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Supermarkets

MANAGEMENT WAS QUICK TO RESPOND to market conditions and to the reality of plummeting internal food inflation to limit pressure on gross profit and overhead costs. This was achieved by inter alia continuing to offer the best value for the consumer rand. As a result an increasing number of consumers, forced by their shrinking disposable income to buy at the best price, turned to the Group's three supermarket chains. All three gained customers and increased market share by outperforming their competitors. According to the most recent AMPS figures, 60% of the country's population shopped at the Group's supermarkets.

Changing market conditions has seen a shift in the participation of the various product categories. With customers buying down, the accent moved to low-margin basic commodities, which formed a growing part of the average shopping basket.

The Group continued to open new supermarkets at a rapid rate and added a net 87 outlets to the 1 079 stores it operated at the beginning of the period under review. Management intends maintaining this rate of new store openings during the new financial year, despite predicted low gross domestic product figures for South Africa.

The slow pace of new store outlets elsewhere in Africa – a net five supermarkets were added during the period under review to bring the total to 124 – is not a true reflection of the potential of the continent. It was the result of the lack of foreign investment in property development and the long delays in confirming security of tenure in respect of land for own developments. Fourteen sites for



PC Engelbrecht, Chief Operating Officer

future development have, however, already been confirmed for the next two years and management is planning to open four large-format stores during that period, as well as ten smaller-format outlets.

SUPERMARKETS RSA

This segment grew sales by 14,6% while the total South African food retailing market increased by 9,6%. According to the revised information now used by Nielsen, the Group's Supermarkets RSA held a 34,4% share of the market for the month of June and 32,6% for the year, the highest of all supermarket groups in South Africa, up from 31,4% a year ago.

Shoprite

Shoprite remains the flagship of the Group. The original brand, it is still by far the biggest of its supermarket chains in South Africa. In the year under review it opened a net 11 supermarkets in South Africa and at the end of the period was trading from 319 stores. Aimed at middle- to lower-income consumers it has never, in good times or bad, deviated from its positioning of consistently providing the best value at the lowest prices, which has brought a high level of loyalty among members of its target market. As a result, the customer base continues to grow. This was again confirmed in the period under review, when it not only retained the customers gained during the recession of 2008 and 2009 but further extended its support base. The chain increased the value per transaction by 6,6%.

Of the new stores that opened during the year, eight are located in economically disadvan-

tagged areas. These state-of-the-art supermarkets brought a significant improvement in shopping environment and product ranges and received enthusiastic support from local communities.

In certain supermarket divisions a start was made with the appointment of dedicated customer service representatives in stores to assist customers with queries. Trading hours were extended where necessary to satisfy customer needs while product availability was treated as a particular priority to assist those customers travelling long distances by taxi to do their shopping.

Checkers

During the period under review Checkers remained the fastest-growing supermarket chain in the country for the second consecutive year to produce above average results in an extremely challenging market. Targeting higher-income consumers, the chain did not feel the impact of deflation to the same extent as Shoprite and especially Usave, but the general market malaise did still put a damper on growth. It further increased its exposure to the higher LSM categories and in the process made further gains in market share. Checkers grew its value per transaction by 7,5% – the highest of the three supermarket chains.

The chain has given increasing focus to lifestyle ahead of price in its positioning. Although the accent remained on value, it is within the context of high quality food at value prices. To accommodate changing consumer needs a major focus was placed in-store on specialist areas such as exotic cheeses, branded fresh meat products and the wine selection in supermarkets. The latter, which is built around a Wine Route theme, proved highly popular; with sales value increasing 19,9% at a time when industry-wide, national domestic wine sales showed a marginal increase.

Checkers continued to open new-generation hyper stores, however not standalone, in the northern provinces. The format of the current hyper stores is substantially smaller than that of their predecessors, first seen in this country in the 1970's, which allows for lower fixed costs. They also offer greater specialisation in specific product categories than the original format.

Currently the chain is increasingly reaping the benefits of its repositioning for higher-income consumers, started eight years ago, and has developed a clear identity of its own. Over the last few years there has been a complete and extremely positive reappraisal of the brand by the market.

Usave

This no-frills chain of small-format stores is now firmly entrenched in the market, enjoying increasing customer support from a wide spectrum of consumers. It now serves in excess of 5.5 million customers a month and market share has shown steady growth throughout the year and the customer count increased by 36,2%. The chain's return on investment exceeded 50%.

Usave opened a net 39 outlets during the year and now operates 169 stores. Of the new stores 13 are located in economically disadvantaged areas. As the chain's reputation grows, management is finding it easier to obtain suitable sites for new stores. Many of them are located in small shopping centres and more than 50% of premises are rented from economically disadvantaged property owners.

Much work was done during the year to further refine the limited-range concept that sets Usave apart and management believes the present format works best for its varying target markets in South Africa and outside its borders. Store interiors have been upgraded, new shelving and display systems introduced and the chain's corporate identity strengthened. A strong focus was placed on improving Usave's perishable offerings, especially of fruit and vegetables, while the product range was reduced to 1 400 top-selling items.

Management continued its policy of developing private label products. These now number just under 150 and although selling at lower prices than the brand leader in each product category, they provide Usave with a better return. To attract consumer interest and ensure return visits management also continued its policy of offering, at bargain prices, once-off general merchandise job lots sourced internationally. These special offerings substantially increased the contribution of general merchandise to overall sales.

SERVICE AND SPECIALITY DEPARTMENTS

Freshmark

Freshmark is the Group's fruit and vegetable procurement and distribution arm and is a substantial business in its own right. It not only supplies fresh produce to Group stores within South Africa, but also to most of its outlets in other parts of the continent. It operates its own network of distribution centres and refrigerated trucks; negotiates production contracts with some 500 large- and small-scale farmers in a number of countries; sources specialty fruit and vegetables on international markets, and plays a key role in equipping emerging farmers with the knowledge and skills to produce and meet international GLOBALG.A.P. standards.



Checkers Hyper, Parow

Chief Operating Officer's Report continued

In the period under review it handled 292 000 tons of fruit and vegetables and provided stores with 440 different product lines. Management stay in touch with the latest international research about new and improved varieties and a number of these have been introduced to the South African market over the past two years.

In the light of the requirements of the new Consumer Protection Act all packaging was reviewed and displays product origin in addition to a schedule of nutritional values. International laboratories regularly audit all farmers that have GLOBALG.A.P. accreditation to ensure they comply with the food safety standards set.

Freshmark's distribution and cooling facilities in Durban have been greatly extended while upgrades are at present being undertaken in Cape Town, Port Elizabeth and Polokwane.

Meat Market

This department experienced good volume growth in the low-inflation environment that permeated the retail food sector during the period under review and increased its participation to the total basket for the first time since 2007. From a Meat Market perspective, the Checkers and Shoprite brands became more clearly differentiated in these reces-

sionary times. In Checkers the premium meat brands (Steakhouse Classic, Certified Natural Lamb and Championship Boerewors) grew sales significantly above total butchery turnover. This is seen as an indication of the trust these brands have built up with consumers who in these financially strained times, eat out less and rather spoil themselves at home with what they trust as quality up-market brands.

In Shoprite the opposite was the case: here there was a strong preference for "loose meat" where the customer could buy the exact rand value of meat he or she could afford. In those butcheries where loose meat was available, it contributed materially to overall sales growth. Special loose-meat cabinets have been installed in about one third of Shoprite butcheries.

The department's electronic traceability project was implemented on Angus cattle in the Western Cape. While this system enables Meat Market to guarantee the origin of these carcasses, it also makes it possible to become more directly involved with emerging farmers because of the traceability capacity.

Money Market

The Money Market concept continues to build customer loyalty in the Group's Shoprite and Checkers outlets, offering an ever-increasing number of services, from utility payments, bus

and airline tickets to basic insurance policies, tickets for major sporting and cultural events and money transfers. It derives income from mainly two sources: commission earned on payments received on behalf of more than 200 service providers and in other income generated through money transfers, of which it now handles 220 000 per week.

Due to the highly dynamic environment in which Money Market operates, extensive training of staff has become a crucial component in the drive to provide customers with the services they require.

By adding entertainment to our customers' shopping lists Computicket is now firmly entrenched as part of the Money Market offering, with 44% of total Computicket tickets sold from Money Market counters.

Improving customer service was a major priority of management during the period under review. The size of Money Market kiosks were increased, as well as the number of service points and the speed of transactions. In the new financial year free-standing touch screen self service terminals will also be introduced at which customers can undertake certain functions such as flight bookings, without the intervention of staff.

LiquorShop

LiquorShop operated 83 outlets at the end of the 2010 financial year after opening 35 during the year under review. Some 80 liquor licence applications are awaiting approval. Of the 83 existing outlets, 52 are linked to Shoprite supermarkets and 31 to Checkers. Their location at or near the entrance to the supermarket has proved to be a substantial benefit for customers enabling them to do their liquor purchases in one visit. In line with the Group's retail philosophy, prices are kept low.

The LiquorShop chain carries an extensive range of wines, beers, ready-to-drink products, spirits and mixers, maintaining a high level of product availability by means of a fully automated ordering system. In addition to the own-label range of Odd Bins wines on sale, LiquorShop has also started introducing its own private-label spirits such as brandy, whisky, vodka and gin. Due to low marketing costs these products can be sold at lower prices while yielding higher margins. The Group nevertheless has due regard for the strengths of branded products.

For the new financial year the focus will remain on in-store growth and growth in the number of outlets. Management has set itself



Shoprite and LiquorShop, Strand

a short-term target of 200 stores, but the speed at which this can be achieved is fully dependent on the rate at which new licences are approved.

Supermarkets non-RSA

The Group was able to achieve growth of 18% in turnover in stable currencies for the period under review. The weakening of most currencies in which the Group trades against the rand lead to importation from South Africa becoming more expensive. A well established international procurement department was able to successfully source product from abroad for the relevant countries, keeping their prices competitive and assisting them to improve margins.

Its extensive, well-established businesses in Zambia and Namibia contributed to the segment's turnover and profitability. In Zambia, where its 19 outlets are spread through the country, the Group continued to grow strongly in both turnover and profitability despite increasing competition, while its operations in Namibia benefited from the opening of a number of new uranium mines, a metal for which the demand has not slackened during the present recession.

However, the greatest potential for future growth on this part of the continent exists in commodity rich countries entered by the Group a few years ago. In Angola expansion was also slowed by a lack of property investment capital since the start of the global financial crisis. To partially overcome these problems and to satisfy greater demand, one of the Group's three Shoprite supermarkets in Angola is in the process of being enlarged. Two new supermarkets, which will be financed by the Group, as well as two Usaves, are scheduled to open their doors in the new financial year. Additional suitable new sites are constantly being investigated.

The potential in Nigeria for food retailing is exciting. Smaller than South Africa in terms of land mass it has, with a population of 155 million, three times more people. The world's eighth largest oil exporter, it boasts the largest economy in Africa after that of South Africa. The Group now operates two supermarkets in Lagos, a city with a population of more than 10 million people. Expansion plans for the immediate future include supermarkets in two regional shopping malls scheduled for completion by the end of 2011. Contracts have also been finalised for a supermarket in a new shopping centre in the capital, Abuja.

The Group's shift in focus from East Africa



Usave, Ravensmead, Parow

to the commodities-rich countries of West Africa also saw it enter Ghana. The attractive environment for foreign investors created by Ghana's political and social stability was an important consideration for the Group in establishing a foothold in that country. Ghana's economic outlook has also brightened with the discovery of oil and gas deposits of which the extraction is expected to start before the end of 2010. During the period under review the Group's large supermarket in the capital's select Accra Mall again posted excellent results. It has been joined by a second store, this time in the outskirts of Accra, while construction is expected to start in November this year on a new supermarket for the Group at Kumasi to the north of Accra.

In Mozambique the recently discovered coal field near Tete, reputed to be one of the world's largest, is drawing foreign investment to what is still one of Africa's poorest but also fastest-developing countries. The Group's business there is growing. All five of its stores are trading profitably, with turnover increasing markedly during the year, supported by substantial improvements to the Group's supply lines into the country. Two further stores are being planned for the capital, Maputo. One will open before the end of 2010, the other during the course of 2011, while the first Usave in the country will soon open to the north of Maputo. The Group's operations in Mozambique are

expected to achieve critical mass in the near future, with profitability likely to increase in the medium term.

The Group is currently investigating opportunities in countries where it has not traded before as Africa remains a strong focus for the Group's expansion.

A handwritten signature in black ink, appearing to be 'PC Engelbrecht'.

PC Engelbrecht
Chief Operating Officer

27 August 2010