

Chairman's Report

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CH Wiese

SOUTH AFRICA AND THE GLOBAL ECONOMIC ENVIRONMENT

The year to end June 2011 continued to see the fallout of the world's economic woes affecting the lives of consumers almost everywhere. Uncertainty has gripped international markets for long periods at a time, brought on by the sovereign debt crises of several Euro Zone countries and the fear that the US could default on its debt. Although buffered against the worst of the international fallout by its prudent fiscal poli-

cies, South Africa's growth has slowed down. This is the result not only of the problems experienced by its major trading partners, but also because of the strength of the rand and structural problems in the economy itself. Excluding some countries in Asia and Africa, the global economy is not expected to regain traction in the near future.

The recovery in the South African economy has, at best, been fragile and growth figures for the year are being increasingly adapted downwards. The growth there in for instance the manufacturing sector has been sluggish and has not been accompanied by any noticeable rise in employment. In fact, according to the latest report of the World Bank, 869 000 South Africans have lost their jobs since the 2008-2009 recession. The number of unemployed people in the country's economically active population has now reached 25.7%, which is the highest of the 61 countries tracked by international agencies. At the same time more than 14% of employers, among them many government departments, are struggling to fill crucial skilled positions because of the lack of sufficiently qualified applicants.

The government tries to relieve the plight of consumers by making social grants available to a growing number of people. With more than 14 million people now receiving grants, this approach appears to be unsustainable given the country's subdued economic growth and relatively small tax base. Despite job creation being high on the list of the government's declared priorities, most new employment opportunities will have to come from the private sector, which is, however, hampered by inappropriate labour legislation, high wage demands and bureaucratic delays in the approval of skills immigration. This lack of an adequate reservoir of skills is part of the reason



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why, in the 2010 Global Competitiveness Report, the country dropped from 45th to 54th place on the list of 139 nations.

Unemployment represents a major challenge to the Group's core business, which has always predominantly served people at the lower end of the income spectrum.

AFRICA

African countries, with their cash-based economies, did not experience the economic downswing to the same extent as most other economies. In the present economic lull, Africa is expected to be the only region to register faster real growth in 2011 than in 2010. As a result, it is becoming increasingly attractive to investors worldwide, making South Africa a logical destination for investors keen on using the country as entry point into Africa. However, the enormous competitive edge this gives the country is fast dissipating as irresponsible pronouncements by political leaders, the lack of skilled workers and the difficulties experienced in entering the local market increasingly frustrate foreign investors.

Over a period approaching two decades, the Shoprite Group has been expanding its presence on the continent, particularly in the resource-rich countries of West Africa and today operates more than 140 stores in 15 countries. However, in developing its business, the continuing high level of bureaucratic regulation found at every level of government in virtually every country on the continent remains a constant challenge and the Group is continually developing ways to minimise the impact of such bureaucracy on its operation.

I believe the biggest problem of doing business in Africa is the bureaucratisation of its economies, which assumes frightening proportions in terms of the costs and delays in which it involves businesses wishing to invest. The endless delays apply in the case of virtually every approval a business needs, from visas for skilled workers to those for building plans or rezoning applications. The crippling effects of this all-pervading bureaucratisation are as prevalent today in South Africa as anywhere else on the continent. By contrast, a few countries seem to want to start opening up their economies, such as Rwanda where, according to a World Bank report, it is



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possible to register a company and obtain a registration certificate within as little as two days. However, those are the exceptions – much will have to change before this becomes the norm in Africa.

COMPETITORS

The entry of Wal-Mart, the world's largest food retailer, into the South African retail market represents a major foreign direct investment in the country and should therefore be welcomed, especially as capital flows to this country from the rest of the world slowed conspicuously in 2010. With the growth potential of the African continent probably the least developed of all emerging markets, it is reasonable to expect that other major international companies would also in time establish themselves here.

However, South African retailing has always been one of the most competitive sectors of the local economy and hence also one of the most sophisticated. As a result, we have produced world-class retailers capable of continuously assimilating changing international trends. The Shoprite Group is no exception in this respect. Over a period of more than three decades we have come to know our market thoroughly and how to trade not only in South Africa, but also elsewhere on the continent where we do business. We operate an extensive network of strategically located outlets and continuously invest in improving our supply lines and centralised distribution networks. Backed by experienced management and extensive operational skills, we believe we are well-equipped to face any challenges in food retailing that may result from new entrants into our market.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

The Group has committed itself fully to the principles of broad-based black economic empowerment (B-BBEE), however avoiding a path intended to benefit a few at the expense of the wider community. We have devoted our energies to creating employment opportunities to provide a viable financial future for an increasing number of previously disadvantaged people. While the economy as a whole is still shedding jobs, we were able to increase our staff complement in the year under review through organic growth by more than 7 000 to over 95 000, making Shoprite Holdings one of the biggest employers in the private sector. Staff remuneration contributes almost R6 billion to the economy.

The Group has created close to 30 000 new jobs over the past five years; and if our plans of opening 106 new stores in the new financial year come to fruition, we expect to create a further 8 000 to 9 000 jobs by June next year.

Of our present staff complement, over 11 000 are employed in our businesses outside South Africa, thereby contributing to the growth of the economies of the other African countries where we operate.

Within our business, job creation is linked to extensive, ongoing training to equip employees with skills over a range of areas. Of the almost 1 million hours devoted to training and development in the past financial year, 95% involved previously disadvantaged members of staff. We promote people through the ranks from our existing staff base, so that people of colour, both men and women, now enjoy a growing presence in middle, senior and top manage-

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ment teams across our various divisions. Strategies are in place to ensure that this also happens increasingly at Group management level.

However, we share the frustration of other training-based companies who lose their trained staff to businesses who invest little in training themselves.

We extended our B-BBEE involvement this year with the establishment of the Shoprite Development Trust, with initial capital of R65 million. It will, in support of the national Enterprise Development Strategy, make low-interest loans as well as management skills available to black entrepreneurs from communities where the Group owns or is developing shopping facilities, enabling them to become business owners.

Our B-BBEE programmes, which for the review period brought the Group to a level 5 contributor status, also extend to our suppliers. In terms of our preferential procurement programme, we bought products during the year to the value of R37,1 billion from B-BBEE suppliers, among them 456 small-scale farmers all over Africa who supply us with fresh produce to the demanding standards we set. We currently have greenfields initiatives involving 167 such small farmers.

BOARDS OF DIRECTORS

There were no changes to the board of Shoprite Holdings Ltd. In the light of our increasingly complex business and growing geographic footprint, the directors are sensitive to the need of not only the main

board, but also of the subsidiary boards in the group, to stay in close touch with the dynamics of its ever-changing markets. To this end, various initiatives have been identified to ensure that we possess at board level all the skills and knowledge needed to ensure that the Group continues on its present growth path. Announcements in this regard will be made in the current year.

ACKNOWLEDGMENT

I am extremely proud of the results that the Group achieved this past financial year – the outcome of a supreme team effort involving the board, management and staff, who all made a vital contribution to our success. It is therefore with deep gratitude and appreciation that I thank them all – my fellow directors for their insight, guidance and support; management for the way in which they turned the many challenges to the Group's advantage, and every member of staff for their dedication and unremitting hard work.



C H Wiese
Chairman

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