

# The Group's Approach to Sustainability

## GOVERNANCE OF SUSTAINABILITY

### Policy and approach

Conscious of the Group's role as business in society, the Group recognises that sustainability must be a core aspect of its corporate governance and that managing a number of sustainability-related issues contributes to the long-term success of the Group's business. In certain respects, the Group has been addressing some of these issues inherently for many years. Furthermore, it is recognised that a number of 'new' aspects will have to be considered more explicitly by the Group if it is to continue managing its segments holistically and sustainably. By integrating these environmental, ethical and social principles into the Group's governance and management processes, we will work towards:

- maximising contributions to a broad range of stakeholders,
- reducing the negative impacts of business operations on the environment and communities in which the Group operates,
- mitigating associated risks,
- taking advantage of a number of related opportunities.

The board of Shoprite Holdings recognises the importance of sustainability to the long-term viability of all Group businesses, and the Group Audit and Risk Committee oversees sustainability governance and assesses all material risks on an ongoing basis. At operational level, although there are no explicit sustainability policies or management structures, sustainability governance and management are integrated within the relevant group-

wide structures. Specific sustainability issues are dealt with by relevant members of senior management. The Group is currently reviewing sustainability-related procedures for their efficacy.

### **Management actions and performance during the period under review**

During the year under review, the Group commissioned an independent diagnostic review of current compliance with the recommendations of the King III Code. Key findings, including a gap analysis between the current status and that which the Group should seek to apply in terms of King III, were documented and presented to the Audit Committee. The Group has already acted on certain recommendations.

Shoprite Holdings maintained its ranking as a Top-40 JSE listed company and was, therefore, automatically assessed for inclusion on the JSE SRI index during the latter part of 2009. It was not included on the Index, mainly because it did not meet the minimum environmental criteria. The Group will be working towards meeting the requirements for inclusion on the JSE SRI Index.

The Group also recognised the need to improve its sustainability reporting and disclosure. In this regard, the Group engaged the services of specialist sustainability consultants to assist with the preparation of its first formal Sustainability Report. This Sustainability Report is the Group's first step on a journey towards improved sustainability reporting and towards disclosures that are more integrated with its annual reporting.

### **Plans and targets for the next review period**

During the year ahead, the Group plans to begin addressing a number of material aspects of sustainability governance and management. The Group will, inter alia, aim to:

- Gain an understanding of the interrelationship between sustainability, strategy, risk and corporate performance;
- Ensure greater oversight of sustainability issues by the Audit and Risk Committee;
- Incorporate sustainability risk and governance assessment in the internal audit plan; and
- Move progressively towards more integrated annual and sustainability reporting, using the GRI as a framework to report on the Group's sustainability performance.

## **VALUES AND ETHICS**

Integrity is deeply entrenched in the business culture of the Group, as without this value it could be prevented from achieving its financial objectives and its obligations to a range of stakeholders.

### **Policy and approach**

The Group's Code of Conduct ("the Code") sets out the values and ethics expected from employees. Suppliers are also required to abide by the Code, which is included in the respective contracts with suppliers. Responsibility for the Code lies with the Group's Human Resources department, which reviews it periodically. To complement the Code, the Group has a responsibility philosophy to which employees are introduced during induction. An attitude of zero tolerance prevails. Criminal and civil action is taken against any employee who commits fraud or theft, in order to recover any losses that the Group incurred as a consequence.

The Group's legal counsel and various senior managers handle all actions related to non-compliance within the Group. Breaches are reported to the Audit and Risk Committee, which then reports such instances to the board. While there is no dedicated ethics officer, ultimate responsibility lies with members of senior management, who report to the company secretary and executive directors.

### **Management actions and performance during the period under review**

The Group has an anonymous tip-off line, which employees are encouraged to use to report undesirable behaviour. This provides an indication of the ethical climate across the group. There are also internal audit roles to monitor breaches of the Code. Awareness campaigns are carried out to make employees aware of the Code and the way it is monitored. During the year, there were no material breaches of the Code.

## **STAKEHOLDER ENGAGEMENT**

In order to sustain the considerable success that the Group has enjoyed over the past 30 years, the Group has developed cordial – and in many cases strategic – relationships with a wide range of stakeholders. Some of the Group's important stakeholder groups are described below.

### **Shareholders**

Shoprite Holdings holds its shareholders in high regard, values their view of the overall performance of the group, and endeavours to optimise the return on their investment.

Investor relations are managed by the chief executive officer, the deputy managing director and the group finance general manager. The Group deals on an individual basis with all shareholders who request so and during the annual general meeting. Presentations of the Group's financial results are made to analysts and the media twice each year, which provides an opportunity for engagement with shareholders. Comments from analysts via the media are monitored and feedback is sometimes requested on various issues. The Group also provides corporate and financial information through its various reporting processes and via the Shoprite Holdings website.



# Governance and Sustainability continued

## SUSTAINABILITY REPORT

### Franchisees

The OK, Sentra, Megasave and Enjoy stores, as well as certain Hungry Lion and Usave supermarkets, are franchised outlets of the Group. If the service provided to its franchisees is not satisfactory, the Group risks losing such franchisees to its competitors. Equally, a lack of support could lead to a failed business, which would impact the Group economically. To ensure ongoing success, the Group maintains open channels of communication with franchisees, interacting with them weekly regarding cost prices and providing business advice using expert staff from the supermarket industry. The Group's franchise division meets formally with franchisees each month, where feedback and ideas are discussed. The Group is also a member of the Franchise Association of South Africa (FASA).

The Group aims to ensure the continued loyalty within, and expansion of, its franchise business. During the period under review, 37 new franchise members were recruited.

### Organised business

The Group is a member of various business associations, taking care to select only those that are most relevant. Prior to joining, the benefits of any prospective membership must be clear and, on renewal of these memberships annually, these benefits are always reassessed. Some of the benefits include the ability to address common concerns through a unified voice, as well as the chance to learn from the experience of others in the industry.

The Group is also an accredited training office of the South African Institute of Chartered Accountants (SAICA) and a member of the Consumer Goods Council of South Africa (CGCSA). While the Group is in contact with SAICA on a continuous basis regarding training matters, engagement with the CGCSA occurs monthly. The Group is a member of the CGCSA's Food Safety Initiative (FSI) and a founding member of its crime prevention sub-committee. The CGCSA facilitates meaningful collaboration between retailers on non-competitive issues. For example, a database of people dismissed from member retailers was developed by the crime prevention sub-committee two years ago, which is a useful tool when investigating the history of prospective employees. Other initiatives currently being developed include a monitored store access system and a merchandising control system to limit the amount of theft occurring in the retail industry. The FSI facilitates collaboration on food safety issues, and communicates early warnings of potential food threats through the CGCSA network, allowing members to react speedily and appropriately.

The Group is a member of the GS1, an organisation that leads the design and implementation of global standards to improve the supply and demand chain and currently plays a leading role in improving the ability to scan product barcodes within South Africa.

The Group is a member of the Comparative and International Educational Society, an independent parity-based consumer goods network that provides a unique global platform for thought leadership, knowledge exchange and networking between retailers, manufacturers and their partners on collaborative, non-competitive issues.

The Group is also a member of the South African National Consumer Union (SANCU), an independent body representing the consumer. The Group has constant contact with SANCU and representatives of the Group attend SANCU general meetings.

### Government departments and regulators

As a large and complex international group of companies, the Group requires licenses and permits for many of its operations. Good relations with government and regulators are important to ensure a smooth administrative process. Many of the Group's enterprise development and corporate social investment (CSI) projects also require co-operation with various government departments.

The Group strives for the correct level of engagement with government in order to resolve issues quickly and effectively for all parties and in a way that accords with our Code and minimises excessive use of manpower. Interactions occur at a divisional level, with the assistance of executive directors to establish engagement at a higher level if problems arise. Operational managers report to the executive directors on the status of their interactions with government.

The Group actively engages with provincial and local governments in its areas of operation as well as the following departments on an ad-hoc basis:

- Agriculture, Forestry and Fisheries
- Water
- Rural Development and Land Reform
- Environment
- Tourism
- Health
- Economic Development
- Basic Education
- Higher Education and Training
- Social Development
- Police
- Human Settlements
- Labour
- Arts and Culture

Poor communication with government can hinder business development through delays in licensing, Sector Education and Training Authority (SETA) funding, training and labour issue resolution, as well as a general lack of support for business and community developments initiated by the Group. Lack of recognition of Broad Based Black Economic Empowerment (BBBEE) projects can lead to slower results and lower BBBEE scores, which can be damaging to business reputation.

The Group has many government engagements on an ongoing basis, from supply and enterprise development to export and expansion, which keep the business sustainable. A continuous working relationship with government ensures good relations in all areas of importance to the Group.

### Employees

The Group's employees and the skills they bring to work are one of the core features of its ongoing success and sustainability. As more fully detailed in the section on employees, the Group goes to great lengths to ensure that it maintains positive and constructive relationships with all employees, both individually and through their formal representative bodies.

### Customers

Customer satisfaction through price leadership is the top priority for the Group's business. Being able to adapt to customer's changing needs is imperative to ensuring their satisfaction and this requires ongoing engagement.

In addition to its community engagement processes (see below), the Group has a customer service policy that governs all customer response services and customer complaints processes. Market research surveys are commissioned through third parties as well as internally. The Group's national customer service centre is the point of contact for all supermarket customer complaints, queries and requests, while the furniture division operates an independent Customer Care Line.

### Suppliers and service providers

The Group engages with suppliers at many levels and manages these relationships through an 'open door' policy. While communicating group requirements and expectations clearly is important, the Group also aims to learn from suppliers' experiences and to develop business models to grow the business over the long term.

### Communities

The Group understands that its business affects the communities in which it operates and, equally, that those communities affect the Group. Alienating communities will impact on the sustainability of the Group's profit-line, while good relations create business opportunities for all. The Group therefore endeavours to play a supportive role in the communities in which it operates by engaging with people as communities, as customers and as employees.

Since these communities are the Group's customers, ongoing customer support is a strong indication of positive relations. The Group also monitors marketing surveys undertaken with customers.

### AWARDS RECEIVED DURING THE PERIOD

During the period July 2009 to June 2010, the Group received the following operational awards that are relevant and show our commitment to being a sustainable business:

#### SHOPRITE HOLDINGS – AWARDS RECEIVED

Awarding institution	Award name
Emerging from the downturn: Global Powers of Retail 2010 (Deloitte report)	Shoprite Holdings Ltd was listed as the largest retailer in South Africa and 130th biggest retailer globally (for fiscal years ended not later than June 2009)
<i>Sunday Times</i> Top Brands survey	Most-loved retail brand in the country (Shoprite chain)
South African Graduate Recruiters' Association (SAGRA)	Best Integrated Approach to Graduate Recruitment