

Key risks

The Shoprite Group’s scale and diversification across economic spheres, regions and products, give it the ability to hedge the good as well as the bad times – be it economic conditions, regulatory changes, economic policy changes, regional upheavals or climatic impacts. Operations in different environments protect against unexpected and negative impacts and ensures group-wide sustainable financial performance through cycles.

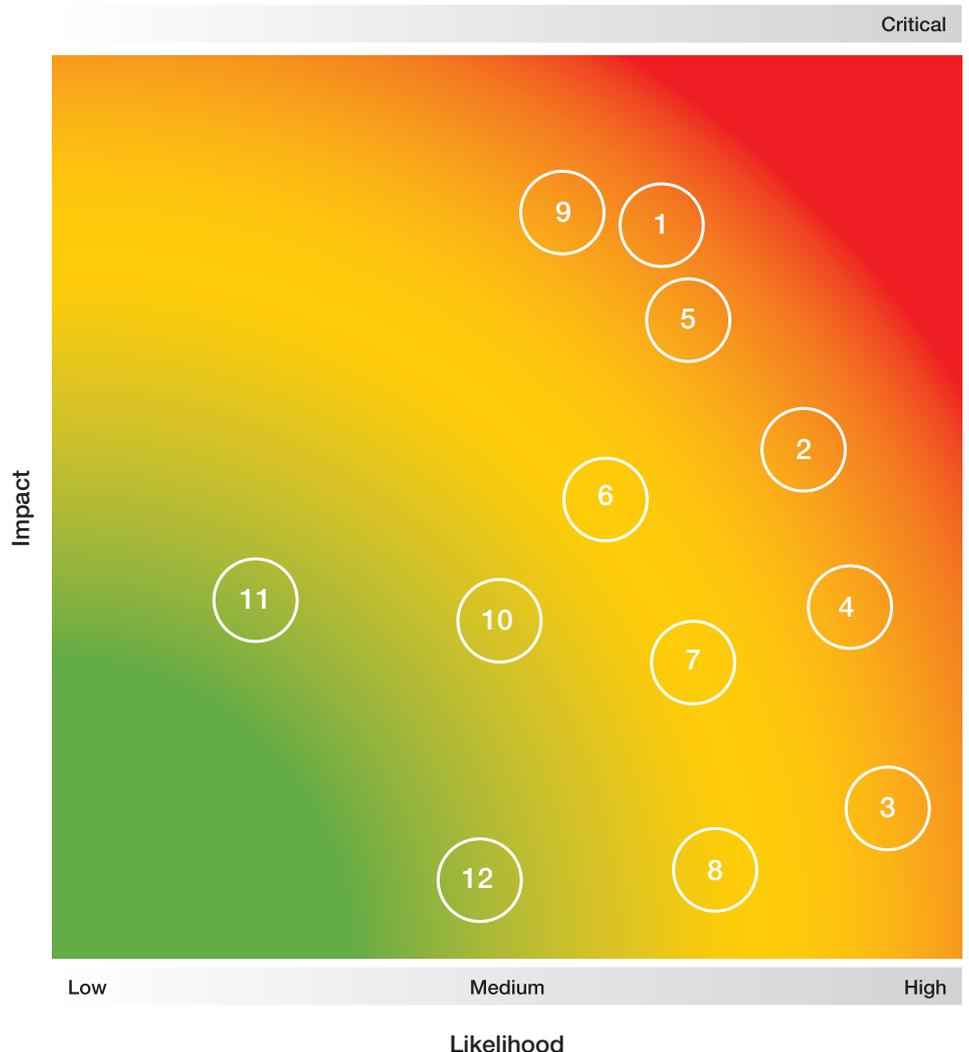
Managing business risks

The Shoprite Group exists to provide value for our stakeholders. Our challenge is to embrace uncertainty that derives from circumstances that change daily, to determine the quantum of uncertainty to accept and to identify both the risk and opportunities presented by uncertainties, as we strive to grow and protect stakeholder value.

Shoprite’s risk universe consist of 48 risks which may impede on the Group’s ability to achieve its objectives and incorporates strategic, financial, operational, as well as compliance risk. To determine the key risks, the risk universe is assessed from a likelihood as well as an estimated impact perspective and risks are categorised according to its combined score on these two dimensions. Below are the key risks impacting the business.

Residual risk map

Strong governance and enterprise-wide risk management helps to identify trends and events with potential value destruction attributes early and gives us the choice to maximise shareholder value through protecting the risk or capitalising on the opportunity.



Risk No	Risk Description	Risk Mitigation	Residual Risk
1	Cyber (Information Security) and Privacy Risk	<ul style="list-style-type: none"> Access is restricted to systems, infrastructure and the network. Security solutions are deployed to address key security risks. Contracts with third parties are established that govern data handling. Security reviews are conducted and vulnerabilities addressed. <p>Shoprite is implementing an Information Security Management System “ISMS” that is aligned to the ISO 27001 standard. Various workstreams are underway to improve and/or develop Shoprite’s:</p> <ul style="list-style-type: none"> Security Operations Centre; Identity and Access Management; Vulnerability Management; Formalise Information Management; and Unified Endpoint Management. 	High
2	Unavailability of Key systems	<ul style="list-style-type: none"> A data center has been established compliant with industry good practices for data centres. IT infrastructure is supplied by reputable IT vendors. Assessments against a group Disaster Recovery standard is conducted on a regular basis and reported to the Audit and Risk Committee. Disaster Recovery processes are tested twice a year to cater for disasters affecting IT systems. Home Office production systems have been transitioned from Disaster Recovery to geo-located High Availability solution(s) to reduce business downtime. Disaster recovery plans will be re-aligned in line with the new high availability strategy and the effectiveness thereof tested once the process is completed. Key systems are monitored 24/7 for uptime, performance and capacity. Backup network communication channels have been established (3G, satellite). Automated data backups are scheduled and stored off-site. Incident management processes have been established. 	High
3	Health and safety (Employees and non-employees)	<ul style="list-style-type: none"> The business utilises a central platform to manage health and safety risks. Business units conduct monthly self-assessments to ensure compliance with the Act and Regulations. An external services provider performs health and safety risk assessments at stores. Both Regional management and Internal Audit incorporate the health and safety requirements in their store audit programmes. Training and awareness are done through an e-learning platform and specific health and safety training is conducted through external service providers as well as the internal Insurance Department with specific focus on fire. Appointment of a dedicated Health and Safety specialist who is responsible to manage health and safety for the Group. Collaboration and working closely with the Department of Labour to address any development areas. 	High
4	Food safety	<ul style="list-style-type: none"> Shoprite employs Food Technologists that ensure compliance with the relevant regulatory requirements and developing a QA system for the Group. CGCSA Food Safety Initiative membership ensures that the business is kept abreast of all regulatory requirements and pro-active engagement with various governmental departments e.g. DAFF, DoH, DTI, DoL. External service providers conduct annual food safety and hygiene audits at distribution centres and quarterly food safety and hygiene audits at all stores. All reports are submitted to all Divisions for action and referred to senior management to ensure that repeat findings are avoided. External service providers conduct food safety audits at all food processing sites once a year. 	High

Key risks (continued)

Risk No	Risk Description	Risk Mitigation	Residual Risk
5	Losses due to fraud	<ul style="list-style-type: none"> ■ Critical financial systems are subjected to regular risk based internal audits. ■ A formal approval system is embedded and reviewed annually for capital and operational expenditure. ■ Automated financial system controls are utilised within online banking. ■ All payments are processed through electronic funds transfers with reputable banks and are subject to be audited by the Group's independent external auditor PwC. ■ Monthly review of Income Statements at lowest entity level being Stores. ■ Monthly reconciliations of all ledger accounts. ■ Well-publicised Hotline managed by an independent external party. ■ Segregation of duties between the approval process of expenses and the payment thereof. 	High
6	Strike action and deterioration of Trade Union relationships	<p>Collaboration forms the foundation of improved and effective Trade Union relations. This is achieved through:</p> <ul style="list-style-type: none"> ■ Understanding of the retail industry and culture, where customers come first; ■ regular and ongoing negotiations and engagement; as well as ■ exposure to the global retail employment environment every two to three years, by involving the recognised unions when visiting various trend setting countries to benchmark adequately. 	High
7	Business continuity and breakdown in Supply Chain	<ul style="list-style-type: none"> ■ A comprehensive and formalised Business Continuity and Recovery Programme have been rolled out to all major Distribution Centres. ■ Distribution Centre IT disaster recovery plans have been successfully tested twice during the reporting period. ■ A new process involving the systematic conversion of open branch orders to direct supply reduces the associated IT lead time to a maximum of 24 hours. ■ Delivery of promotional items were tested by diverting to direct suppliers, relieving the dependence on Distribution Centre supply to store. ■ Collaboration between Shoprite and its suppliers' ability to respond to risks associated with major Distribution Centre disruption proved the effectiveness of team efforts. ■ Regular fire and risk reviews are undertaken and training provided. ■ All critical distribution centres have standby generators. ■ State-of-the-art security and fire prevention systems, including alarms, access control, closed-circuit television and sprinkler systems are in place and maintained. 	High
8	Project and change management risk	<ul style="list-style-type: none"> ■ Processes have been established for initial project justification and business sponsor approval (PAC, board resolutions, IT Approval Framework). ■ The CEO, CFO and/or COOs, are involved in all major projects. ■ Projects are overseen by Steering Committees that include specific business unit heads, depending on the project. ■ In the SAP implementation, SAP provides expertise to manage the overall programme and independent external assurance providers provide overall governance assurance. ■ Projects are managed by the Project Management Office in accordance with project management best practices and tracked and monitored through the Value Management Office. ■ Project payments are structured on a milestone delivery basis and tracked accordingly. 	High

Risk No	Risk Description	Risk Mitigation	Residual Risk
9	<p>Foreign Exchange Risk/Hard currency availability</p> <p>Exchange controls and forex shortages continue to create major obstacles; hence the objective is to minimise forex risks as far as possible.</p>	<ul style="list-style-type: none"> USD stock loans and local currency cash positions are monitored and exposures are hedged, where possible, by capital injections and/or investments in USD-linked bonds and T-Bills. Financial managers of subsidiaries in Africa transfer “excess” cash to Shoprite International to settle short-term loans. Forex exposures in South Africa are hedged in accordance with Shoprite’s Treasury Policy. Shoprite International (a USD company) makes extensively use of USD banking facilities to mitigate the forex risks of its subsidiaries and to meet its debt factoring obligations. Given the volatility of the South African Rand and to mitigate the risk, the bulk of foreign currency reserves are kept in Shoprite Domestic Treasury Management Company (a USD company). 	High
10	Brand deterioration and Reputation Risk	<ul style="list-style-type: none"> Shoprite utilises real time editorial media monitoring tools and internal escalation protocols upon negative sentiment/potential damaging press detected, with a process to implement strategic response messages. Annual research is conducted to track sentiment and brand preference of consumers. Obtaining a Net Promotor Score (NPS) every six months. (NPS is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company’s products or services to others. It is used as a proxy for gauging the customer’s overall satisfaction with a company’s product or service and the customer’s loyalty to the brand.) Shoprite uses listening tools on social platforms to gauge sentiment around company brands and activity, with a customer engagement strategy and protocol in place to respond. Strict internal departmental approval measures are in place to ensure that all external brand communication is in-line with business objectives and group principles. Continuous efforts are made to build strong media relations with key opinion leaders and journalists. 	Medium
11	Constantly changing regulatory landscape and compliance (will include environmental laws)	<ul style="list-style-type: none"> Embedded compliance framework in the business through all Shoprite’s internal assurance providers, namely: the Business who owns risk and opportunities, Legal, Risk and Compliance as well as Internal Audit. Internal Audit incorporates regulatory risk as part of its annual Internal Audit coverage plan. The appointment of a dedicated Group Risk and Compliance Manager. A defined and risk rated regulatory universe that includes critical, high, medium and low risk impact categories e.g. Competition Law, Occupational Health & Safety, Consumer Protection, Broad-Based Black Economic Empowerment, Employment Equity, Environmental and Sustainability, Labour and Employment, Skills Development and Training, Food Safety and Product Safety, Data Protection and Privacy, Anti-money laundering, Anti-bribery and corruption, Credit, Insurance, Intellectual Property, Pharmaceutical, Property and National Building Regulations, Corporate Governance (King IV™), Companies Law and JSE Listings Requirements, Ethics, Freight Laws, International Trade, Import and Export, Licences and Permits, Liquor, Tax and International Financial Reporting Standards (IFRS). Daily regulatory alerts on new or amended legislation through various subscription and utilising software to assist the business with their compliance risk management plans, monthly reporting and quarterly reporting to the Management Risk Forum, Audit and Risk Committee and bi-annual reporting to the Social and Ethics Committee. Compliance training facilitated through e-learning with specific focus on critical and high-risk impact legislation. 	Medium
12	Broad-Based Black Economic Empowerment (B-BEEE) Transformation Risk	<ul style="list-style-type: none"> The B-BBEE Committee is chaired by the CEO. Appointment of dedicated B-BBEE Compliance Officer. Adoption of medium term strategy to achieve Level 4 by 2020. Bi-annual reporting to the Social and Ethics Committee. 	Medium