

Biophysical Environment

Worldwide, there is growing concern about the health of the planet and looming shortages of natural resources. There is also a great deal of scientific evidence to suggest that humankind's carbon emissions and other forms of atmospheric pollution are causing climate change.

In the context of the Group's operations, it must find ways to:

- Minimise the use of natural resources and the impact of its buildings and operations on the environment;
- Measure carbon emissions and implement processes to reduce this footprint;
- Optimise transport and distribution methods to use as few resources as possible;
- Ensure that products are environmentally friendly and minimise the amount of packaging and waste produced.

RESPONSIBLE RESOURCE USE AND PROPERTY MANAGEMENT

Policy and approach

The Group recognises that finding ways to reduce its consumption of natural resources (such as water and energy) should not be seen as yet another regulatory burden or cost of doing business. Rather, responsible resource use presents the opportunity for significant cost savings in the Group's business, as well as the reputational benefits of being seen as a responsible, sustainable brand. The risks of not changing the way the Group does business will be rapidly escalating costs for using natural resources, a range of likely future legislative and fiscal measures associated with resource use, and an unsustainable future for all humankind in the longer term.

Consequently, although the Group does not yet have a formal environmental policy in place, it recognises the need to implement measures to manage its water consumption, energy use and efficiency, the specifications of buildings and fixtures and fittings, in-store operations, use of refrigerants and its waste management and recycling.

Management actions during the period under review

The Group has made progress in this regard by implementing a process of measuring and taking appropriate actions across all these dimensions. Initiatives implemented during the period under review include:

Water consumption:

- The implementation of a project to measure, monitor and report on water consumption at the Group's supermarkets.

Energy consumption:

- The Group continued with a project to measure, monitor and report on energy consumption in the Group's supermarkets.
- An update is currently underway in respect of the software that supports the Group's energy management programme.
- A meter audit across the Group's supermarkets was recently completed to ensure data integrity.
- An audit on the utilisation of power factor correction equipment at the Group's supermarkets was recently completed, ensuring the effective and efficient deployment of such equipment.
- The Group continued with a project to audit electricity tariffs at its supermarkets to ensure that all supermarkets are on the most optimal tariffs.



The supply chain management team, from left to right: Inge Coe – *IT Project Leader*; Francois van Aarde – *Divisional Personnel Manager*; Photy Tzellios – *General Manager*; John MacLennan – *Financial Manager*; Pat Walsh – *National Operations Manager*; Ciska Schreuder – *International Trade Manager*; Kola Naidoo – *IT Project Manager*

- The assessment of energy-efficient technologies continued, with more than 20 energy-efficient technologies currently in various stages of assessment. These technologies focus predominantly on improving the energy efficiency of the Group's refrigeration systems, ventilation and air-conditioning systems, service department equipment and lighting.

Specification of buildings:

- A review has been commissioned to update the Group's building specifications. The latest technologies, standards and best practices are being considered and, where applicable, implemented.
- The Group recently developed software to support the management of its building specification. By consolidating information, previously scattered throughout the Group's divisions, this software improves the consistency, accuracy, change implementation and sharing of information about the various building specifications.

Fixtures and fittings:

- Software is currently being developed to support the management of the Group's fixtures and fittings specifications.

Refrigeration and refrigerants:

- The Group is currently installing refrigeration monitoring and tele-maintenance systems in its supermarkets. These systems optimise refrigeration systems by using sensors to monitor refrigeration in real-time and use logic to switch refrigeration devices on/off and/or to change set points to adapt to changing conditions (e.g. ambient store temperature).
- A project to audit the temperature of the Group's supermarket refrigerated cabinets, cold rooms and freezer rooms is currently underway. This audit aims to ensure that the refrigeration systems are operating optimally and that the cold chain is maintained.
- The two projects mentioned above complement the Group's facilities management programme for the early detection and correction of refrigerant leaks.

Waste management and recycling:

- A project to convert used oil from the Group's supermarkets into bio-diesel was recently launched.

Performance

Many of these projects have only recently commenced and are either in pilot phase or in the early stages of development. It is, therefore, premature to present environmental data relating to most of these projects. The Group will report on the performance of such projects once meaningful group-wide data is available.

Over the last three years, the Group's energy management programme has resulted in a 15%-31% reduction in electricity expenses at a number of the Group's supermarkets. The result is that the energy management programme achieved a saving of some R37 million over this period. This saving can be attributed to the installation of energy-efficient technologies and power factor correction units, tariff management and a change in staff behaviour and awareness.

Plans and targets for the next review period

The Group does not yet have targets in place for its resource consumption but will be working towards a set of appropriate targets once it has a clearer understanding of current resource consumption across the various categories.

CARBON FOOTPRINT

Although nations have not yet agreed on an appropriate global response, it is now widely accepted that greenhouse gas emissions, particularly those arising from commerce and human activity, are contributing to the greenhouse effect and climate change. The consequences are potentially dire. In this regard businesses may, in future, face the risk of operational disruption arising from unusual weather events, as well as a range of regulatory, fiscal, competitive, reputational and insurance-related risks.

Policy and approach

The Group recognises the need to pay attention to the issue of carbon by developing an understanding of the magnitude of its carbon footprint, failing which it risks falling behind the general corporate response and compliance with possible future carbon-related legislation. The Group also risks potential reputational damage amongst customers and investors.

Management actions and performance during the period under review

The Group has recently commissioned a study to begin formally measuring its carbon footprint and to report publicly on its carbon emissions by way of the Carbon Disclosure Project. To enable the Group to measure its carbon footprint, it will have to develop and implement a number of measurement systems and protocols.

Some of these are already in place. For example, in terms of Scope 1 emissions the Group records the running hours and measures fuel usage of its generators. The Group also monitors fugitive emissions through the recording of the weight of refrigerant purchases. The Group is also in the process of rolling out a system capable of measuring and monitoring the real-time performance of its refrigeration installations. In terms of Scope 2 (energy indirect) emissions, the Group measures and monitors real-time electricity consumption (i.e. kWh) through a purpose-built software and metering solution.



Governance and Sustainability continued

SUSTAINABILITY REPORT

Plans and targets for the next review period

The Group has made a commitment to account publicly for its greenhouse gas emissions by submitting the annual questionnaire to the Carbon Disclosure Project. A programme has been put in place to ensure that this will be measured correctly. The Group will begin reporting on its carbon footprint to the Carbon Disclosure Project.

DISTRIBUTION STRATEGY

The Group's strategy over the last 15 years has been to follow international best practices and move from direct store deliveries to a centralised distribution model in order to increase efficiencies within its supply chain and, in so doing, reduce its environmental impacts.

This centralised distribution model has resulted in significant savings in energy consumption and has reduced the Group's carbon footprint. Some of the efficiencies achieved include:

- Reduced truck kilometres and travel time;
- Reduced queuing time; and
- Improved load utilisation.

These efficiencies result in financial benefits, lower prices, improved Group profitability and significant environmental benefits.

Policy and approach

The Group's policy is to be as efficient as possible throughout the supply chain. In addition, all procurements are selected based on life-cycle costing and environmental impacts. By collaborating with suppliers and understanding their processes, the Group aims to optimise the full supply chain rather than just its own components, thereby taking costs and inefficiencies out of the supply chain.

Management actions during the period under review

- A number of initiatives have been introduced in order to become more effective and efficient.
- The Group is pioneering approaches to handle reverse logistics, and has progressed with the viability and the development of processes.
- With fossil fuels in short supply, truck routing and scheduling optimisation has minimised the number of kilometres driven.
- The Group has invested in moving towards a more productive and accurate paperless operation.
- New building developments have been designed and built under guidance from and adherence to green building design practices. New construction techniques have been used for distribution centre floors, which will reduce maintenance and damage to equipment.
- Store ordering has been improved, which will lead to less wastage.
- Increasing cube utilisation of trucks and the mobility of products has resulted in the same volume of product being shipped in fewer trucks and achieved a faster turnaround of trucks at stores and distribution centres (DCs).
- Due to improved processes in the DCs, which were complemented by sophisticated systems, the Group has improved its operational efficiencies and reduced energy requirements. More efficient store deliveries and shelf-ready packaging has helped to reduce stock holding and the space required by stores to trade.
- The Group's centralised distribution network has enabled small suppliers, who otherwise would have been precluded, to retail their products nationally and internationally.

RESPONSIBLE PACKAGING

Policy and approach

The Group's approach to packaging is to reduce where possible and to recycle what remains. Care is taken to ensure that no harmful substances are released, without first being treated, in order to meet all municipal requirements.

Management actions during the period under review

The Group is continuously looking to reduce the use of one-way packaging and has invested in packaging equipment that can instead be used for multiple trips. The design ensures maximum 'nestability', thereby enabling efficient return logistics. The Group increased the number of products that are transported in returnable transit packaging, thereby reducing one-way cardboard in the business. The Group is also looking to standardise equipment across suppliers to gain further efficiencies.

In addition rolltainers were introduced which have minimised the need to use shrinkwrap to stabilise products sent to stores. These rolltainers, combined with thermal covers, allow temperature-sensitive stock to be co-loaded with ambient goods, further improving truck utilisation.

The Group has also identified reclamation centres, at its distribution parks, as an effective central point where waste can be recovered and handled.

Plans and targets for the next review period

The opening of the Centurion reclamation centre, in the Gauteng province, at the end of the 2010 calendar year, will enable the Group to follow internationally-accepted best practices in managing waste centrally and to explore processes and techniques to improve waste management.

The Group is also looking at ways to reduce its landfill contribution by collaborating with suppliers to implement new packaging initiatives.