
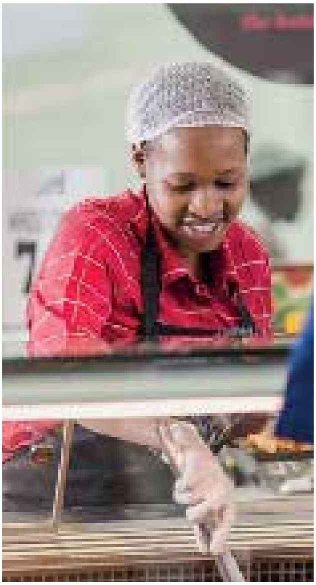

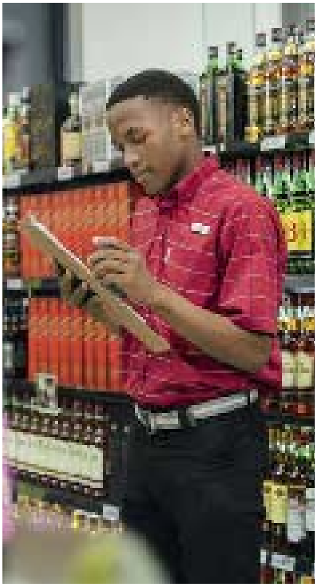

# THE SPAR GROUP LIMITED UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 MARCH 2016

## SALIENT FEATURES

| TURNOVER | OPERATING PROFIT | NORMALISED HEADLINE EARNINGS PER SHARE | INTERIM DIVIDEND |
|---|---|---|---|
| ▲ 16.7% | ▲ 13.8% | ▲ 17.2% | 255 cents |

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# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| Rmillion | | Notes | Change % | Unaudited six months ended March 2016 | Unaudited six months ended March 2015* | Audited year ended September 2015 |
|---|---|---|---|---|---|---|
| **Revenue** | | | 16.8 | **42 484.2** | 36 382.5 | 74 060.0 |
| Turnover | | | 16.7 | **42 056.4** | 36 024.4 | 73 258.8 |
| Cost of sales | | | | **(38 397.7)** | (32 934.7) | (66 892.2) |
| Gross profit | | | | **3 658.7** | 3 089.7 | 6 366.6 |
| Other income | | | | **427.8** | 358.1 | 801.2 |
| Operating expenses | | | 20.8 | **(2 821.2)** | (2 335.7) | (4 860.2) |
| **Trading profit** | | | | **1 265.3** | 1 112.1 | 2 307.6 |
| BBBEE transactions | | | | **(7.2)** | (6.2) | (13.4) |
| **Operating profit** | | | 13.8 | **1 258.1** | 1 105.9 | 2 294.2 |
| Other non-operating items | | 2 | | | 0.7 | (131.4) |
| Interest received | | | | **22.4** | 14.6 | 29.2 |
| Interest paid | | | | **(66.6)** | (85.5) | (121.6) |
| Finance costs including foreign exchange gains/(losses) | | 2 | | **(74.8)** | 23.8 | (108.1) |
| Share of equity accounted associate profits/(losses) | | | | **2.0** | 1.6 | (4.1) |
| Profit before taxation | | | 7.5 | **1 141.1** | 1 061.1 | 1 958.2 |
| Taxation | | | | **(315.7)** | (277.5) | (537.3) |
| **Profit for the period attributable to ordinary shareholders** | | | 5.3 | **825.4** | 783.6 | 1 420.9 |
| **Other comprehensive income/(loss)** | | | | | | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | | | | |
| Actuarial loss on retirement funds | | | | **(52.3)** | (134.6) | (11.6) |
| Actuarial loss on post-retirement medical aid | | | | | | (3.1) |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | | |
| Exchange differences from translation of foreign operations | | | | **132.6** | 119.9 | 20.7 |
| Fair value movement on cash flow hedge | | | | **(40.9)** | | |
| **Total comprehensive income** | | | 12.5 | **864.8** | 768.9 | 1 426.9 |
| **EARNINGS PER SHARE** | | | | | | |
| Earnings per share | (cents) | | 5.3 | **476.8** | 452.8 | 820.8 |
| Diluted earnings per share | (cents) | | 5.3 | **439.3** | 417.2 | 756.1 |
| **SALIENT STATISTICS** | | | | | | |
| Headline earnings per share | (cents) | | 5.4 | **480.0** | 455.5 | 835.5 |
| Diluted headline earnings per share | (cents) | | 5.4 | **442.2** | 419.6 | 769.6 |
| Normalised headline earnings per share | (cents) | 6 | 17.2 | **504.3** | 430.3 | 940.0 |
| Dividend per share | (cents) | | 6.7 | **255.0** | 239.0 | 632.0 |
| Net asset value per share | (cents) | | 9.9 | **2 002.0** | 1 821.2 | 1 922.6 |
| Operating profit margin | (%) | | | **3.0** | 3.1 | 3.1 |
| Return on equity | (%) | | | **24.9** | 24.5 | 44.7 |
| **HEADLINE EARNINGS RECONCILIATION** | | | | | | |
| Profit for the period attributable to ordinary shareholders | | | | **825.4** | 783.6 | 1 420.9 |
| Adjusted for: | | | | | | |
| Loss on disposal of property, plant and equipment | | | | **5.6** | 5.4 | 12.1 |
| – Gross | | | | **6.0** | 6.2 | 15.0 |
| – Tax effect | | | | **(0.4)** | (0.8) | (2.9) |
| Impairment of goodwill | | | | | | 11.6 |
| Impairment of investments | | | | | | 1.7 |
| Profit on disposal of associate interests | | | | | (0.7) | (0.7) |
| Loss on disposal of assets held for sale | | | | | | 0.7 |
| **Headline earnings** | | | 5.4 | **831.0** | 788.3 | 1 446.3 |

* *Reclassified for changes in presentation, refer to note 2.*

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Rmillion | Unaudited six months ended March 2016 | Unaudited six months ended March 2015 | Audited year ended September 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **7 367.2** | 5 684.2 | 6 771.1 |
| Property, plant and equipment | **3 436.5** | 2 832.2 | 3 221.3 |
| Goodwill and intangible assets | **3 616.6** | 2 573.2 | 3 281.5 |
| Operating lease receivables | **87.4** | 101.9 | 96.6 |
| Investment in associates | **34.4** | 44.9 | 32.4 |
| Other investments | **2.3** | 2.3 | 2.3 |
| Loans | **162.4** | 83.8 | 103.0 |
| Deferred taxation asset | **27.6** | 45.9 | 34.0 |
| **Current assets** | **13 063.0** | 11 348.8 | 12 364.6 |
| Inventories | **2 746.7** | 2 513.1 | 2 430.4 |
| Trade and other receivables | **9 674.6** | 8 356.2 | 9 309.2 |
| Prepayments | **95.7** | 70.8 | 64.0 |
| Operating lease receivables | **55.0** | 45.5 | 47.7 |
| Loans | **29.9** | 10.1 | 27.9 |
| Taxation receivable | | | 4.1 |
| Bank balances – SPAR | **355.8** | 212.7 | 399.9 |
| Bank balances – Guilds | **105.3** | 140.4 | 81.4 |
| Assets classified as held for sale | **190.2** | 29.8 | 194.6 |
| **Total assets** | **20 620.4** | 17 062.8 | 19 330.3 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | **3 465.7** | 3 151.9 | 3 328.4 |
| Stated capital | **67.6** | 67.6 | 67.6 |
| Treasury shares | **(36.4)** | (11.1) | (26.9) |
| Currency translation reserve | **169.9** | 136.5 | 37.3 |
| Share-based payment reserve | **441.9** | 404.7 | 425.1 |
| Equity reserve | **(545.7)** | (545.7) | (545.7) |
| Hedging reserve | **(40.9)** | | |
| Retained earnings | **3 409.3** | 3 099.9 | 3 371.0 |
| **Non-current liabilities** | **4 124.5** | 2 849.7 | 3 868.2 |
| Deferred taxation liability | **232.8** | 2.0 | 215.1 |
| Post-retirement medical aid provision | **145.7** | 133.7 | 140.8 |
| Retirement benefit fund | **375.3** | 383.8 | 305.9 |
| Financial liability | **804.6** | 525.1 | 729.8 |
| Long-term borrowings | **2 465.0** | 1 670.7 | 2 367.9 |
| Operating lease payables | **101.1** | 134.4 | 108.7 |
| **Current liabilities** | **13 030.2** | 11 061.2 | 12 132.6 |
| Trade and other payables | **10 683.6** | 8 814.9 | 11 349.2 |
| Current portion of long-term borrowings | **203.0** | 52.9 | 87.2 |
| Operating lease payables | **60.0** | 52.0 | 53.7 |
| Provisions | **124.9** | 89.8 | 110.3 |
| Taxation payable | **43.2** | 10.6 | 13.1 |
| Other current financial liabilities | **41.1** | | |
| Short-term borrowings | **186.1** | | |
| Bank overdrafts | **1 688.3** | 2 041.0 | 519.1 |
| Liabilities directly associated with assets classified as held for sale | | | 1.1 |
| **Total equity and liabilities** | **20 620.4** | 17 062.8 | 19 330.3 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Rmillion | Stated capital | Treasury shares | Currency translation reserve | Share-based payment reserve | Retained earnings | Equity reserve | Hedging reserve | Attributable to ordinary shareholders |
|---|---|---|---|---|---|---|---|---|
| **Audited capital and reserves at 30 September 2014** | 67.6 | (48.2) | 16.6 | 387.7 | 3 148.5 | (545.7) | – | 3 026.5 |
| Total comprehensive income for the year | | | 119.9 | | 783.6 | | | 903.5 |
| Issue of shares | | | | | | | | – |
| Actuarial loss on retirement funds | | | | | (134.6) | | | (134.6) |
| Recognition of share-based payments | | | | 10.8 | | | | 10.8 |
| Take-up of share options | | 153.7 | | (100.0) | | | | 53.7 |
| Transfer arising from take-up of share options | | | | 100.0 | (100.0) | | | – |
| Share repurchases | | (116.6) | | | | | | (116.6) |
| Dividends paid | | | | | (597.6) | | | (597.6) |
| Recognition of BBBEE transaction | | | | 6.2 | | | | 6.2 |
| **Unaudited capital and reserves at 31 March 2015** | 67.6 | (11.1) | 136.5 | 404.7 | 3 099.9 | (545.7) | – | 3 151.9 |
| Total comprehensive income for the year | | | (99.2) | | 637.3 | | | 538.1 |
| Issue of shares | | | | | | | | – |
| Actuarial loss on post-retirement medical aid | | | | | (3.1) | | | (3.1) |
| Actuarial loss on retirement funds | | | | | 123.0 | | | 123.0 |
| Recognition of share-based payments | | | | 14.2 | | | | 14.2 |
| Take-up of share options | | 96.5 | | (72.2) | | | | 24.3 |
| Transfer arising from take-up of share options | | | | 72.2 | (72.2) | | | – |
| Share repurchases | | (112.3) | | | | | | (112.3) |
| Dividends paid | | | | | (413.9) | | | (413.9) |
| Recognition of BBBEE transaction | | | | 6.2 | | | | 6.2 |
| **Audited capital and reserves at 30 September 2015** | **67.6** | **(26.9)** | **37.3** | **425.1** | **3 371.0** | **(545.7)** | **–** | **3 328.4** |
| Total comprehensive income for the year | | | **132.6** | | **825.4** | | **(40.9)** | **917.1** |
| Issue of shares | | | | | | | | **–** |
| Actuarial loss on retirement funds | | | | | **(52.3)** | | | **(52.3)** |
| Recognition of share-based payments | | | | **10.6** | | | | **10.6** |
| Take-up of share options | | **81.4** | | **(54.0)** | | | | **27.4** |
| Transfer arising from take-up of share options | | | | **54.0** | **(54.0)** | | | **–** |
| Share repurchases | | **(90.9)** | | | | | | **(90.9)** |
| Dividends paid | | | | | **(680.8)** | | | **(680.8)** |
| Recognition of BBBEE transaction | | | | **6.2** | | | | **6.2** |
| **Unaudited capital and reserves at 31 March 2016** | **67.6** | **(36.4)** | **169.9** | **441.9** | **3 409.3** | **(545.7)** | **(40.9)** | **3 465.7** |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| Rmillion | Unaudited six months ended March 2016 | Unaudited six months ended March 2015* | Audited year ended September 2015 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **(942.5)** | (737.7) | 1 269.3 |
| Operating profit before: | **1 258.1** | 1 105.9 | 2 294.2 |
| Non-cash items | **197.8** | 239.6 | 367.4 |
| Loss on disposal of property, plant and equipment | **6.0** | 6.2 | 15.0 |
| Net working capital changes | **(1 411.5)** | (1 123.0) | 278.0 |
| – Increase in inventories | **(263.5)** | (348.8) | (114.8) |
| – Increase in trade and other receivables | **(226.6)** | (74.2) | (387.7) |
| – (Decrease)/increase in trade payables and provisions | **(921.4)** | (700.0) | 780.5 |
| Cash generated from operations | **50.4** | 228.7 | 2 954.6 |
| Interest received | **19.3** | 12.4 | 26.7 |
| Interest paid | **(56.0)** | (67.9) | (145.0) |
| Taxation paid | **(275.4)** | (313.3) | (555.5) |
| Dividends paid | **(680.8)** | (597.6) | (1 011.5) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **(386.1)** | (260.9) | (978.5) |
| Investment to expand operations | **(179.4)** | (150.6) | (422.1) |
| Investment to maintain operations | **(122.3)** | (63.3) | (103.4) |
| – Replacement of property, plant and equipment | **(126.5)** | (68.1) | (111.8) |
| – Proceeds on disposal of property, plant and equipment | **4.2** | 4.8 | 8.4 |
| Acquisition of businesses/subsidiaries | **(44.4)** | (35.0) | (452.0) |
| Proceeds from disposal of businesses | | | 10.4 |
| Proceeds on disposal of assets held for sale | **16.5** | | 18.6 |
| Net movement in loans and investments | **(56.5)** | (12.0) | (30.0) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **121.5** | (144.0) | 162.3 |
| Proceeds from issue of shares | | | |
| Proceeds from exercise of share options | **27.4** | 53.7 | 78.0 |
| Share repurchases | **(90.9)** | (116.6) | (228.9) |
| Net movement in borrowings | **185.0** | (81.1) | 313.2 |
| **Net movement in cash and cash equivalents** | **(1 207.1)** | (1 142.6) | 453.1 |
| **Net overdrafts at beginning of period** | **(37.8)** | (543.4) | (543.4) |
| **Exchange rate translation** | **17.7** | (1.9) | 52.5 |
| **Net overdrafts at end of period** | **(1 227.2)** | (1 687.9) | (37.8) |

* *Reclassified for changes in presentation, refer to note 2.*

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS

## 1. BASIS OF PRESENTATION AND COMPLIANCE WITH IFRS

The condensed consolidated interim financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the information as required by IAS 34: Interim Financial Reporting, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies are consistent with those applied in the financial statements for the year ended 30 September 2015.

The information contained in the interim report has neither been audited nor reviewed by the group's external auditors. In compliance with the disclosure requirements of the Companies Act, 71 of 2008, as amended, the condensed consolidated financial statements have been prepared under the supervision of Mr MW Godfrey CA(SA), Group Financial Director, on behalf of The SPAR Group Limited.

## 2. OTHER NON-OPERATING ITEMS

Other non-operating items were disclosed for the first time in September 2015 with the relevant March 2015 comparative information being reclassified as such presentation is relevant to understanding the entity's financial performance. Similarly, foreign exchange gains and losses on the financial liability were reclassified out of operating profit and are now disclosed with finance costs on this financial liability. This change had no impact on profit before or after tax, earnings per share or headline earnings per share.

| Rmillion | Unaudited six months ended March 2016 | Unaudited six months ended March 2015 | Audited year ended September 2015 |
|---|---|---|---|
| **Other non-operating items** | **–** | 0.7 | (131.4) |
| Fair value adjustment to financial liability | | | (72.8) |
| Impairment of goodwill | | | (11.6) |
| Impairment of investments | | | (1.7) |
| Business acquisition costs | | | (46.0) |
| Profit on disposal of associate interests | | 0.7* | 0.7 |
| **Finance costs including foreign exchange gains and losses** | **(74.8)** | 23.8 | (108.1) |
| Foreign exchange gains and losses on financial liability | **(42.0)** | 43.6* | (62.2) |
| Finance costs recognised in profit or loss | **(32.8)** | (19.8) | (45.9) |

* *Reclassified out of operating profit.*

## 3. SEGMENTAL REPORTING

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

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.

The Chief Executive Officer (the Chief Operating Decision Maker) 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 operations are not considered to be similar to those within Southern Africa. As a result, the geographical segments of the group have been identified as Southern Africa and Ireland.

All segment revenue and expenses are directly attributable to the segments. Segment assets include all operating assets used by a segment. Segment liabilities include all operating liabilities. These assets and liabilities are all directly attributable to the segments. All intra-segment transactions are eliminated on consolidation.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS
(CONTINUED)

## 3. SEGMENTAL REPORTING (CONTINUED)

**Segment analysis:**

| Rmillion | Southern Africa | Ireland | Consolidated Total |
|---|---|---|---|
| **Unaudited six months ended March 2016** | | | |
| Total revenue | **31 224.1** | **11 260.1** | **42 484.2** |
| Operating profit | **1 087.7** | **170.4** | **1 258.1** |
| Profit before tax | **1 001.2** | **139.9** | **1 141.1** |
| Total assets | **12 624.4** | **7 996.0** | **20 620.4** |
| Total liabilities | **9 566.7** | **7 588.0** | **17 154.7** |
| **Unaudited six months ended March 2015*** | | | |
| Total revenue | 28 600.2 | 7 782.3 | 36 382.5 |
| Operating profit | 985.4 | 120.5 | 1 105.9 |
| Profit before tax | 996.0 | 65.1 | 1 061.1 |
| Total assets | 12 138.2 | 4 924.6 | 17 062.8 |
| Total liabilities | 9 070.8 | 4 840.1 | 13 910.9 |
| **Audited year ended September 2015** | | | |
| Total revenue | 56 883.6 | 17 176.4 | 74 060.0 |
| Operating profit | 1 987.8 | 306.4 | 2 294.2 |
| Profit before tax | 1 776.1 | 182.1 | 1 958.2 |
| Total assets | 12 157.7 | 7 172.6 | 19 330.3 |
| Total liabilities | 9 038.8 | 6 963.1 | 16 001.9 |

* *Reclassified for changes in presentation, refer to note 2.*

## 4. BUSINESS COMBINATIONS

4.1 During the course of the financial year, The SPAR Group Limited acquired the assets of three retail stores. These acquisitions were funded from available cash resources. The assets acquired were Village TOPS (4 October 2015), Engcobo TOPS (15 November 2015), and Gateway SUPERSPAR and TOPS (8 February 2016), (2015: Pinetown Build It, Naas SUPERSPAR, and Alpha SUPERSPAR and TOPS). The principal activity of these acquisitions is that of retail trade and all its aspects. The Village TOPS and Engcobo TOPS liquor stores were purchased in order to add value to the business of related corporate SPAR stores, and this value is evident in the goodwill arising on these business combinations. Gateway SUPERSPAR and TOPS were purchased in order to protect a strategic site, and the goodwill arising on this business combination is a reflection of future turnover expectations.

4.2 **Assets acquired and liabilities assumed at date of acquisition:**

| Rmillion | Unaudited six months ended March 2016 | Unaudited six months ended March 2015 | Audited year ended September 2015 |
|---|---|---|---|
| Assets | **9.5** | 7.0 | 592.6 |
| Liabilities | | | (304.3) |
| Total identifiable net assets at fair value | **9.5** | 7.0 | 288.3 |
| Goodwill arising from acquisition | **34.9** | 28.0 | 333.6 |
| Purchase consideration transferred | **44.4** | 35.0 | 621.9 |
| Cash and cash equivalents acquired | | | (45.3) |
| Business acquisition costs | | | 46.0 |
| Contingent consideration | | | (170.6) |
| Net cash outflow on acquisition | **44.4** | 35.0 | 452.0 |

4. **BUSINESS COMBINATIONS (CONTINUED)**

Had all the acquisitions been consolidated from 1 October 2015, they would have contributed additional revenue of R76.9 million, and an operating loss of R3.9 million. The group's total revenue would have increased to R42 561.1 million, and the group's operating profit would have decreased to R1 254.2 million.

4.3 **Assets and liabilities at date of disposal**

No assets and liabilities were disposed of in the current period (2015: Rnil).

4.4 **Finalisation of ADM Londis plc acquisition**

The initial accounting for the 2015 acquisition of ADM Londis plc was incomplete for the value of the contingent consideration, assets held for sale, inventories, trade and other receivables, and trade and other payables. This was as a result of costs in the acquisition including an element of deferred consideration which was contingent upon the values realised for the assets held for sale. The working capital element of the acquisition was subject to a completion account process, which requires that the value of the working capital purchased at the date of acquisition be finalised within five months. This process has now been largely concluded, which has resulted in no material changes to the values disclosed for this business combination.

5. **FINANCIAL RISK MANAGEMENT**

| Rmillion | **Unaudited six months ended March 2016** | **Unaudited six months ended March 2015** | Audited year ended September 2015 |
|---|---|---|---|
| **Financial instruments classification** | | | |
| Net bank overdrafts | **(1 227.2)** | (1 687.9) | (37.8) |
| Loans* | **192.3** | 93.9 | 130.9 |
| Other equity investments*** | **2.3** | 2.3 | 2.3 |
| Trade and other receivables* | **9 674.6** | 8 356.2 | 9 309.2 |
| Trade and other payables** | **(10 683.6)** | (8 814.9) | (11 349.2) |
| FEC liability or asset*** | **(0.2)** | | 0.4 |
| FEC liability**** | **(40.9)** | | |
| Borrowings** | **(2 854.1)** | (1 723.6) | (2 455.1) |
| Financial liability*** | **(804.6)** | (525.1) | (729.8) |

* *Classified under IAS 39 as loans and receivables.*
** *Classified under IAS 39 as financial liabilities measured at amortised cost.*
*** *Classified under IAS 39 as financial liabilities or assets at fair value through profit or loss.*
**** *Designated as a hedging instrument.*

## 5. 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. These instruments consist of forward exchange contracts.

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 are mainly comprised of 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 in the statement of financial position are carried at fair value and are further categorised into the appropriate fair value hierarchy:

**Financial instrument**

| Rmillion | Carrying value | Fair value Level 1 | Fair value Level 2 | Fair value Level 3 |
|---|---|---|---|---|
| **Unaudited six months ended March 2016** | | | | |
| Other equity investments | **2.3** | | **2.3** | |
| FEC liability at fair value through profit and loss | **(0.2)** | **(0.2)** | | |
| FEC liability designated as a hedging instrument | **(40.9)** | **(40.9)** | | |
| Financial liability | **(804.6)** | | | **(804.6)** |
| **Total** | **(843.4)** | **(41.1)** | **2.3** | **(804.6)** |
| **Unaudited six months ended March 2015** | | | | |
| Other equity investments | 2.3 | | 2.3 | |
| Financial liability | (525.1) | | | (525.1) |
| **Total** | (522.8) | – | 2.3 | (525.1) |
| | | | | |
| **Audited year ended September 2015** | | | | |
| Other equity investments | 2.3 | | 2.3 | |
| FEC asset at fair value through profit and loss | 0.4 | 0.4 | | |
| Financial liability | (729.8) | | | (729.8) |
| **Total** | (727.1) | 0.4 | 2.3 | (729.8) |

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Level 3 sensitivity information**

The fair value of the level 3 financial liability of R804.6 million (2015: R525.1 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.

The following additional factors were applied in calculating the financial liability at 31 March 2016:
– Risk-free rate of 8.67% (2015: 7.41%) based on the R208 bonds.
– Closing rand/euro exchange rate of 16.82 (2015: 13.14).

The following table shows how the fair value of the level 3 financial liabilities would change in relation to the interest rate if the interest rate increased or decreased by 0.5%:

| | Valuation technique | Discount rate % | Sensitivity % | Liability Rmillion |
|---|---|---|---|---|
| **Unaudited six months ended March 2016** | | | | |
| Financial liability | Income approach | 8.67 | 0.5 | (17.4) |
| Financial liability | Income approach | 8.67 | (0.5) | 17.8 |
| **Unaudited six months ended March 2015** | | | | |
| Financial liability | Income approach | 7.41 | 0.5 | (13.9) |
| Financial liability | Income approach | 7.41 | (0.5) | 14.4 |
| **Audited year ended September 2015** | | | | |
| Financial liability | Income approach | 8.15 | 0.5 | (17.5) |
| Financial liability | Income approach | 8.15 | (0.5) | 18.0 |

**Movements in level 3 financial instruments carried at fair value**

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

| Rmillion | Unaudited six months ended March 2016 | Unaudited six months ended March 2015 | Audited year ended September 2015 |
|---|---|---|---|
| Balance at the beginning of the year | **729.8** | 548.9 | 548.9 |
| Finance costs recognised in profit or loss | **32.8** | 19.8 | 45.9 |
| Net exchange difference arising during the period | **42.0** | (43.6) | 62.2 |
| Fair value adjustments | | | 72.8 |
| Closing value of financial liability | **804.6** | 525.1 | 729.8 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS
(CONTINUED)

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The SPAR Group Limited acquired a controlling shareholding of 80% in the BWG Group, effective from 1 August 2014.

The SPAR Group Limited has agreed to acquire the remaining 20% shareholding from the minorities 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 redemption value and discounted from the expected exercise dates to the reporting date. As at 31 March 2016, the financial liability was valued at R804.6 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 undiscounted value of the financial liability at 31 March 2016 is R1 180.4 million (2015: R787.2 million).

Interest is recorded in respect of this liability within finance costs using the effective interest rate method. In 2016, the net exchange difference on the financial liability has also been presented in finance costs and the comparative amount reclassified accordingly. This was done as such presentation is relevant to understanding the entity's financial performance. 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.

**Capital risk management**

The group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders.

The group's overall capital management strategy remained unchanged in 2016. The strategy entails a philosophy of tight risk management and minimum use of derivative instruments.

The capital structure of the group consists of equity attributable to shareholders comprising issued capital, reserves and retained earnings and borrowings.

Treasury shares are held from time to time for the purpose of settling option holder obligations and these are only acquired on approval from shareholders and where the market presents value in their acquisition.

The strong cash inflow generated by group operations is utilised to fund distribution centre expansions and other capital expenditure, and to settle dividends declared, taxation and trade payable obligations.

## 6. NORMALISED HEADLINE EARNINGS

| Rmillion | | Unaudited six months ended March 2016 | Unaudited six months ended March 2015 | Audited year ended September 2015 |
|---|---|---|---|---|
| **Headline earnings** | | **831.0** | 788.3 | 1 446.3 |
| **Adjusted for exceptional items:** | | | | |
| Fair value adjustment to financial liability | | | | 72.8 |
| Business acquisition costs | | | | 46.0 |
| Foreign exchange gains and losses on financial liability | | **42.0** | (43.6) | 62.2 |
| **Normalised headline earnings** | | **873.0** | 744.7 | 1 627.3 |
| **Number of shares** | | | | |
| Weighted average number of ordinary shares (net of treasury shares) for the purposes of earnings per share | ('000) | **173 115** | 173 064 | 173 116 |

## 7. EVENTS AFTER THE REPORTING DATE

7.1 On 1 April 2016, The SPAR Group Limited acquired 60% of the ordinary shares of SPAR Holding AG ('SPAR Switzerland') for CHF44.5 million from the existing shareholders of SPAR Switzerland. Forward cover was taken out prior to 31 March 2016 to hedge the currency risk of the purchase price, which has resulted in a hedging reserve debit of R40.9 million. The sellers will retain the remaining 40% shareholding for a period of five years post 1 April 2016, following which the company will have the option to acquire from the sellers, and the sellers will have the option to put to the company the remaining 40% of the issued share capital of SPAR Switzerland. The SPAR Group Limited believes that synergies will result from the opportunity to share knowledge, technologies, products and best practice across groups. Furthermore, the acquisition will allow the company to enhance its scale and provides further foreign currency diversification benefits.

The table below sets out the audited net assets, sales, earnings before interest, tax, depreciation and amortisation ('EBITDA') and normalised profit after tax ('Normalised PAT') of SPAR Switzerland for the 12 months ended 31 December 2015 (being the date of the most recent audited financial statements).

**Extract of SPAR Switzerland audited financial results for the 12 months ended 31 December 2015:**

| | CHF (million) | ZAR (million) |
|---|---|---|
| Net assets | 144.9 | 2 227.3 |
| Sales | 824.3 | 12 670.6 |
| EBITDA | 27.7 | 425.8 |
| Normalised PAT | 7.4 | 113.7 |

Notes:
1. All figures are in Swiss GAAP.
2. CHF translated to ZAR at an exchange rate of R15.3714 per CHF on 31 March 2016.
3. Normalised PAT is defined as the Swiss GAAP audited profit after tax for SPAR Switzerland for the 12 months ended 31 December 2015 adjusted for certain agreed non-recurring extraordinary items.

Immediately prior to the implementation of the acquisition, SPAR Switzerland distributed a special dividend of CHF40 million (R620.5 million) to the sellers. The special dividend resulted in a pro forma net asset value for SPAR Switzerland of CHF104.9 million (R1 612.5 million), if applied to the net asset value at 31 December 2015. The company will provide a financial guarantee to secure the CHF40 million loan to SPAR Switzerland to finance the special dividend.

7.2 On 6 April 2016, The SPAR Group Limited raised equity capital through an accelerated bookbuild offering. The bookbuild was significantly oversubscribed, and 11 891 892 new SPAR ordinary shares constituting approximately 6.86% of the company's issued share capital were placed with qualifying institutional investors at a price of R185.00 per share for net proceeds of R2 164.3 million.

# COMMENTARY

## REVIEW OF TRADING RESULTS

The SPAR Group delivered a strong performance for the six months ended 31 March 2016:

- SPAR Southern Africa achieved solid turnover growth against a tough trading environment that was characterised by constrained consumer spending and domestic economic uncertainty. The store network increased to 1 997 stores across all formats, as independent retailers continue to recognise the benefits of SPAR's merchandising, warehousing and distribution capability.
- The performance of the BWG Group (SPAR Ireland) was ahead of plan, with strong turnover gains in base euro currency terms, further boosted by the acquisition of the Londis retail brand in June 2015 and rand hedge benefits during the period.

The acquisition of a majority share in SPAR Switzerland, effective 1 April 2016, expanded SPAR into an established business in a stable market with growth potential. It is complementary to the operations in Ireland and South West England, further diversifying SPAR's business portfolio into a third major geography. SPAR's total retail footprint now comprises more than 3 650 stores across Southern Africa, Ireland, South West England and Switzerland.

## FINANCIAL OVERVIEW

**Summary segmental analysis**

| Rmillion | SPAR (Southern Africa) | BWG Group (Ireland) | The SPAR Group Ltd |
|---|---|---|---|
| Turnover | 30 967.6 | 11 088.8 | 42 056.4 |
| Gross profit | 2 512.6 | 1 146.1 | 3 658.7 |
| Operating profit | 1 087.7 | 170.4 | 1 258.1 |
| Profit before tax | 1 001.2 | 139.9 | 1 141.1 |

The reported turnover of the SPAR Group rose 16.7% to R42.1 billion (H1 2015: R36.0 billion), underpinned by pleasing growth from the Southern African, as well as the Irish operations. The rand's devaluation against the euro during the period also had a significant impact on reported turnover.

As a result of increased ex-warehouse sales and the larger contribution of the Irish business, which has a higher trading margin, the SPAR Group's gross margin increased to 8.70% (H1 2015: 8.58%). While the group's operating expenses rose 20.8% to R2.8 billion (H1 2015: R2.3 billion), the Southern African operation benefited from lower overall fuel costs, notwithstanding strong case volume growth of 6.1% for the six months. Although operating expenses in Ireland rose 44%, they were significantly impacted by running two warehouses while fully integrating the Londis retailers into the Kilcarbery facility. This process has now been successfully completed and improved supply chain cost efficiencies should be realised going forward.

Operating profit was up 13.8% to R1 258.1 million. The group's profit before tax increased by 7.5% to R1 141.1 million (H1 2015: R1 061.1 million). The BWG Group's profit before tax more than doubled, boosted by the Londis acquisition, foreign currency impact and refinancing gains.

Profit after tax showed a 5.3% increase to R825.4 million (H1 2015: R783.6 million). In line with its strong profit growth, the BWG Group's contribution to total headline earnings increased to 14.8% (H1 2015: 7.6%). Headline earnings per share rose 5.4% to 480.0 cents (H1 2015: 455.5 cents). This result was negatively impacted by the accounting effect of finance costs amounting to R74.8 million, which include a foreign exchange loss of R42.0 million. These exceptional costs relate to the financial liability recognised to acquire the remainder of the BWG Group shareholding. After adjusting for this foreign exchange loss, normalised headline earnings per share increased by 17.2%. The board approved an interim dividend of 255 cents per share (H1 2015: 239 cents).

SPAR has an ongoing focus on improving working capital levels. Cash flows from operating activities remained comparable to the prior period, with cash utilised for operating activities of R942.5 million (H1 2015: R737.7 million utilised). After the balance sheet date, R2.1 billion was raised through the issue of 11.9 million ordinary shares, resulting in a significantly improved working capital position. The group utilised R725 million of the share issue proceeds to settle the funding raised to acquire the 60% interest in SPAR Switzerland.

During the period under review, SPAR invested R386.1 million (H1 2015: R260.9 million), which included capital expenditure for the expansion of the Western Cape dry and perishables facility to be completed by October 2016, and the crane system at the South Rand Distribution Centre's slow-moving product facility, which is now operational. Further investments included the next phase of the IT interface to allow other regional facilities to source product, as well as upgrading the trucking fleet, materials handling equipment and IT hardware. The group acquired one additional corporate store in February 2016, and opened two corporate TOPS liquor stores during the period, for a total investment of R44.4 million.

**SPAR Southern Africa**
SPAR Southern Africa extended its strong growth trend. Group turnover grew 9.2% to R31.0 billion (H1 2015: R28.4 billion), underpinned by liquor sales, which were up 12.4% year on year. Turnover growth significantly exceeded internally calculated food inflation of 4.5% for the period, demonstrating that consumers continue to place their trust in SPAR.

Ex-warehouse sales increased to 62.8% (H1 2015: 62.5%), resulting in a slightly higher gross margin of 8.11% (H1 2015: 8.08%) and counteracting ongoing sector-wide pressure on product margins. It is pleasing that corporate-owned stores are starting to contribute positively to the group.

Operating expenses were up 8.8% (H1 2015: 11.3% restated) as overall fuel costs came down by 4.1% from the prior year, in spite of showing strong case volume growth of 6.1% to 118.6 million cases. However, these savings were absorbed by higher third-party transport costs associated with cross-border deliveries to Namibia and Botswana, which continued to achieve robust growth. Increased advertising and promotional activities, as well as higher corporate store costs, also contributed to higher operating expenses.

The profit before tax of SPAR Southern Africa increased 0.5% to R1 001.2 million (H1 2015: R996.0 million). This result was negatively impacted by a R42.0 million foreign exchange loss (H1 2015: R43.6 million foreign exchange gain) on the valuation of the BWG minority purchase obligation, together with a financing rate adjustment of R32.8 million (H1 2015: R19.8 million). Adjusting for these non-operating items reflects profit before tax growth of 10.7% to R1 076.0 million. Unadjusted profit after tax declined 2.8% to R706.8 million (H1 2015: R727.0 million), but showed an increase of 11.1% to R781.6 million after adjusting for these non-operating items.

**SPAR Ireland**
The turnover of the BWG Group increased 44.7% to R11.1 billion (H1 2015: R7.7 billion). On a like-for-like basis, euro-based organic turnover growth of the BWG Group amounted to 5.4%, substantially higher than the reported internal deflation of -0.5% for food and non-alcoholic beverages and inflation of 0.4% for alcohol and tobacco products for the same period (Source: Irish Central Statistics). Further significant factors contributing to the increase included the acquisition of Londis, contributing 17.6% to the turnover growth, and the devaluation of the rand against the euro, which bolstered reported turnover by a further 21.7% turnover growth.

Gross margins declined marginally to 10.3% (H1 2015: 10.4%), due to the BWG Group positioning itself to remain competitive as the Irish food market continues to normalise. Operating profit rose 41.4% to R170.4 million (H1 2015: R120.5 million) and reported profit after tax was up 109.5% to R118.6 million (H1 2015: R56.6 million), reflecting a net margin of 1.1%, in line with plan.

While in line with budget, SPAR Ireland's retained earnings were adversely impacted by an actuarial loss of R52.3 million (H1 2015: R134.6 million) on the company's defined benefit pension fund. The loss arose mainly as a result of a reduction in the discount rate used in determining the pension plan liabilities.

## OPERATIONAL OVERVIEW

**SPAR Southern Africa**
**SPAR** stores continued to show pleasing retail growth of 9.0% to R36.8 billion (H1 2015: R33.7 billion), despite continued pressure in the trading environment. On a like-for-like store basis, the retail turnover increased by 8.1% (H1 2015: 7.7%). The SPAR brand mirrored its strong retail performance at a wholesale level with turnover growth of 8.2% to R24.9 billion (H1 2015: R23.0 billion). Furthermore, SPAR house brands extended their robust performance, growing 10.6% and exceeding the core SPAR business' growth. This is in line with the growing trend by cash-strapped consumers to seek out the value offered by private label brands.

Across the retail network, Fresh and meat sales are gaining increased acceptance among customers. Total retail space showed marginal growth of 0.5% in the six months. SPAR maintained its organic growth focus and, during the period, 66 store refurbishments (H1 2015: 56 stores upgraded) were completed to improve the shopper experience and enhance the SPAR brand. Eight new stores were opened during the period, bringing the total number of SPAR stores to 888 at 31 March 2016.

**TOPS at SPAR** sustained its growth trajectory with retail turnover growth of 17.2% to R4.7 billion (H1 2015: R4.0 billion) and pleasing same-store retail growth of 12.9%. It also maintained its double-digit wholesale turnover growth rate, growing 12.4% to R2.7 billion (H1 2015: R2.4 billion). Continued demand for new stores from independent retailers led to the opening of 30 new stores, bringing the total number of TOPS at SPAR stores to 679 at 31 March 2016.

Combined food and liquor retail sales, which allow for a better industry comparison, increased by 10.1% and 8.5% on a like-for-like store basis.

In spite of continued pressure on consumer spending, particularly in rural areas, **Build it** delivered an excellent performance with retail turnover growth of 16.6% to R5.8 billion (H1 2015: R4.9 billion). This overall performance was strongly influenced by turnover increases of 24% in neighbouring countries. On a like-for-like basis, retail turnover rose 9.4%. Ongoing competition in the cement sector, with pricing deflation of -0.7%, dampened Build it's overall growth. Wholesale turnover grew 13.9% to R3.3 billion (H1 2015: R2.9 billion), while Build it house brand imports amounted to R136.0 million (H1 2015: R123.7 million), representing an increase of 10.0%. During the period, a new store format called TRENDIY was launched. It is aimed at the urban "do-it-yourself" market, and two new stores were launched. This new format continues to be refined to improve the consumer offering. Build it ended the first six months with 336 stores, having opened 18 stores during the period.

The group's other store formats also gained momentum during the period. **SaveMor** opened three new stores during the period, bringing the total to 39 stores (including seven liquor stores). Nine **Pharmacy at SPAR** stores were opened, with a total of 55 stores in operation at 31 March 2016.

**SPAR Ireland**
The BWG Group performed ahead of budget for the six months, with strong growth from the SPAR brand. In particular, the performance of EUROSPAR showed encouraging signs of improving after management interventions to counteract heightened competition in the supermarket sector.

The results of Londis (acquired June 2015) were in line with budget. Its performance showed a steady improvement and it is on track to achieve positive growth in the second half. The Londis chilled product and produce supply chain was successfully migrated to the Kilcarbery facility, leading to increased produce sales as Londis retailers experience enhanced efficiencies with consolidated deliveries. The final phase of the integration of Londis into the BWG Group is now in progress and will be completed before the end of the financial year.

The Kilcarbery chilled product facility that was commissioned in May 2015 is delivering the anticipated benefits to BWG, recording a pleasing reduction in the cost per case.

## ACQUISITION OF SPAR IN SWITZERLAND

In March 2016, SPAR announced the acquisition of SPAR Holding AG ("SPAR Switzerland"), the operator and holder of the SPAR licence in Switzerland and a member of SPAR International since 1989. SPAR Switzerland supplies a wide range of food and beverage products to consumers through 305 company-owned and independent retailer stores trading under the SPAR, SPAR Express and Maxi brands. It also owns TopCC with 11 company-owned cash-and-carry outlets (rated the second largest business in the Swiss cash-and-carry market in 2014). SPAR Switzerland owns and operates a world-class centralised warehouse in St Gallen.

An aggregate purchase price of CHF100.8 million (R1 563.8 million as at date of acquisition announcement) was agreed for 100% of the ordinary share capital in SPAR Switzerland. On the effective date (1 April 2016), SPAR acquired 60% of the issued ordinary share capital of SPAR Switzerland for R725 million (CHF44.5 million), which was settled using a short-term bridging facility and later repaid from the proceeds of the equity capital raised. SPAR has an option to buy the remaining 40% of the ordinary shares in SPAR Switzerland from the existing shareholders after five years for CHF56.3 million (R873.4 million as at date of acquisition announcement).

The transaction is an attractive opportunity for SPAR to invest in an established business in a stable market with growth potential. The company believes that synergies will result from the opportunity to share knowledge, technologies, products and best practice across groups.

# PROSPECTS

In South Africa, trading is expected to remain under pressure with constrained consumer spending and persistent high levels of unemployment. Food inflation is showing signs of increasing substantially in the short term due to higher price pressures expected from agricultural outputs as the effects of the drought continue. The economic outlook remains unclear with a weak currency, the threat of increasing interest rates and the added uncertainty of a possible sovereign credit downgrade. Against this backdrop, SPAR will maintain its organic growth focus, supporting its independent retailers with innovative marketing and promotional activity in the second half of the year, while maintaining the momentum of store upgrades, as well as new in-store offerings.

The continued Irish economic recovery provides a solid underpinning for the BWG Group to extend its positive performance for the remainder of the financial year as Europe heads into the summer holiday season. The integration of the Londis retailers into the BWG supply chain will be completed by the end of this financial year and improved cost efficiencies are anticipated.

The acquisition of SPAR Switzerland, which became effective on 1 April 2016, is also expected to make a positive contribution to the group's performance this year.

Although the impact of the earlier Easter holiday this year impacted reported trading during April, the group's overall turnover growth for the first seven weeks after March 2016 remained very comparable to the first half. SPAR remains confident that it is positioned to maintain this growth in the second half of the year.

**Mike Hankinson**
Chairman

**Graham O'Connor**
Chief Executive Officer

# CHANGES TO THE BOARD OF DIRECTORS

Mrs Marang Mashologu was appointed as an independent non-executive director with effect from 1 December 2015.

Ms Tantaswa Fubu withdrew her board appointment prior to the effective date.

Messrs Peter Hughes and Rowan Hutchison retired with effect from 9 February 2016.

# DECLARATION OF ORDINARY DIVIDEND

Notice is hereby given that an interim gross cash dividend of 255 cents per share has been declared by the board in respect of the six months ended 31 March 2016. The dividend has been declared out of income reserves.

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

| | |
|---|---|
| Last day to trade cum-dividend | Friday, 3 June 2016 |
| Shares to commence trading ex-dividend | Monday, 6 June 2016 |
| Record date | Friday, 10 June 2016 |
| Payment of dividend | Monday, 13 June 2016 |

Shareholders will not be permitted to dematerialise or rematerialise their share certificates between Monday, 6 June 2016 and Friday, 10 June 2016, both days inclusive.

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

- The South African dividend tax rate is 15%;
- No STC credits will be utilised;
- The net local dividend amount is 216.75 cents per share for shareholders liable to pay tax on dividends, and 255 cents per share for shareholders exempt from such dividend tax;
- The issued share capital of The SPAR Group Limited is 185 166 384 ordinary shares; and
- The tax reference number of The SPAR Group Limited is 9285/168/20/0.

By order of the board

**KJ O'Brien**
Company Secretary

Pinetown
17 May 2016

# DIRECTORATE AND ADMINISTRATION

**DIRECTORS**
MJ Hankinson* *(Chairman)*
GO O'Connor *(Chief Executive Officer)*
MW Godfrey
WA Hook
MP Madi*
M Mashologu*
HK Mehta*
P Mnganga*
R Venter
CF Wells*

**Non-executive*

**COMPANY SECRETARY**
KJ O'Brien

**THE SPAR GROUP LIMITED** ('SPAR' or 'the company' or 'the group')

**REGISTRATION NUMBER:** 1967/001572/06

**ISIN:** ZAE 000058517

**JSE SHARE CODE:** SPP

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