

Strategy and performance

The Company has identified a broad range of growth vectors, spanning new geographic regions, market segments and products ranges, as well as alternative business formats. Shoprite intends to seize opportunities across all these dimensions, while always remaining true to its core promise – on the delivery of low prices and a world-class shopping environment in every region it enters. The Company is confident that the competitive advantages inherent to its chosen business model, as well as the strategies implemented to drive growth, will continue to deliver sustainable value creation for all stakeholders for the next 40 years and beyond.

Shoprite will continue to focus on its strategic growth drivers to strengthen and extend its leadership position as the foremost FMCG retail operation on the African continent.



Brand Health Tracker July 2018 n=1 500

Drivers of growth

We do it all for our customers

1

Building a customer-first culture

We have a tremendous focus on cementing a culture shift to putting customers and their unique needs first and always striving to satisfy those needs. This resolve is strengthened across all dimensions of interaction with customers through employee engagement, training and reward systems. We have also restructured our operational teams so that each has a singular focus on their brand and the needs of their target customers and the brands have reaped the benefits.

Customer science and data is powering decision-making and data analytics are driving our initiatives to ensure our product offer is relevant to various customer segments, especially ensuring that we invest into prices on those items most important to our large contingent of price-sensitive shoppers.

The outcome of our efforts in this key strategic thrust is that customer satisfaction is at record levels. We have achieved customer growth of 3.3%, with 35 million additional customer transactions. The Shoprite brand has also again won multiple customer awards over the past year, indicating that our customers are taking notice of our efforts.

2

Growing LSM 8-10 share of wallet

Significant opportunity remains to further grow our share of wallet in premium food retail. This is a lucrative market for us with upmarket baskets being on average 25% more valuable than normal baskets. The Shoprite Group's business model is well suited towards an effective delivery in this segment, in terms of our supply chain, speed to the market and quality control.

We are focusing on enhancing the Checkers brand perception, improving on our fresh offering, gearing product innovation capability and accelerating FreshX store upgrades to enable growth in share of upmarket spend.

An illustration of how well this has been received is the fact that Brand Finance recently reported a 33% growth in the Checkers brand's value to R6.9 billion in their 2018 study of South Africa's most valuable brands and we are serving 670 000 new monthly Checkers customers.

We have experienced continued success in our Oh My Goodness brand and enhanced wellness ranges. We have launched 104 new convenience products and have outgrown the retail market in this category by 4.7 times. We continue to innovate and improve on this, as the first South African retailer to launch affordable, delicious, chef endorsed dinner kits.

We have invested in fresh – from our supply chain and our trucks to our cold chain and we have expanded the team of food technologists and launched a Chef's school to provide a pipeline of skills for this offering. A third of the market share gains in Checkers has been driven by our fresh departments according to Nielsen and we have achieved double the industry growth in this category.

We are accelerating FreshX store upgrades, with the sales growth in these stores post the launch of the store upgrade having increased well in excess of other stores. We have applied customer-led insights to change speciality ranges, pricing and the way we promote and we have a new look and feel to give a speciality experience inside a supermarket.

3

Developing private labels

A focus on private labels is a win-win for both Shoprite and our customers – providing better choice at better value for customers and better margin for the Group. Our focus is not only on private label products for key commodity price points, but to also satisfying upmarket choice, with half of all new products launched in the latter category. The private label categories have outgrown store growth threefold and the Group has increased its participation of total business by 1.6% to 16.2%, with, 20 of our own brands now worth more than R100 million.

The Group also created an umbrella private label brand for Usave, called Ubrand, with a simple proposition – products will be of comparable quality to the brand leader, but at a significantly reduced price point. Customers have responded positively to the launch and it is expected that the range will span more than 300 products.

The Group will also be launching an umbrella private label range of more than 150 products called Simple Truth, aimed at the consumer looking for healthier or more environmentally friendly products. Products in this range will contain no artificial colorants, no added MSG, no preservatives, and will be uncompromising on taste.

4

A stronger franchise offer

We have continued our focus on growing this segment this year, with the rebranding of outlets continuing, as well as the enterprise-wide roll-out of the new SAP IS Retail system also being deployed to our franchise business. Franchisees are getting the pricing benefit as the Group continues to enhance support for members, more and more products are sourced from our distribution centres and delivery frequency to members is increased. We have refined the model and are doing express format stores, as well as forecourt stores at fuel stations. Strong opportunities for growth exist through private label, General Merchandise, Money Market services and our turn-key system solution.

5

Leverage African advantage

Shoprite has a well-established footprint in 15 African countries and has built an enviable reputation for the prosperity and infrastructure it can add to a region. We are committed to Africa's growing middle class and exploding population and our non-RSA operations remain both significant and profitable, as well as a portfolio hedge. After retailing across the continent for more than 27 years, our wealth of experience and track record is unsurpassed and a significant competitive advantage. Our market leadership is further entrenched by scale – with 475 stores outside South Africa, we can open distribution centres in these countries, which substantially improves efficiencies, range and service to our customers. Results tend to be volatile and cyclical in the short term with weaker African economies and currencies, however the long-term forecast growth for each region we have entered outside South Africa is higher than that of the South African economy, providing significant diversification benefits and growth prospects to the Company. We maintain our lead in Africa, having been voted Africa's #1 Retailer brand by Brand Africa and successfully executing more than 1 billion transactions in these territories in the past year.

6

Strategic footprint expansion

In South Africa we opened a net 116 new stores during the 2018 year and a further 102 new stores are planned for 2019. The Group opened a net 38 new stores in Non-RSA countries and 30 more are planned for 2019, including an entry into the large East African economy, Kenya, by the end of the year. We have also made a bid for 11 franchise stores in Botswana, for which we expect an outcome before the end of the calendar year. Significant further opportunities are available and we continue to consider expansion beyond the continent on our terms, at acceptable risk and without jeopardising investment.

Meaningful investment and 25 years of experience in centralised distribution continues to provide a sizable head start. Our state-of-the-art distribution centres and supply line infrastructure give greater control over inventory across all our operations, while lessening the overall carbon emissions of Group operations. The Group's distribution centre in Centurion, Gauteng is the largest of its kind under one roof on the continent. Our latest edition, the new 105 000 m² Clilmor distribution centre became operational in the reporting period. The Shoprite Group aims to receive a Green Star accreditation for this development. Clilmor is one of the most technologically advanced centres on the continent and, with enterprise mobility partner MakeMeMobile, recently won a global award from Honeywell for its innovative voice-enabled workflow solution. Efficiencies have already started manifesting within the first six months. We continue to transplant our supply chain expertise into Non-RSA regions, with the acquisition of land for an additional distribution centre in Angola and the Port Harport development in Nigeria.

We have made significant investments in the past year in implementing the right technology. The SAP IS Retail roll-out is almost complete. It provides the Shoprite Group's entire retail landscape on one platform, with a real time view of stock availability and line item profitability, amongst others. It will enable scalability, omni channel capabilities and e-commerce, as well as rich data across our 15 geographies and 16 brands. The implementation came in under budget and won a SAP Quality Gold Award for Business Transformation based on the success of this implementation. Our technology platform is being enhanced to allow for precision retailing, with real time personalisation at scale and predictive analytics to continue to serve the customer of tomorrow. We actively use basket data and advanced customer analytics to guide all customer centric decision-making, from product ranges per store, to pricing, timing, products to promote and layout of stores.

In the future, omni-channel shopping will assist customers with a seamless shopping experience – including online, mobile and in stores. We are capitalising on bricks-and-mortar as an advantage for omni channel offerings, giving us the ability to get items to any city at a low cost. The Group has embarked on a digital transformation journey leading with data driven customer insights and growing the retail offer for mobile-savvy customers in our stores and across digital platforms. We recently launched our first mobile platform allowing customer to utilise a mobile wallet to transfer money via a mobile device and then cash out in our stores.