Limited subject to the approval of the Competition Commission. Monteagle Africa Limited is a wholesaler in the food retail sector, operating in Southern Africa. Monteagle Africa Limited is a supplier to the SPAR for its Private Label products.

12.3 Changes to the board of directors

Mr Roelf Venter retired as an executive director with the effect from 1 October 2019. Mr Wayne Hook will retire as executive director on 31 December 2019.

12.4 The directors are not aware of any matters or circumstances, other than the above, arising since the end of the financial year which have or may significantly affect the financial position of the group or the results of its operations.

Declaration of ordinary dividend

Notice is hereby given that a gross final cash dividend of 516 cents per share has been declared by the board in respect of the year ended 30 September 2019. The dividend has been declared out of income reserves. This brings the total gross dividend for the year to 800 cents (2018: 729 cents) per ordinary share.

The salient dates for the payment of the final dividend are detailed below:

Last day to trade *cum*-dividend	Tuesday, 3 December 2019
Shares to commence trading *ex*-dividend	Wednesday, 4 December 2019
Record date	Friday, 6 December 2019
Payment of dividend	Monday, 9 December 2019

Shareholders will not be permitted to dematerialise or rematerialise their shares between Wednesday, 4 December 2019 and Friday, 6 December 2019, both days inclusive.

In terms of South African taxation legislation effective from 1 April 2012, the following additional information is disclosed:

- The South African local dividend tax rate is 20%;
- The net local dividend amount is 412.8 cents per share for shareholders liable to pay tax on dividends and 516 cents per share for shareholders exempt from such dividend tax;
- The issued share capital of The SPAR Group Ltd is 192 602 355 ordinary shares; and
- The SPAR Group Ltd's tax reference number is 9285/168/20/0.

By order of the board

MJ Hogan
Company Secretary

Pinetown
12 November 2019

Commentary

SALIENT FEATURES

Rmillion	Year ended 30 Sept 2019	Year ended 30 Sept 2018	% Change
Turnover*	**109 477.1**	101 018.0	8.4%
Operating profit	**2 978.9**	2 779.3	7.2%
Earnings per share (cents)	**1 124.1**	948.9	18.5%
Headline earnings per share (cents)	**1 129.1**	965.7	16.9%
Normalised diluted headline earnings per share** (cents)	**1 160.6**	1 055.7	9.9%
Dividend per share (cents)	**800.0**	729.0	9.7%
Net asset value per share (cents)	**3 879.9**	3 692.2	5.1%

* *Turnover represents revenue from the sale of merchandise*

** *Headline earnings adjusted for expected future profits and foreign exchange losses on financial liabilities, and business acquisitions costs*

Performance overview

The SPAR Group Ltd ("the group") reported an excellent performance for the financial year under review, with turnover increasing by 8.4% to R109.5 billion, against the backdrop of markets that remain tough in all regions of operations. Through focused margin management and tight cost and efficiency control, the group increased operating profit by 7.2% to R3.0 billion. The group's diluted headline earnings per share increased by 9.9% to 1160.6 cents per share on a normalised basis.

- SPAR Southern Africa delivered solid growth of 8.0% in wholesale turnover in a competitive environment. The core SPAR business grew turnover by 7.0% to R57.6 billion and was again supported by strong marketing initiatives which continued to attract cash-strapped consumers. The TOPS liquor brand again delivered an impressive result with wholesale sales growth of 17.6%. Combined food and liquor wholesale turnover growth recorded growth of 8.1%. Despite a generally weak building materials sector, Build It increased sales by 6.9% to R8.0 billion, underpinned by effective marketing and improved retailer loyalty. The SPAR Southern Africa store network increased to 2 349 stores, with 169 new stores opened. The group completed 298 (2018: 276) store upgrades across all brands.
- The BWG Group in Ireland has once again reported a strong financial performance with euro-denominated turnover growth increasing by 6.2% to €1.5 billion. The result was positively impacted by acquisitions, in particular, Corrib Foods business, in November 2018. Adjusting for these new businesses, comparable turnover increased by 2.2% in a market with negative price inflation. All retail brands reported positive sales growth. The Foodservice business reported impressive double-digit turnover growth and has become a significant part of the Irish business, while MACE, XL and SPAR retail brands all delivered turnover growths of over 4%. During the year the business implemented a number of logistics and supply chain initiatives which have ensured cost-efficient deliveries, despite increased labour rates. BWG Group opened 60 new stores and finished the financial year with 1 360 stores.

  SPAR Switzerland's wholesale business reported growth of 1.2% in CHF terms, reflecting strong trading from upgraded retailer-owned stores. While the second half saw an improved performance, operating profit for the full year remains impacted by the aggressive marketing initiatives in the first half. Measured in local currency, the turnover growth has remained negative but has improved on the prior year as the corporate stores disposed of are removed from the comparative base. The market remained challenging but the brand is gaining positive support as initiatives continued to gain traction. SPAR Switzerland had a total store network of 322 stores at financial year end, adding 26 new stores during the financial year.

GROUP FINANCIAL REVIEW

Summary Segment Analysis

Rmillion	Southern Africa	Ireland	Switzerland	Poland	The SPAR Group Ltd
Income statement					
Turnover*	**74 283.7**	**24 835.2**	**10 357.0**	**1.2**	**109 477.1**
Gross profit	**6 610.5**	**3 232.0**	**1 817.3**	**0.1**	**11 659.9**
Operating profit	**2 240.0**	**686.1**	**83.3**	**(30.5)**	**2 978.9**
Profit before taxation	**2 151.3**	**657.2**	**2.8**	**(29.5)**	**2 781.8**
Financial position					
Total assets	**17 451.9**	**10 636.2**	**5 487.8**	**477.0**	**34 052.9**
Total liabilities	**13 686.8**	**7 645.4**	**4 749.0**	**504.4**	**26 585.6**

* *Turnover represents revenue from the sale of merchandise*

The SPAR Group's turnover increased by 8.4% to R109.5 billion (2018: R101.0 billion), with 32.1% (2018: 31.9%) of total turnover now generated in foreign currency. The core SPAR Southern African business reported turnover growth of 8.0% in a tough market that remains highly competitive. The turnover of the BWG Group increased by 6.2% in euro-currency terms. The depreciation of the rand against the euro over this period contributed to the 10.4% overall increase in reported turnover from the Irish business to R24.8 billion (2018: R22.5 billion). SPAR Switzerland contributed turnover of R10.4 billion (2018: R9.8 billion) and despite sales still declining in local currency, it is encouraging that the rate of decline has slowed to -1.5% as new business and improved retail offerings start being felt.

Gross margin on a restated basis remained flat at 10.7%. SPAR Southern Africa reported a slight decrease in its comparable gross margin to 8.9% which was largely attributable to dilutive impact of the very strong liquor sales growth. The BWG Group and SPAR Switzerland, which both operate in the higher-margin convenience sector, reported comparable gross margins of 13.0% (2018: 12.6%) and 17.6% (2018: 18.2%) respectively. The former business was positively impacted by the recent acquisitions, including Corrib Foods, which have been margin enhancing, while the slight decline in the Swiss gross margin was attributed to the aggressive marketing undertaken in the first half of the year.

Group operating expenses were again closely managed during the year, increasing by 7.6% as both the South African and Swiss businesses kept cost growth below the levels of turnover increases. The South African business reported an increase in expenses of 6.8%, the result of tightly controlled costs. Costs rose in the Swiss business by 5.0% and continued to report the impacts of management initiatives and the disposal, or closure, of corporate stores in the prior year. The BWG Group's expenses increased by 12.0% but were significantly impacted by the new acquisitions. However, even after adjusting for these costs the increase continued to reflect the impacts of rising depreciation charges and higher staff costs.

Profit before tax has increased by 12.9% year-on-year to R2.8 billion (2018: R2.5 billion), but was impacted by a significant expected future profits adjustment of R139.5 million recognised in the prior year for the financial liability to purchase the Irish minority interests. The corresponding adjustment in the current year was a much reduced R34.6 million.

Profit after tax improved 18.4% to R2 163.4 million (2018: R1 827.2 million), due to a lower effective group tax rate which was impacted by a tax credit of R52.7 million recognised in Switzerland as a consequence of the announced reduction of federal tax rates to 14.5% from 18.0% which resulted in a remeasurement of the deferred tax liability.

Headline earnings per share increased by 16.9% to 1 129.1 cents (2018: 965.7 cents). The more representative normalised headline earnings per share of 1 166.3 cents increased by 9.7% from 1 063.2 cents in the prior year. The board approved a final dividend of 800 cents per share (2018: 729 cents per share), an increase of 9.7% year-on-year.

Cash generated from operations totalled R1.8 billion (2018: R4.0 billion) and reflected a substantial reduction over the prior year due to increased working capital levels. This was attributed to materially reduced levels of trade payables due to payment cut-offs. More specifically, during the prior year, the last day of the reporting year was a Sunday and payments would have been delayed to the next business day. The SPAR Group's cash flow from investing activities showed an outflow of R1 943.2 million (2018: R1 453.3 million), including net total capital expenditure of R1 059.8 million (2018: R772.3 million). The spend in the plant and equipment categories are largely comparable and the increase is attributable to the purchase of a leasehold property by the Swiss business.

During the year the Irish group concluded the acquisition of Corrib Foods for R190.4 million. In addition, the group also purchased fifteen retail stores. The group raised borrowings of €40 million which was made available tothe Polish investment holding company. These funds were subsequently loaned to Polish retail group, Piotr I Pawel, which the group has subsequently purchased in a post balance sheet event. Taking into account the impact of a net R116.8 million outflow to reduce borrowings and a further R110.1 million for share repurchases, the group closed the year in a net overdrawn cash position of (R67.4) million (2018: R1 598.2 million).

The budgeted capital expenditure for the year ahead in Southern Africa, amounting to R411.8 million (2018: R383.4 million) is expected to be maintained at these levels as no further property acquisitions are planned and construction plans for the previously announced distribution facilities have been placed on hold. In Ireland, budgeted capital spends of €30.0 million (2019: €32.00 million) will continue to address a wide range of retail development commitments, while Spar Switzerland has CHF22.0 million (2019: CHF25.0 million) budgeted for further retail investments and additional improvements to own facilities and infrastructure. It is again anticipated that the foreign subsidiaries will fund all capital expenditure from their own cash flows.

GEOGRAPHICAL REVIEW

SPAR Southern Africa

The turnover of SPAR Southern Africa increased 8.0% to R74.3 billion (2018: R68.8 billion). The result includes the S Buys pharmaceutical business acquired in the 2018 financial year. Excluding S Buys, the comparable SPAR business increased turnover by 8.0% (2018: 5.3%), reflecting the rising price inflation experienced over the latter part of the year and strong marketing initiatives which continued to attract cash-strapped consumers. This turnover result was once again boosted by exceptionally strong liquor turnover growth of 17.6% and a pleasing increase in the building materials wholesale business of 6.9%. The latter result being achieved against a weak building sector performance and subdued consumer appetite to spend on home building and renovations. This is again attributable to increased retailer loyalty and the results of strong marketing investments. Wholesale SPAR turnover grew 7.0% to R57.6 billion and continued to confirm the independent retailers' support of the group's voluntary trading model. Combined food and liquor wholesale turnover growth was recorded at 8.1%.and should be viewed against internally calculated food inflation of 3.1%. This inflation measure has increased from 1.9% measured at half year and the 1.4% reported in 2018.

Case volumes handled through the seven distribution centres continued to reflect the constrained market but increased 5.3% to 243.9 million cases (2018: increased 3.2% to 231.7 million cases). This positive volume growth reflects the strong like-for-like growth experienced at retail and the impressive liquor sales increase.

The retail turnover of SPAR stores increased 5.5% to R84.1 billion (2018: R79.7 billion) and recorded like-for-like retail growth of 4.6%. The combined food and liquor retail sales, which allow for a better industry comparison, increased by 6.6%.

The SPAR-branded private-label products continued to offer real consumer value and quality and remain a shopping differentiator for our retailers.Total private-label wholesale sales reported in 2019 increased 10.1% to R13.4 billion. This represents 23.3% of all SPAR wholesale turnover, meaning that almost one in four turnover rands is spent on a private label product

The group maintained the strong organic growth focus to drive retailer profitability and thereby ensure the sustainability of the business model. To this end, 181 SPAR stores (2018: 170 stores) were refurbished during the period to ensure they continued to provide retail offerings that exceed consumer demand. In addition, total retail space recorded solid growth of 2.0% (2018: 3.8%) and is reflective of the expected annual space increase. A net 23 stores were opened during the year, bringing the total SPAR store numbers to 960 by 30 September 2019.

The retail turnover of TOPS at SPAR increased by an impressive 14.5% to R12.8 billion (2018: R11.2 billion), as ongoing, attractive marketing initiatives and the refresh of the brand image won consumer spend. Like-for-like turnover growth reached an impressive 11.3% for the period. Wholesale turnover outstripped the retail performance and grew by 17.6% to R7.6 billion (2018: R6.5 billion). This was achieved through concerted efforts by the wholesale divisions to recover retailer purchase loyalty. During the period, the TOPS at SPAR store network increased by 48 stores on a net basis to 822 stores, while 47 stores were revamped. The total retail liquor space increased 6.7% during the year.

Build it's retail turnover growth increased by 5.7% for the year, higher than the building sector's calculated wholesale inflation of 4.4%, and against the backdrop of a challenging trading environment where consumers have restricted ability to spend on home renovations and building. Like-for-like store growth was 3.0%. The group's buying teams again drove increased retailer loyalty through improved product pricing. The influence of cement, which at a sales contribution of 26%, is a significant component of Build it's overall sales result, again impacted turnover, as the continued oversupply has resulted in low category inflation of 1.5%. over the year. Retail activity was negatively influenced by the economic consequences of the severe drought experienced in parts of South Africa and Namibia. At wholesale level, turnover increased 6.9% to R8.0 billion (2018: R7.5 billion). Build it's house brand and imports showed solid growth of 8.9% for the year. At the year-end, Build it's store network totalled 390 stores, having opened a net fourteen stores during the year.

The S Buys pharmaceutical wholesale business was acquired in 2018 and provides a full pharmaceutical wholesale service for the Pharmacy at SPAR retailers. Despite accounting for a significant portion of the sales growth experienced, the Pharmacy at SPAR wholesale business represents 22.2% of total sales. Wholesale business with independent pharmacies, hospitals and doctors represents a further 38%. The balance of the turnover is derived from the Scriptwise Division which handles the dispensing of speciality pharmaceutical scripts. The S Buys Group reported turnover of R1 035.5 million for the period (2018: R930.3 million), which amounted to a strong growth of 11.3%. This performance was driven by impressive increases of 14.7% in the Scriptwise business and 11.1% in wholesale sales. The profitability of the business was, however, negatively impacted by increased distribution costs as economies of scale are not yet being achieved. Transport arrangements are receiving urgent management attention to address these cost increases.

The Pharmacy at SPAR business continued its growth trajectory adding 31 new stores and reporting an increase in retail turnover of 35.1% to R1 298.3 million. The retail organic growth was a respectable 12.6% and continued to reflect the marketing and innovation benefits being enjoyed by these retailers. At the end of the year there were 120 Pharmacy at SPAR stores.

SPAR Ireland

The BWG Group again delivered a strong financial result and reported euro-denominated turnover growth of 6.2% to €1.5 billion. This number was boosted by the recent business acquisitions. The 4 Aces wholesale business purchased in May 2018 contributed 1.9%, while Corrib Foods, acquired in November 2019, added 2.1% of the growth. If adjusted for, the comparable group grew by 2.2%. Exchange rate weakness over the reporting year added 4.2% and resulted in revenue growth of 10.4% to R24.8 billion (2018: R22.5 billion). Inflation measures over the financial year indicate that the grocery food and non-alcoholic drinks category again declined 0.8%, while alcohol and tobacco increased by 3.1%. (Source: Irish Central Statistics). The solid turnover growth in the current year was negatively impacted by the extraordinary high sales performance in the previous year when extreme weather conditions and the above average warm summer brought significant sales benefits to the convenience sector which were not repeated this year.

Against the subdued economic backdrop where Brexit concerns sapped consumer confidence, the hospitality sector remained strong and boosted sales in this category by 41.5%, while the foodservice business also reported strong growth of 55.5%.Compared with last year, all retail brands recorded positive growth, with the MACE brand increasing turnover to 5.1%, XL growing by 4.4% and SPAR reporting growth of 4.0%. It was just as pleasing to report that all retail brands reported positive like-for-like growth.

The group's supply chain infrastructure was further enhanced during the year with the implementation of a nationwide re-routing project, the completion of the consolidated delivery plan and the commissioning of the new cross dock facility to serve the greater Dublin county. These logistics projects have all contributed to keep the delivery cost per case down, despite significant labour rate increases.

In South West England, BWG Group's Appleby Westward business reported a decrease of -0.9% in sterling-denominated turnover as a result of the loss of a large national supply account. The region was also impacted by the extraordinary weather in the prior year which caused abnormal sales which were not repeated in the current year. This business represents approximately 11.2% of the consolidated BWG Group.

BWG Group's margin improved to 13.0% (2018: 12.6%) due to the new business acquisitions which service the higher margin food service sector. Operating profit grew 19.4% to R686.1 million (2018: R574.4 million) while profit before tax increased 22.2% to R657.2 million (2018: R537.9 million).

The total number of stores across BWG Group's store formats at 30 September 2019 was 1 360 with 60 new stores added during the year.

SPAR Switzerland

The region reported turnover of R10.4 billion for the year (2018: R9.8 billion). Operating profit decreased, however, by 33.2% to R83.3 million (2018: R124.6 million). This was almost exclusively attributed to the aggressive marketing initiatives during the first half of the year which failed to deliver the expected turnover. Management ceased the extent of the price investment in the second half of the year but were not able to recover the expense incurred. However, the business did benefit from the announced reduction in federal taxes and this allowed for a remeasurement of the deferred tax account. This adjustment resulted in a positive tax charge of R41.1 million. As a result, the profit after tax decreased by 34.6% to R43,9 million (2018: R67.1 million). This result was further adversely impacted by finance costs, including foreign exchange impacts, relating to the valuation of the financial liability for the minority purchase obligation of R59.6 million (2018: R17.2 million).

The turnover performance of SPAR Switzerland continued to be negatively impacted by low economic growth in the retail market. While minor inflationary trends have been noted, with prices of food and non-alcoholic beverage prices decreasing by 0.3%, alcoholic beverages and tobacco being 1.6% higher, and a slight appreciation of the Swiss franc against the euro, these have been insufficient to slow the appeal of cross-border shopping that exists in Switzerland. SPAR Switzerland reported a decline in local currency measured turnover of -1.5%, which was an improvement on the -5.1% reported last year. This result is still largely impacted by the corporate stores as those sold to independent are still included in the prior year and the benefit will be recognised once these are excluded from the base. If these stores were adjusted for in the base, the retail stores performance would be flat on the prior year. SPAR Switzerland launched 26 new stores during the year, including a large group of 19 stores in the west of the country that are now being serviced. At the end of the year there were 322 (2018: 315) corporate and independent retailers serviced.

The cash-and-carry business, trading as TopCC, again reported a disappointing decline in turnover for the year of 0.4% which continues to be impacted by the business closures in the Swiss restaurant and hospitality sectors. The group is investigating further upgrade opportunities in the fresh offerings of these stores, as very satisfactory sales improvements have been recorded in stores once upgraded.

Warehouse turnover increased by a positive 0.5% for the year, reflecting the positive growth that is being experienced by the independent SPAR retailers. Previously implemented cost-focused initiatives, including store delivery frequency, fleet optimisation as well as store ordering initiatives have all positively contributed to improvements in logistics efficiencies, productivity and overall cost measures.

Post balance sheet events

On 1 October 2019, the group acquired a majority holding in the Piotr I Pawel group in Poland. The Piotr I Pawel group is a supermarket chain, with both franchised and corporately-owned stores, together with a wholesale distribution network.

The SPAR Group also purchased a 50% shareholding in Monteagle Africa Limited, subject to final approval by the Competition Commission. Monteagle Africa is a wholesaler in the food retail sector and a key supplier to SPAR of its private label products.

PROSPECTS

In Southern Africa all indicators continue to suggest that consumers will remain under financial pressure. Confidence is expected to remain unchanged in the medium term and this will add further pressure to a constrained spending outlook. Against this economic backdrop, SPAR's extensive distribution capability and market-leading brands will ensure that its independent retailers remain suitably positioned to deliver exceptional value to consumers.

The Irish outlook continues to be influenced by Brexit concerns, however this management team remains cautiously optimistic in both the Irish and South West England regions. Management's active and effective responses to market changes should ensure that the BWG Group will deliver a result in line with expectations. The acquisition of the Corrib Foods business will further strengthen the Irish group's growth objectives in foodservice.

The Swiss business remains confident that the identified strategic initiatives to improve the turnover performance are gaining momentum. The group does acknowledge that much positive change has been achieved and are confident that this will translate into expected results.

Despite the current consumer concerns across all trading environments, the group is satisfied that it remains well positioned to create continued value for shareholders through its growing, diversified business and well-positioned retail brands.

Mike Hankinson
Chairman

Graham O'Connor
Chief Executive Officer

13 November 2018

Directorate and administration

DIRECTORS: MJ Hankinson* (Chairman), GO O'Connor (Chief Executive Officer), MW Godfrey, WA Hook, LM Koyana*, M Mashologu*, HK Mehta*, P Mnganga*, AG Waller*, CF Wells*

* *Non-executive*

Company Secretary: MJ Hogan

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JSE share code: SPP

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