



Africa's largest supermarket retailer

SUSTAINABILITY REPORT 2012

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About this report

BACKGROUND AND SCOPE

Shoprite Holdings Limited is proud to present its 2012 Sustainability Report, which provides readers with an overview of the sustainability dimension of the Shoprite Group's operation and highlights sustainability successes and challenges faced in the year past.

The Group considers sustainability reporting a valuable opportunity to engage with its stakeholders and lay out the sustainability issues facing the company. Moreover, as sustainability is in essence forward-looking, this report also provides an opportunity to outline the future operational objectives.

The report will therefore help all Shoprite's stakeholders understand its strategic response to long-term sustainability, enabling them to adequately assess the Group's prospects. For a full understanding of the Group's overall performance, the report should be read in tandem with the 2012 Integrated Report.

Shoprite's annual Sustainability Report is informed by the principles of the Global Reporting Initiative (GRI G3) and the recommendations of the King Code and Report on Governance for South Africa (King III). Note that throughout this report, "Shoprite", "the Group" and so on, designate Shoprite Holdings Limited, its subsidiaries and joint ventures in South Africa and abroad. The report covers both South African and non-South African operations. However, in some instances data is available for or applicable only to South Africa, and this is noted in the text.

ASSURANCE

The Group's Audit and Risk Committee has reviewed the content of this report. The Group engages third party assurers for external verification where required. Specifically, AQRate Verification Services independently assessed and verified Shoprite's broad-based black economic empowerment (B-BBEE) status in South Africa. The Group has not sought external assurance over any other aspect of this report for the period under review. The Group's Audit and Risk Committee assesses the need for additional external assurance over sustainability related aspects on an ongoing basis.

Board responsibility statement

The overall integrity of this report is the responsibility of the Shoprite group board of directors (the Board). The Board acknowledges its responsibility and has accordingly applied its mind and validated the content of this report. It is the opinion of the Board that the report addresses all material issues, and in conjunction with the 2012 Integrated Report, fairly presents the integrated performance of the Group. The Board has authorised this report for release on 30 September 2012.

Highlights and recognition

RECOGNITION

The Shoprite Group is the largest retailer in Africa and 92nd biggest in the world.¹

In South Africa, Shoprite was rated fifth overall in the 2011 *Sunday Times* Top 100 Companies awards, and Best Performing Retailer with a compounded annual growth of 40.2% in share price value over the last five years².

According to both the *Sunday Times* Top Brands awards and *The Times/Sowetan* Retail Awards in 2011, South Africans rated the Shoprite Brand as the:

- Number 1 supermarket (for the fifth consecutive year³);
- Number 1 in all five grocery categories including overall customer experience⁴;
- Number 3 in overall community upliftment³; and
- Number 6 overall favourite brand³.

About 23.23 million South Africans – 66.5% of the total adult population – shop at a Shoprite group store⁵. The Group manages approximately 70 million shopping transactions per month, and this year reached the milestone of over 100 million shopping transactions outside South Africa processed through its tills.

In the period under review, the Group engaged its 100 000th employee and created over 7 000 new jobs. Ninety-nine per cent of the Group's employees come from local communities. The Group ran 207 040 training interventions this year and granted tertiary education bursaries or zero-interest loans to 838 employees.

PERFORMANCE HIGHLIGHTS

	June 2012	June 2011	June 2010*
Turnover (R billion)	R82.731	R72.297	R67.402
Turnover growth	% 14.4	7.3	13.6
Gross margin	% 20.52	20.89	19.66
Trading margin	% 5.64	5.51	5.18
Operating profit (R billion)	R4.563	R3.908	R3.387
Operating profit growth	% 16.8	15.4	16.3
Diluted headline earnings per share (cents)	607.0	507.6	451.6
Diluted headline earnings growth	% 19.6	12.4	15.5
Dividend per share (cents)	303.0	253.0	227.0
Dividend growth	% 19.8	11.5	13.5
Number of own stores	1 334	1 246	1 166
Number of franchisees	406	274	283
Net asset value per share (cents)	2 381.6	1 399.8	1 166.7
Return on capital employed	% 26.0	39.2	41.7
Number of employees	102 137	95 050	88 000

* Includes one extra week.

¹ Deloitte's Global Powers of Retailing 2012

² *Sunday Times* Top 100 Companies Oct 2011

³ *Sunday Times* Top Brands Survey 2011

⁴ *The Times/Sowetan* Retail Awards 2011

⁵ Amps 2011

Approach to sustainability

OVERVIEW

The Shoprite Group's overall success depends on its ability to consistently provide communities in Africa with food and household items in a First World shopping environment and at the lowest possible price. At the same time, the Group encourages and contributes to the development of stable economies and the social upliftment of its people.

Over a number of years, the Shoprite group has adopted and implemented a sound governance model through the introduction of specialist disciplines such as audit and risk, and legal and compliance management. Joining the Audit and Risk Committee this year, a Social and Ethics Committee was established, charged with ensuring that Shoprite business is conducted holistically and operates in a responsible, ethical and sustainable manner. The Social and Ethics Committee held its first meeting in May 2012.

SUSTAINABILITY GOVERNANCE

Shoprite's Audit and Risk Committee oversees all aspects of sustainability governance and assesses all material risks on an ongoing basis. In terms of the Group's Enterprise-Wide Risk Programme (EWRP), managers identify and analyse the top 20 material issues faced in their areas of responsibility, and develop action plans to address each of the issues identified.

In terms of responsibilities under the South African Companies Act 2008, certain of these duties of the Audit and Risk and Social and Ethics Committees overlap. Internal audit and compliance areas, where reporting will provide meaningful input to the Social and Ethics Committee, include the following:

- Reports from the Internal Audit and Compliance function regarding adherence to stakeholder-related legislation;
- Reports on fraud hotline activity and efficacy; and
- Fraud risk assessment and management.

PRAGMATIC APPROACH TO EFFICIENCY

Sustainability issues that affect the Group as a whole (for example, B-BBEE, training and HIV/Aids) are the responsibility of Group senior management and are managed centrally and implemented across all divisions. At an operational level, each business division is responsible for incorporating sustainability targets and practices into its own operations, allowing management to focus on those issues specific to the division.

To deliver on the Group's consumer promise of consistent low prices across an ever-wider range of products, the group has to be efficient in every aspect of business. The Group has entrenched a practical approach to incorporating new technologies and business practices and continuously explores opportunities to improve efficiency. The Group employs the services of specialists to help it develop a thorough understanding of the impact of new technologies. Once any value is evident, it initiates pilot programmes and testing prior to rolling out new technology or business practice across the whole business.

REGULATORY COMPLIANCE

South Africa's retail industry continues to face increasingly stringent regulatory requirements. The complexity of maintaining compliance increases significantly as the compliance landscape evolves over time and the Group expands its operations further into Africa. The risks associated with non-compliance range from fines and compensation claims to criminal prosecution, labour unrest, operational delays and reputational damage.

To manage these concerns, the Group has established a comprehensive compliance programme that ensures it becomes and remains compliant with all relevant legislative and regulatory requirements in its operating environments.

A regulatory analysis is conducted annually. The analysis comprises the follow steps:

- Identifying legislative and regulatory instruments;
- Assessing the Group’s compliance with such instruments;
- Introducing appropriate compliance programmes;
- Monitoring compliance and introducing corrective measures;
- Obtaining management sign-off; and
- Considering third party assurance where applicable.

During the period under review, the Group specifically focused on the following South African regulatory instruments:

Compliance instrument	Our response
Advertising Standards Authority (ASA) Code of Conduct	Investigated the financial and operational implications of marketing being inhibited by ASA sanctions. Established a communication link between compliance officers and the marketing departments.
Companies Act	Developed a programme to implement certain aspects of the law related to the personal liability and accountability of Group directors.
Competitions Act	See page 7 on corporate values and ethics.
Consumer Protection Act	See page 11 on customer engagement.
B-BBEE Act	See page 15 on broad-based transformational activities.
Food Labelling Act	See page 24 on product safety and labelling.
Foodstuffs, Cosmetics and Disinfectants Act and other food safety regulations	See page 24 on product safety and labelling.
Labour Relations Act, Basic Conditions of Employment Act and Occupational Health and Safety (OHS) Act	Ongoing compliance programmes, continuous labour relations building and monthly OHS reporting process in respect of all stores now implemented. More information about occupational health, safety and security is available on page 23.
Regional and provincial regulatory divergences	Ongoing assessment in terms of the practicality and operational impact of provincial alcohol laws and proposed pharmacy regulations.

CORPORATE VALUES AND ETHICS

The Group's corporate image and governance plays a fundamental role in its success and ability to deliver on its consumer service pledge now and in the future. To ensure it maintains its leadership position as a respected retailer with sound corporate governance practices, the Group must maintain the highest level of ethics and conduct at all levels of the organisation.

Shoprite's development of business on the African continent is guided by its Code of Conduct (the Code). The Code ensures that business is conducted in an honest and ethical manner, and specifically forbids the giving or receiving of money, gifts or favours of any kind in order to elicit any form of preferential treatment.

Group management has reviewed and updated the Code to incorporate the requirements of South Africa's revised Competition Act. The updated Code underwent an internal assessment process before final approval. Changes have been communicated through a group-wide awareness campaign and ongoing training programmes. The Group did not identify any material breach of the Code during the period under review.

Adherence

All supplier agreements outline the ethical standards that suppliers are expected to uphold. These agreements address compliance with laws, regulations, safety and quality specifications.

Senior management and other selected employees are also expected to complete a standards declaration annually confirming their adherence to the Code. Any external relationships which could potentially give rise to conflicts of interest must be disclosed.

Whistle-blowing

The Company provides a tip-off line for reporting violations of the Code of Conduct. To ensure anonymity, the tip-off line is independently managed by Active Service Excellence South Africa (ASESA). All referred calls are investigated by the loss control managers within the Group and, when necessary, by internal audit and/or independent investigators.

Stakeholder engagement

Shoprite's long-term success depends on its ability to effectively engage with stakeholders on issues of mutual interest, working together to find solutions that drive the business forward. The following table offers a summary of important stakeholders, the issues of concern, the methods of engagement used and desired outcomes.

Stakeholder group and why they are important	Material issues of concern	Method of engagement	Response and adaptation
<p>Customers</p> <ul style="list-style-type: none"> Understand customers' needs and tailor products and services to them, ensuring brand loyalty and growth in demand 	<ul style="list-style-type: none"> Low prices and value for money Value-added consumer services Product range and development 	<ul style="list-style-type: none"> Advertising, promotions, press releases and in-store communication Methods for consumers to make suggestions and lodge complaints Independent online media Social media 	<ul style="list-style-type: none"> Convenient store placement Product range adaptation and tailored brands A range of in-store value-added consumer services Free topical leaflets available in-store and online Attend product and services fairs and monitor international market trends
<p>Employees</p> <ul style="list-style-type: none"> Ensure outstanding customer service Develop a motivated, high-performance workforce Source individuals with the skills required or develop these through training Retain key skills and experience 	<ul style="list-style-type: none"> Communicating business strategy and progress Training and skills development Succession planning Incentives and motivational programmes 	<ul style="list-style-type: none"> One-way: Intranet, notice boards, newsletter (<i>Baked Beans & Bully Beef</i>), in-store communications (<i>RadioRetail</i>) Two-way: email, staff meetings, union discussions (see below), annual staff conferences for big marketing campaigns 	<ul style="list-style-type: none"> Education trust Sector Education and Training Authority (SETA) Accredited Learning Programmes Management and leadership development programmes Zero-interest loans for education and bursaries for tertiary education Incentive and motivational programmes
<p>Labour unions</p> <ul style="list-style-type: none"> Engage on collective employment concerns and issues 	<ul style="list-style-type: none"> Wages and conditions of employment 	<ul style="list-style-type: none"> Ongoing direct and electronic communication Regular meetings and negotiations 	<ul style="list-style-type: none"> Legal agreements High-level relationship building through informative explorations of overseas union structures and operations
<p>Suppliers and trade partners</p> <ul style="list-style-type: none"> Deliver affordable, responsible and safe products of consistent quality and standard Provide new and innovative products that suit consumer requirements Secure long-term availability of products 	<ul style="list-style-type: none"> Price, availability, food safety, labelling and regulatory issues Timely payment and beneficial terms Introducing and partnering new product development 	<ul style="list-style-type: none"> Ongoing direct and electronic communication Supplier visits and meetings Supplier product forecast programming and commitments 	<ul style="list-style-type: none"> Accurate forecasting programme and revised trade standards Innovative technology (online supplier portal and custom creditor management systems) Preferential procurement and small supplier support programmes

<p>Franchisees</p> <ul style="list-style-type: none"> • Grow strong and sustainable income streams • Increase purchases through the Group • Maintain market competitiveness 	<ul style="list-style-type: none"> • Competitive price negotiation • New product lines • Franchisees contracts and credit terms 	<ul style="list-style-type: none"> • Regular store visits • Monthly geographical region meetings • Ongoing direct and electronic communication • Incentives scheme • Annual conference 	<ul style="list-style-type: none"> • Automated software system to download prices weekly to members • A team with strong operational knowledge and experience to advise on operational and expansion opportunities • Favourable credit terms • Incorporating franchisees into the Group's centralised distribution network
<p>Media</p> <ul style="list-style-type: none"> • Influence stakeholder perceptions by communicating and building consumer confidence • Market products and services and create positive brand awareness for each Shoprite brand 	<ul style="list-style-type: none"> • Product information and pricing • Group initiatives and activities • Consumer complaints and perceptions 	<ul style="list-style-type: none"> • Shoprite Holdings financial performance presentations with Q&A (twice annually) • Trading updates 	<ul style="list-style-type: none"> • Responding directly to media inquiries
<p>Business partners and associations</p> <ul style="list-style-type: none"> • Gain access to specialist knowledge and skills • Provide value-added services to customers 	<ul style="list-style-type: none"> • Operational strategies and technologies able to increase productivity and efficiency • Socio-economic issues and concerns • Service delivery efficiency 	<ul style="list-style-type: none"> • Ongoing direct and electronic communication • Investigate mutually beneficial opportunities through joint ventures 	<ul style="list-style-type: none"> • Joint knowledge transfer sessions and joint projects • Partnerships allowing Shoprite to provide customers with value-added services in-store • Working closely with local bodies to access latest product regulations and food safety concerns
<p>Government and regulatory bodies</p> <ul style="list-style-type: none"> • Maintain compliance • Explore relevant regulatory issues, assess impact of proposed regulatory and legislative changes and engage government on mutually beneficial opportunities 	<ul style="list-style-type: none"> • Trade policies and concerns • Consumer protection • Labour policies and issues • Agricultural issues • Labelling and food standards • Transformation and education 	<ul style="list-style-type: none"> • Ongoing direct communication • Meetings with government officials and ministers • Participation in pilot projects and research 	<ul style="list-style-type: none"> • Revise programmes, business processes and structures to ensure compliance • Build relationships at the highest possible governmental levels • Share information regarding business practices
<p>Communities and not-for-profit organisations</p> <ul style="list-style-type: none"> • Contribute meaningfully to the communities in which the Group operates 	<ul style="list-style-type: none"> • HIV/Aids programme, call centre and awareness • Health, education and other socio-economic issues of concern • Employment 	<ul style="list-style-type: none"> • Ongoing direct and electronic communication • In-store information centre and informative leaflets • Project collaboration 	<ul style="list-style-type: none"> • Shoprite Checkers Development Trust channelling funds for corporate social investment and enterprise development • Various joint projects

<p>Shareholders and investors</p> <ul style="list-style-type: none"> • Understand needs, manage expectations and create a positive investment environment • Ensure shareholders and investors have access to accurate information 	<ul style="list-style-type: none"> • Business performance and concerns (both financial and sustainability) • Business strategy, expectations and governance changes 	<ul style="list-style-type: none"> • Press releases and publications • Bi-annual results presentations • Annual three-day analyst investment conference • Major shareholders have one-on-one contact with the CEO and deputy MD • Annual general meeting • Trading updates 	<ul style="list-style-type: none"> • Integrated reporting • Biannual result presentations and bi-annual analyst breakfast • Electronic communication (informative online investor platform) • Direct conversations with major shareholders
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REVIEW OF STAKEHOLDER DEVELOPMENTS AND ENGAGEMENT

In March 2012, shareholders and investors saw the Group issue 27.1 million new shares (or about 5% of total shares outstanding) at a price of R127.50, generating close to R3.5 billion. In addition, Shoprite issued convertible bonds with a total face value of R4.7 billion. Taken together this means the Group successfully raised capital of nearly R8 billion to strengthen its balance sheet and enable it to pursue new growth opportunities.

The Group has worked hard to ensure compliance with the new South African Consumer Protection Act 68 of 2008 (CPA) and other regulations. A new centralised customer feedback system has been implemented to improve customer query resolution. Many South African customers are already benefiting from a new value-added service which enables pensions and grants to be paid at checkout counters in Shoprite and Checkers stores.

Against a backdrop of increases in electricity, fuel and other prices, the Group managed to improve supply chain efficiencies sufficiently to keep in-store price increases down to 4.9% (2011: -0.1%). This compares favourably with South Africa's food and non-alcoholic beverages consumer price index (CPI) increase of 8.8% (2011: 3.2%).

Business growth enabled the Group to create over 7 000 more jobs, while the world economy remains depressed.

The Group pursues positive and constructive employee relations, both individually and through formal representative bodies, actively engaging local labour unions in operating countries to ensure employees' needs are well understood and their concerns addressed. This year, Shoprite worked with more than ten different unions and signed 14 different wage and benefit agreements.

The Group's requirements and expectations regarding suppliers are clearly communicated through supplier agreements and the quality assurance programme. Supplier compliance with quality, labelling and food safety requirements are ensured through various internal and third party audit processes, depending on the specific division's requirements. The Group aims to learn from suppliers' experiences and, through an enhanced understanding of supplier conditions, develop business models for long-term growth. The Group has also actively engaged with suppliers on reducing delivery lead times, improving service levels and increasing the demand for products in retail outlets.

Shoprite continues to build relationships with government and regulatory bodies, and actively works to address common interests ranging from supply and enterprise development to multinational trade agreements and energy reduction programmes. For example, the Department of Trade and Industry (dti) played a role in putting the Shoprite Checkers Development Trust in place, while interaction with the Departments of Basic and Higher Education helped reorganise training activities to improve training intervention outcomes.

The Group endeavours to play a supportive role in the communities in which it operates. Communities are both customers and employees, and the company believes that these communities

must benefit both from and through Shoprite business. The new HomeMade initiative hopes to engage local communities in economic activities by providing a platform for local produce to be sold in the Group's supermarkets. In addition, the Shoprite Checkers Development Trust advances empowerment through socio-economic development land and housing programmes. The Group attempts to reduce poverty and unemployment in impoverished communities with initiatives like the Shoprite Feeding Programme mobile soup kitchens, Stroke of Genius and the Shoprite Community Network.

CUSTOMERS

The Group's customers have access to a wide range of retail outlets, especially in South Africa, making it essential for food retailers to adapt continuously in all the markets in which they operate. Only by providing the right products and services at the right price and in the most convenient way, can Shoprite deliver on its consumer promise.

To ensure customer demand is met, it is monitored real-time in stores. Managers also monitor media reports and conduct regular consumer research to identify trends and preferences relating to consumer products.

The Group's objective is to be a preferred shopping destination for consumers, by selling food and general merchandise at low prices, from conveniently located outlets, in an environment that provides a comfortable and enjoyable shopping experience.

Customer service guidelines and training

Shoprite endeavours to satisfy and even exceed all reasonable consumer expectations. To achieve this and fulfil the Customer Service Guidelines, all staff members who deal with the public face to face and management at store level undergo product-specific and customer service training.

Over the last year, the Group has been working to align its Customer Service Guidelines with the South African Consumer Protection Act (CPA). This year Shoprite implemented phase two of its CPA compliance programme, ensuring personnel in all areas of the business affected by the CPA took part in an awareness training campaign. The campaign utilised pamphlets, DVDs, a dedicated training curriculum, tests and refresher courses. The compliance programme also engaged suppliers, franchisees and other business partners in developing and implementing standard documents to deal with customer returns.

Consumer education

The Group understands the contribution it can make towards helping consumers understand their rights and obligations and assisting them to make better purchasing decisions.

Shoprite and Checkers supermarket chains provide information leaflets on a variety of consumer interest topics. These *Consumer Sense* leaflets are distributed to the chain's supermarkets throughout Africa and online, and are free of charge. Up to ten leaflets are produced annually and on average 100 000 copies per leaflet are distributed on first print.

The leaflets have been well received and requests for leaflets from under-resourced community clinics and care groups are common. The Group has partnered with not-for-profit organisations and government departments to cover contemporary issues faced by the communities it serves in the leaflet series. A pamphlet advising consumers how the CPA affects them formed part of the series this year.

The Group regularly sponsors health articles in the educational youth magazine *Minimag* and distributes a number of these magazines to selected schools free of charge each month. The Group also regularly sponsors some of the customer education programmes hosted by the South African National Consumer Union.

Interactive engagement

The Group monitors customer feedback through a number of mechanisms. Outside South Africa, customer complaints are handled at store or divisional office level. In South Africa, the toll-free centralised Customer Service Centre (Checkline) serves supermarket customers while the Customer Care Line serves furniture division customers. Feedback is analysed and findings prompt improvements to business processes and product ranges.

In the 2011 fiscal year, the Group introduced a centralised database to improve its ability to manage customer concerns. This customer feedback system is managed and supported by Shoprite Checkers' customer service centre, Checkline. In the next reporting period, social media platforms will be integrated with the system.

Economic

SUPERMARKET GROWTH IN AFRICAN OPERATIONS

Shoprite currently operates in 17 (2011: 16) African countries, including South Africa and the Indian Ocean islands. Beyond providing products and services to local communities, it is the Group's ambition to provide business support to communities in all the countries in which it operates. This approach aims to improve the trading environment by supporting the development of new markets and growing demand, ultimately facilitating the opening of new stores.

It is Shoprite's policy to reduce dependence on international suppliers and to source, procure and employ locally and from within Africa whenever possible. A local buying office was established in Kenya this year to facilitate the sourcing, procurement and distribution of east African products. In conjunction, the Group has set up initiatives aimed at supporting local suppliers by highlighting 'Proudly Local' products in store and granting exclusive advertising space. Ongoing support is provided to local suppliers and farmers in a growing supplier base across all African markets with a strong focus on locally procured fruits, vegetables, meat and other perishable products.

Shoprite encourages local South African suppliers to expand into the African markets that the Group serves where opportunities can be identified for them. This further stimulates local employment and economic activity. Shoprite benefits directly by way of improved local goods and labour supply, resulting in operational efficiencies, reduced supply chain risk and ultimately lower prices for its customers.

Expanding its footprint

Global economic conditions continue to put pressure on the construction industry in Africa, causing delays in plans for new supermarkets beyond South Africa's borders, but there has been some positive change since last year. In Nigeria especially, investors are showing an interest in developing shopping centres.

During the period under review, 86 (2011: 71) new supermarkets were opened and ten (2011: 13) were closed, representing a net increase of 76 supermarkets. Total supermarket count at year end was 1 020, of which 85% are in South Africa.

Outside South Africa, expansion saw a net total of 21 (2011: 11) new supermarkets opened. This activity included opening a Shoprite supermarket and a Hungry Lion in Kinshasa in the Democratic Republic of the Congo (DRC) in April 2012 (the Group's first premises in that country), and two brand introductions in countries in which the Group already operates; one Usave in Zambia and one Checkers supermarket in Botswana.

Accessing under-served markets

The Group agrees with the desire set out in the Consumer Protection Act that services should be made available to the many marginalised markets under-served by formal retailing that still exist in South Africa. With 66.5% of the South African public shopping at the Group's various retail chains, it follows that it already caters for many consumers so defined. These markets, with a Living Standard Measure (LSM) of 1 to 5, are served primarily through the Group's smaller, low-cost supermarket brand, Usave.

The Usave retail model minimises operational costs by, for example, cutting back on promotional material. The net effect is that prices are on average 10% lower than industry norms. Usave carries stocks of 1 500 top-selling foods and household product lines, including a growing number of own-label products. These include a select range of basic foodstuffs at competitive prices.

A model Usave store is small and simple to construct, and the Group is able to react quickly to new site opportunities and expand rapidly. In consequence, the number of Usave stores grew from 223 to 256 during the period under review.

Plans and targets

The Group's expansion plans in respect of the African continent outside South Africa represent substantial investments in the local markets and will provide significant contributions in economic activity, taxes and duties to respective governments.

A total of 21 new supermarkets and fast food outlets outside South Africa are planned for the next financial period. The expansion programme in Central East Africa and West Africa is on track and numerous opportunities are currently being investigated for next year and beyond.

Due to constraints in the availability of potential sites, especially in marginalised and under-served markets, it is difficult to accurately forecast a target figure for the number of Usave stores the Group aims to open. However, the strategic importance of developing economically disadvantaged markets remains high.

Planned supermarket openings for period ending Jun 2013					
	Checkers	Shoprite	Usave	Hungry Lion	Net Total
RSA	12	37	40	8	97
Non-RSA	0	7	7	7	21
All countries	12	44	47	15	118

Transformation

BROAD-BASED TRANSFORMATION

Shoprite recognises that transformation of business and the ability to effectively serve the needs of communities, customers, employees and suppliers are linked. The Group therefore endeavours to integrate transformation into business strategy at all levels.

The biggest transformation challenge remains the management element of the Department of Trade and Industry's Codes of Good Practice (the dti Codes). The Group allocates a substantial amount of resources and energy to train and fast-track black management, but due to the high demand for senior black managers and the general shortage of such individuals in food retailing, a number of talented employees have been lost. The Group is therefore focusing not only on training individuals, but also on developing effective retention strategies for key staff.

At present, the pending changes to B-BBEE legislation appear to be aimed at improving progress towards a more broad-based application of the dti Codes. The increase in certain B-BBEE targets scheduled for 2012 also comes during a prolonged economic down-turn. These factors may impede suppliers' progress towards their own B-BBEE programmes, which in turn has a negative effect on current B-BBEE status.

The Group's latest verified B-BBEE scorecard (as at June 2012) is summarised in the table below.

B-BBEE code	dti weighting (%)	June 2012 (%)	June 2011 (%)
Equity ownership	20	7.64	7.2
Management control	10	2.55	3.1
Employment equity	15	12.36	13.8
Skills development	15	11.67	12.5
Preferential procurement	20	15.21	12.68
Enterprise development	15	11.31	12.0
Socio-economic development	5	5	5.21
TOTAL	100	65.74	66.49

Due to diligent application of the Group's B-BBEE strategy Shoprite has qualified as a Level 4 (2011: Level 6) B-BBEE contributor with a recognition level of 100%.

EQUITABLE OWNERSHIP

The ownership score attained by Shoprite was calculated in compliance with Act 53 of 2003 and the Codes of Good Practice contained therein by Trevor Chandler Consulting.

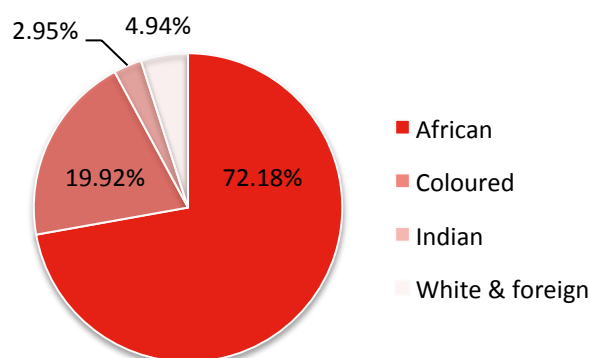
EMPLOYMENT EQUITY

Shoprite is committed to equality and non-discrimination, and aims to embed these values within the company culture.

The Group's South African Employment Equity Committee updates the Company's employment equity plan every five years. The targets take into account performance over the previous five years and the regional profiles of the various divisions within the business. The Group is on track to achieve its employment equity goals for the current plan period (2010 to 2015).

The Group's staff complement as of 30 June 2012 is presented in the table below. There has been a 10% increase in the size of the South African employee base. While there has been a marginal increase in black representation in the overall figures, more significant achievements have been made at certain employee levels. The Group exceeds the Economically Active Population (EAP) statistic for combined black representation in its junior-to-lower management levels and has achieved nearly 80% of the statistic within its middle management level.

Staff representation



Staff representation	2012	2011	2010
Number of permanent staff (SA only)	89 341	83 867	76 318
Percentage of black representation	% 95.06	94.67	94.47

Employment equity plans and targets

The Group is working to achieve the goals set in its employment equity plan for the period from July 2010 to June 2015. The plan incorporates the key objectives of the Employment Equity Act relating to recruitment procedures, training and development, corporate culture, remuneration and benefits and retention of designated groups.

Income differentials outcome

The Director General of the Department of Labour launched an income differentials investigation into each of the companies making up the Johannesburg Stock Exchange's Top 40. This formed part of the South African Government's drive towards transforming South African society into a more equitable environment. At the end of the process, the Department of Labour confirmed its satisfaction with the investigation.

Management control

The Group is fully aware of the challenges faced in improving black representation at senior management levels. Steady progress has been made during the last reporting period with almost 12.67% improvement of overall black representation within top management. Black female representation has been a key focus area, showing over 68.34% improvement within the top management level. To ensure a sustainable supply of talent, the Group is actively engaged in training and leadership skills development from low levels through to senior management.

Disability

Shoprite currently employs 166 (2011: 81) people in South Africa with disabilities and plans to improve this figure considerably in the next review period. Epilepsy South Africa conducted a Disability Accessibility Audit of Shoprite supermarkets and selected head office departments. The results of the audit are taken into account when recruiting people with disabilities and have already been incorporated into training programmes.

The Group has also developed a ten-year plan for training and employing a thousand deaf persons in its supermarket environment. The Group aims to establish deaf-friendly stores in main centres on a national basis. On 1 June 2012, 100 deaf learners were recruited to complete the Group's NQF Level 2 Operations Qualification over an 18-month period. The initiative is known as the Decade of the

Deaf Project and was implemented in co-operation with the W&RSETA and eDeaf, a deaf-owned BEE company established to provide holistic services to employers and deaf employees. All three parties fund the project.

SKILLS DEVELOPMENT

The Group continues to make a significant contribution to the reduction of unemployment in South Africa and beyond, by offering quality and accredited training to economically marginalised young people and adults. Twenty accredited learning programmes are currently on offer, ranging from entry level to management and specialist development.

In support of the recently published *Green Paper on Education and Training* by the Minister of Education, the Group has started building long-term relationships with selected universities of technology and FET colleges. The Group will form partnerships with these institutions to offer the knowledge and skill components of its SETA-accredited qualifications.

PREFERENTIAL PROCUREMENT

The Group's preferential procurement activities are guided by its B-BBEE strategy. The Group is committed to supporting black suppliers who produce quality goods and acceptable pricing structures. B-BBEE performance forms part of the supplier selection criteria, and preference is given to black female suppliers. The Group also aims to help small, medium and micro-enterprises (SMME) to become efficient suppliers.

Suppliers annually present the Group with their verified B-BBEE certificates for review during supplier re-selection processes. The Group currently has approximately 14 500 suppliers and service providers and most of these have good B-BBEE credentials.

However, as the largest retailer in Africa, Shoprite is unable to meet transformation targets by relying on existing black suppliers alone and has therefore become actively involved in enterprise development to build capacity within the local supplier base.

Group B-BBEE spend on preferential procurement was R42.2 billion (2011: R18.2 billion) during the period under review and it achieved a score of 15.21 out of 20 (2011: 11/20) on the B-BBEE Scorecard.

ENTERPRISE DEVELOPMENT

The development of small businesses is important to the growth of the economy. The Group enterprise development initiatives aim to:

- Create a stable and sustainable supplier base through supply chain initiatives; and
- Empower local communities economically through property developments.

Shoprite is one of the few retailers that actively seeks opportunities to own, develop and invest in shopping centres in economically disadvantaged communities and rural areas. This commitment has earned it good standing and customer loyalty, improving its ability to secure more land for development. The outcome is the empowerment of local communities through both job creation and increased economic activity.

Shoprite founded the Shoprite Checkers Development Trust (the Trust) in line with the Group's B-BBEE strategy. The objective of the Trust is to advance broad-based black economic empowerment by initiating and making contributions to enterprise and socio-economic development programmes.

These programmes concern themselves with welfare, humanitarian, healthcare, land and housing, education, development, sport and cultural matters. The beneficiaries are communities made up predominantly of people from previously disadvantaged backgrounds, organised in a partnership or a trust in which they exercise majority voting rights or hold the majority economic interests.

The aim of the Trust is the empowerment of previously disadvantaged communities through grants and the supplying of low or zero-interest loans. The independent trustees include four females from

differing backgrounds with a sound knowledge of how community needs can be addressed in a sustainable manner. In order to enhance the impact of programmes on communities, the Trust will work closely with the Shoprite Group, which has made R70 million available to the Trust to accomplish its goals.

The Kwanoqaba Shopping Centre Limited

The Shoprite Checkers Development Trust's first project was the establishment of a shopping centre in Kwanoqaba township in Mossel Bay. The ownership of the Kwanoqaba Shopping Centre Limited is divided into a 25% share held by a majority of previously disadvantaged shareholders, a 25% share held by the Shoprite Checkers Development Trust and a 50% share held by the Mossel Bay Enterprise Trust (see below). This company purchased a shopping centre in the township, which was developed by the Group and is now anchored by a Shoprite supermarket.

The Shoprite Checkers Development Trust provides training to the individual shareholders to provide them with the necessary skills to participate in the management of their investment. These shareholders are also being introduced to new venture creation and should be able to use the opportunities available to them to further their own business careers in future, whether as property owners or other business enterprises.

Mossel Bay Enterprise Trust

The Shoprite Checkers Development Trust founded the Mossel Bay Enterprise Trust in November 2011. The objective of the Trust is to advance broad-based black economic empowerment in the Mossel Bay area. Beneficiary enterprises must be at least 75% owned by individuals from previously disadvantaged communities.

Small supplier initiatives

FRESHMARK SUPPLIERS

The Group's Freshmark suppliers' initiative supports small B-BBEE suppliers through training, favourable payments terms and in a variety of other ways such as Freshmark's backhauling programme, where produce is collected directly from the farms or pack houses of fresh produce and grocery suppliers. This allows small suppliers to focus on food production and removes the need for them to have their own delivery system. This has increased delivery reliability, optimised supply chain logistics and minimised overall distribution costs.

Forty-four per cent of the Groups fresh produce suppliers (212 of a total of 481) supply less than half a million rand-worth of produce to the Group annually. In this way, the Freshmark initiative helps the Group attain a more balanced supplier profile.

HOMEMADE INITIATIVE

The HomeMade project sources good quality products from local cottage industries, and helps individuals to expand their production to the point where they can sell their products in Shoprite and Checkers stores. The project helps individuals become ongoing suppliers, assists them with compliance obligations and offers them payment terms suited to small businesses. In the seven months since the launch of the project, 61 HomeMade suppliers were sourced, supplying 292 different products, mainly baked goods and preserves.

CSI AND SOCIO-ECONOMIC DEVELOPMENT

Community involvement

The Group understands that its business and the communities in which it operates are interdependent; alienating communities adversely affects the Group's profit, while good relations and contributions to socio-economic upliftment create business opportunities for all.

In the review period, the Group spent more than 1% of its net profit after tax (NPAT) on corporate social investment (CSI) projects. The Shoprite Checkers Development Trust mentioned above was set

up to better target the Group's CSI financial contributions. The Group hopes that this structure will help to cultivate a better understanding and prioritisation of social needs, thus facilitating more effective spending. More information on this can be found under the Economic contribution – Enterprise development section.

Crime prevention

During the period under review, the Group continued its partnership with the Western Cape and Gauteng police departments in various crime-prevention campaigns. For example, pamphlets with tips for citizens on how to fight crime in their communities were handed out at various public events.

Shoprite Feeding Programme

The Shoprite Mobile Soup Kitchens aim to bolster the nutrition of underprivileged people of South Africa, especially children, the aged and unemployed and victims of natural disasters. In the period under review, 3 547 302 servings of soup and bread were distributed countrywide, bringing the total since launch in February 2007 to 11 315 296. Twelve soup trucks and four trailer soup kitchens served an average of 295 609 cups of Royco soup and 54 851 loaves of Albany bread each month to the needy. In the next reporting period, a start will be made with extending the programme into other African countries.

Shoprite Checkers Women of the Year Awards

The Shoprite Checkers Women of the Year Awards aims to celebrate the positive socio-economic contributions of South African women by honouring exemplary and visionary women who are making a difference in their communities. By highlighting their actions, the Group aims to focus public attention on the possibility of finding solutions to critical issues affecting the country.

Winners each receive R30 000 in cash, as well as R100 000 to assist in the development of their individual programmes. The Group has partnered with the Women's Hope Education and Training Trust (WHEAT) – a not-for-profit organisation that supports community-based initiatives – to provide winners with help using the finance sustainably, accountably and with good governance.

Strokes of Genius

The Strokes of Genius art project aims to develop fine arts and crafts in Africa. The project has been undertaken in partnership with the Department of Arts and Crafts, the Department of Trade and Industry, and with the support of the Department of Basic Education. Young artists and craft workers have the opportunity to showcase their work to local and international buyers through a visual online gallery.

Damaged items

Slightly damaged Shoprite foodstuff deemed unfit for display in the Group's stores is donated to registered not-for-profit organisations that distribute the items to poverty stricken communities. Foodstuff deemed to constitute a food safety risk, such as items past the sell-by date or recalled, are destroyed as required by the Department of Health, and a Certification of Destruction is obtained.

During the period under review, an estimated R89 million worth of foodstuff was given to welfare organisations.

Shoprite Community Network

The Shoprite Community Network was launched seven years ago in an effort to channel support to worthy causes and community projects. Listeners to major local radio stations are asked to nominate worthy causes in their communities which are then supported by the Network. In the past financial year, the Group donated R1.2 million to deserving recipients via the Network, and since its inception the Network has channeled more than R10 million to 1 035 community projects.

Social

TALENT MANAGEMENT

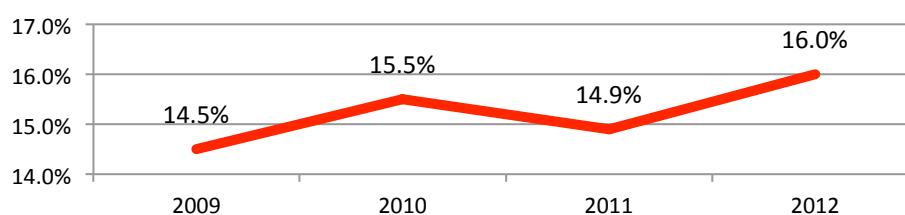
The labour-intensive nature of the retail industry historically goes hand in hand with high turnover rates among entry-level employees in the industry. The Group's ability to attract and retain human capital is therefore fundamental to its ability to provide excellent customer service and meet human resource needs.

Shoprite focuses on improving the quality and decreasing the quantity of its recruitment activities by managing the efficacy of recruitment processes. Employee retention strategies, succession planning and training programmes all play a key role in ensuring that the necessary talent and experience within the business is maintained.

The Group also recognises that employee satisfaction strongly influences productivity levels and provides many of the conventional employee offerings and various personal benefits and programmes to incentivise employees.

The Group believes that the high productivity of the business and a turnover rate of 16.0% for all employees (including part-time employees), as compared with PricewaterhouseCoopers 2012 European Human Capital Report for Retail and Leisure's international average of 30.2%, is an indicator of overall staff satisfaction.

Staff turnover



Employee exit interviews are performed where possible and the results are collated and analysed to identify trends. Currently, the most common reason for leaving is long working hours. Trends also show an appreciation of the Group's development orientation, good relationships with colleagues and challenging opportunities.

Recruitment

Recruitment and selection of personnel suited to the retail environment remains one of the Group's biggest challenges. During this fiscal year, the Group opened a central recruitment centre for the Western Cape. The centre will streamline the recruitment process and lead to the employment of more suitable candidates. If it proves to be successful, it will be rolled out to other areas. An e-recruitment platform is also being developed to support both Head Office and store recruitment processes.

Effort is being put into developing the Group's Employee Value Proposition to appeal to graduates and school leavers. Over the past two years, the Group's Graduate Recruitment Programme has expanded its reach to all major educational institutions in South Africa. The success of this effort was confirmed when the SAGRA Annual Candidate Survey cited the Shoprite Group as one of the top two graduate employers in the retail sector.

Retention strategies and succession planning

Establishing career paths for individuals forms part of succession planning and increases employee retention. General business-wide career paths and succession planning structures have been developed, with the focus currently on the Group's store level positions, which represent the bulk of its workforce. Individual departments, at their own discretion, implement employee performance

reviews and appraisals, and it is planned to apply these career path and performance measurement systems to divisional and head office employees in the future.

New systems have been developed and implemented at head office to measure potential at senior management levels. Shoprite uses talent grids to capture employee performance data and measure growth potential against a set of defined criteria.

LEARNING AND DEVELOPMENT

The legislative environment

The Group's flagship Management Training Scheme (MTS) has been registered as an NQF Level 4 Operation Supervision Qualification. All Trainee Managers are expected to complete this programme within 15 months, and to be appointed Assistant Manager within 18 months. Shoprite was able to undertake the training of approximately 12% of its Trainee Managers in the period under review (conditional on the W&RSETA⁶ funding windows and allocations).

Shoprite is also addressing the demand for scarce and critical skills in its business by offering internship programmes to employees aiming to qualify as pharmacists and chartered accountants and offering registered qualification opportunities to bakers, meat technicians, drivers and sales persons. In the Checkers chain, the emphasis has been on developing expertise in wine, cheese and meat, increasingly tapping into suppliers' product knowledge.

The Group has 14 registered training schools in South Africa, offering most accredited training programmes relevant to its operations. These schools have recently obtained an average compliance rating of 89% in the Group's annual Health and Safety Audit. Customer service forms an integral part of all training programmes within the Group.

The Group fully complies with the Skills Development Levies Act by claiming mandatory grants as prescribed. Additional discretionary grants are dependent on the number of projects offered by the different SETAs.

Specific training interventions

W&RSETA PROGRAMMES

Thirty-two of the Group's training programmes have been reviewed and redesigned during the last 12 months to ensure that they comply with the latest SETA standards and requirements. During the year, several SETA projects initiated in the previous fiscal year were concluded. The SETA financial year is not aligned to the Group's financial year and some overlap will therefore always occur.

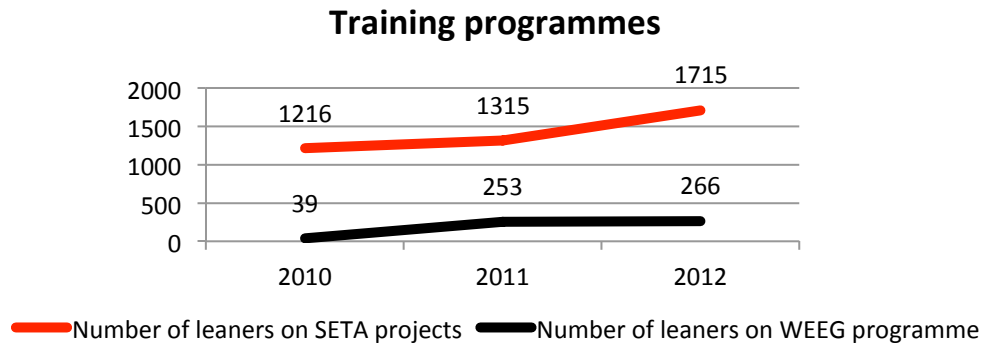
The Group engaged in the following SETA-driven skills development projects during the current financial year.

- Various Workplace Experience and Employment Grant (WEEG) projects provided 266 unemployed learners with learning and experience in the workplace.
- The Transrite division Professional Driving Learnership scheme, which commenced in the previous fiscal period, continued to roll out. The programme has provided the Group with 268 newly qualified drivers.
- The nationally funded Skills Development Project, through which 562 learners were placed on 12-month learnerships and 619 learners on three-month skills programmes. The Group is committed to employing 90% of all successful candidates on completion of their training.

Group participation in SETA projects has enabled it to exceed its objective of providing training and employment opportunities to 1 000 learners annually, with a total of 1 715 learners trained during the period under review. Two new skills development projects were initiated in the last month of

⁶ Wholesale and Retail Sector Education and Training Authority

the fiscal year through which 100 deaf learners and more than 500 other learners will be afforded the opportunity to gain accredited training in the next fiscal year.



MANAGEMENT AND LEADERSHIP DEVELOPMENT

Shoprite supports W&RSETA programmes aimed at developing managerial and executive skills through its International Leadership Development and Retail Leadership Development Programmes. Overseas and South African universities present these programmes, which focus mainly on the empowerment of previously disadvantaged individuals. The Group has built close relationships with educational institutions, actively participating in the development of the retail-related programmes, and continues to participate in conferences, supplier workshops and market tours to stay abreast of the latest international trends in management and leadership development.

BURSARIES AND GRANTS

In addition to the Group's internal and accredited training programmes, it provides bursaries with work-back agreements. By the end of June 2012, 244 beneficiaries had benefited from tertiary qualification bursaries, and the Group's total spend on these bursaries amounted to R11.1 million in the period under review. With a large number of educational institutions still left to visit, the indications are that the R14.4 million allocated will be spent by December 2012. This represents a 21% increase in bursary spend against the corresponding period in 2011.

In addition to these bursaries, funds were made available to staff members and their dependants through the Group's Educational Trust. This programme disburses grants to pay the school fees of low-income employees' dependants, and makes interest-free loans to enable employees and their dependants to pursue further studies. Since 1995, almost 24 000 of the Group's employees have benefited from loans, grants and bursaries from the Educational Trust.

E-LEARNING

Since successfully piloting a SAP Learning Management System in December 2011, the Group has started investigating the case for electronic learning (e-learning). The information accruing will enable the Group to define a comprehensive e-learning strategy, using a combination of different learning platforms. The objective is to convert 10 to 15% of existing workshop-based learning material into e-learning modules over the next three to five years. Freshmark's first Produce Buyer e-learning training programme will be launched in August 2012.

Plans and targets

To address the chronic skills shortages experienced by the retail industry in Africa, Shoprite this year extended training interventions to 207 040 individuals (2011: 159 710), maintaining a year-on-year increase of 25% over the past three years.

During the next financial year, the Group aims to improve and expand on its current initiatives. The main focus will be improving the Group's B-BBEE performance through formal training of disabled and previously disadvantaged individuals. In addition, more learners will be offered the opportunity to complete SETA-accredited Learning and Workplace Experience and Employment programmes.

EMPLOYEE BENEFITS

Different regulatory and legislative environments across the various countries in which the Group operates determine the way employee benefits are structured. The Group attempts to standardise benefits wherever possible and endeavours to provide employees with benefits that support the skills retention strategy.

In conjunction with the trade unions, the possibility of creating an affordable medical aid scheme tailored to the need of Shoprite employees has been investigated. A compulsory medical scheme proposal was published and a national survey involving more than 8 000 employees was undertaken. The survey returned a positive response to the compulsory scheme of just 18%, while a voluntary scheme has been found to be too expensive. As a result, no workable medical aid solution has been determined.

HIV/AIDS PROGRAMME

HIV/Aids is one of the main challenges facing South Africa today. An actuarial evaluation commissioned to determine the prevalence of HIV among Shoprite employees estimated prevalence rates at 17.8% (2011 figure), broadly in line with the communities Shoprite serves and from which it recruits its employees. The Group considers this a material issue requiring attention and recognises that interventions can have substantial benefits for employees and their families.

The Group HIV/Aids programme is overseen by the HIV/Aids Steering Committee. The committee, representing the Group, employees and labour, meets on a regular basis to review and administer the implementation of all the Group's HIV/Aids interventions. Currently the committee is updating HIV and Aids Workplace Policy to incorporate the latest changes proposed by South Africa's Minister of Labour.

Group HIV/Aids programmes focus on HIV and Aids in the workplace and at home. The Group's Voluntary Counselling and Testing (VCT) project was strengthened by the appointment of an independent wellness management company, LifeAssist, which in the review period offered free testing and counselling at 124 Shoprite facilities in South Africa. A total of 3 585 staff members were voluntarily tested, revealing a prevalence rate of 7.8%.

In partnership with LifeAssist, all employees who test positive receive individualised follow-up calls to ensure they have access to antiretrovirals and obtain appropriate medical care. This partnership ensures employee anonymity and thus unbiased treatment in the workplace, while providing valuable prevalence statistics that serve to monitor the effectiveness of the Group's HIV/Aids-related measures.

ORGANISED LABOUR RELATIONS

Just under one-third (32 293) of the Group's employees belong to a trade union and are represented through employee unions and collective bargaining structures. The Group's aim is to foster good working relationships with organised labour structures and monitor and resolve employee issues before they lead to industrial action.

The Group negotiated 14 individual wage and benefit agreements during the period under review. To encourage productive communication, wage negotiations are conducted at neutral off-site locations. There was no strike action in South Africa affecting Shoprite or the retail sector in general for the period under review (verified by Andrew Levy Employment publication, June 2012).

The Group engages with labour unions in 12 of the 17 countries in which it operates. It remains committed to global standards in labour relations and recently signed an agreement with Uni Global Union to that effect.

OCCUPATIONAL HEALTH, SAFETY AND SECURITY

The health and safety of Shoprite employees and customers remain of paramount importance to the Group, with preventative initiatives the priority.

The Group employs a comprehensive IT-based occupational health and safety (H&S) management system which has resulted in a more streamlined approach to measuring, monitoring and managing all H&S-related activities. The system covers awareness campaigns and training programmes, committee meeting agendas and minutes, inspection checklists, incident capturing and line management reporting. Fire prevention tasks and checklists were recently added to the system.

Senior management has access to all H&S reports through the corporate intranet, and all serious H&S incidents are reported to the Group's Financial Director for immediate attention and action. Regular divisional inspections and spot-checks are conducted to ensure store-level adherence to company H&S guidelines.

Security

South Africa has one of the highest rates of robbery and violent theft in the world. The Group's business is largely cash driven, requiring extra precautions to prevent attacks and losses during money transfer. The Group takes its responsibility to security seriously and remains committed to creating a safe environment for customers and staff, while also protecting its assets. The Group is a member of the Consumer Goods Council, which identifies crime trends and advises on how to mitigate risks.

The following Shoprite security themes are managed on an ongoing basis:

- Cash-in-transit security.
- Store shrinkage.
- Store staff and public security.

Shoprite conducts regular security inspections and audits at stores and shopping centres in which it operates to ensure compliance with safety policy and the effective use of safety equipment. Divisional loss-control managers are mandated to perform spot checks and action any required changes; external service providers are commissioned where necessary.

Physical security methods include burglar bars, safe boxes, access control and anti-bandit doors, further reinforced by electronic security measures including closed-circuit television surveillance (CCTV) and monitored alarm systems linked to third-party armed response teams. Security guards from PSIRA-registered service providers are employed at all the Group's shopping centres as well as in-store, the risk profile of each determining the number of guards deployed.

Shoprite is currently participating in a pilot project to remove guns entirely from one of the shopping centres in which it trades, the need for weapons being rendered obsolete by new secure methods of storing and circulating cash within the shopping centre.

PRODUCT SAFETY AND LABELLING

The South African Consumer Protection Act (CPA) places responsibility for product shortcomings suffered by customers on the retailer as well as the manufacturer.

The Group considers food safety one of its top business priorities and has spent considerable time and resources on the implementation of a robust food safety policy to ensure that all edible groceries sold comply with the relevant food safety requirements, including each product's specific food safety regulations.

The Group's newly initiated Food Safety Management System (FSMS) assures compliance with food safety standards. This system addresses elements such as product testing and recalls, supplier audits, cold chain management, distribution and traceability and hygiene and risk assessments.

The Group's food safety focus is aligned with international Farm-to-Fork practices, and the Group further complies with standards set by the National Regulator for Compulsory Specifications (NRCS), the South African Bureau of Standards (SABS) for electrical products and the Gas Board for gas-operated products.

SUPPLIER COMPLIANCE

As part of its management of food safety risks, the Group's Food Safety Department prioritises the monitoring of high-risk suppliers and products.

The Group has contracted NSF-CMi, an international external organisation that specialises in food assurance and certification, to maintain the Group's food safety database regarding supplier status. Food suppliers can be approved only once the Food Safety Department has confirmed their compliance and verified their food safety certification.

Safety standards applicable to Meat Market division suppliers now include Food Safety Assessment or International Standards Organisation (ISO) certificates. All but one of the Group's 276 meat suppliers (including secondary suppliers) comply with this new requirement. The Group will continue to assist small suppliers to prepare for compliance audits, prioritising suppliers of high-risk products.

OWN BRANDS

Shoprite own brands (including private labels) are analysed visually, chemically and microbiologically on a regular basis to ensure their safety and quality. A third-party accredited laboratory performs the analysis. All imported products undergo the same scrutiny. Over 7 200 products were tested during the period under review. No failures were reported.

GENERAL MERCHANDISE ITEMS

All electrical appliances must comply with strict standards and the NRCS must issue a Letter of Authority (LOA) for each product permitting it to be imported. LOAs are valid for three years, but the Group conducts independent tests at more frequent intervals and requires renewed certification on each occasion, ensuring that deteriorating product quality does not go unnoticed.

DISTRIBUTION CENTRES

Quality Control managers in Group Freshmark distribution centres perform a minimum of three internal Good Manufacturing Practices (GMP) audits a year. These are followed up by the annual third-party GMP audit. A project to extend the same auditing system and standards to all distribution centres is currently underway.

EMERGENCY RECALLS

To prevent contaminated products from remaining on the Group's supermarket shelves, emergency testing and recall procedures are in place. Any unsatisfactory results lead to immediate product withdrawal, and corrective actions include re-sampling until a product can be shown to adhere to relevant standards.

IN-STORE HYGIENE

The Group's Food Safety Manual addresses all aspects of hygiene, food safety and handling, and the storage of food safety-related documents and certificates. Food safety at store level is the responsibility of divisional management, with third-party (QPro, see below) monitoring of in-store hygiene on a quarterly basis. Stores are audited and graded, and performance reports are sent to management for review.

QPro conducts comprehensive and detailed hygiene tests in Shoprite's in-store bakeries, butcheries, delicatessen areas and fish shops. If a facility's scores are sub-optimal, the areas of concern must be addressed immediately and subjected to re-audit within four weeks. All store audits are accessible to management via the corporate intranet.

Labelling

The Group has incorporated the labelling requirements of South Africa's Consumer Protection Act (CPA) as well as other relevant labelling requirements under Department of Health, Department of Agriculture and Department of Trade and Industry into all its supplier contracts and trade terms.

Suppliers identified as non-compliant are contacted with details of the problem and asked to provide a satisfactory rectification plan. Stocking of products suffering from non-compliance and deemed a potential food safety risk to consumers is suspended until the problem has been rectified.

All products from new suppliers must meet the specific labelling requirements before the supplier can be officially listed, while new items from existing suppliers are thoroughly vetted for compliance before approval.

The new labelling regulations and the establishment of a regulatory compliance team have given the Group more control over the quality of the products it stocks. For example, more particular labelling of ingredients in products means the Group can now request suppliers to exclude specific ingredients in line with consumer preferences.

RESPONSIBLE LENDING

The 2005 National Credit Act of South Africa (NCA) regulates all institutions that provide consumer credit. Shoprite's credit offering is aligned with the provisions of the NCA and the relevant laws in the other countries in which the Group operates.

Only the Group's three furniture chains – OK Furniture, OK Power Express and House and Home – offer credit facilities to consumers, and these are soon to be taken over by a subsidiary that will handle all financing functions in the Group. Credit sales represent 30.7% (2011: 29.5%) of total sales of these three brands, with furniture group sales constituting just 4.2% of Group sales overall.

Shoprite credit agreement interest rates are calculated in accordance with regulatory requirements and the market risk experienced within different furniture chains. The Group's rates are lower than those recommended by the NCA.

Environment and climate change

OVERVIEW

This fiscal year the 17th Conference of the Parties (COP17), the international climate change discussion forum, was held in Durban, South Africa. The objective of the conference was to continue working towards a legally binding international agreement on climate change.

Although the outlook for establishing such an agreement by 2015 remains uncertain, important measures have been agreed, most notably the agreed extension of the Kyoto Protocol beyond 2013 and the development of more transparent frameworks for measuring, reporting and verifying emission reductions. To that end, in March 2012 the Greenhouse Gas Protocol launched two new standards – the Corporate Value Chain (Scope 3) and Product Life Cycle Standards – to help organisations to report on their emissions.

ELECTRICITY CONSUMPTION

Average Eskom price increases of 26% (2011) and 16% (2012) implemented during the period under review have increased the Group's electricity bill by over 34%.

Over the last three years, the Group has taken steps in managing its electricity consumption more effectively. A comprehensive energy monitoring system has been implemented in the majority of the Group's South African supermarkets. The system is continually being optimised and represents a major step in accurately measuring, monitoring and reporting electricity consumption.

Based on the data collected, the Group is developing consumption benchmarks for the various types of stores it operates. A dedicated team is working closely with experts and equipment manufacturers to evaluate electricity-efficient initiatives and technologies. Of the 28 so far examined, seven have been approved and are in various stages of implementation, with a further seven expected to be approved during the next fiscal year. The Group will continue to evaluate the remainder.

Refrigeration

The Group has continued to roll out smart refrigeration and tele-maintenance systems in its supermarkets. These systems use real-time data to adapt to changing conditions and, as a result, run refrigeration installations more efficiently. The Group is in the process of establishing a centralised system for monitoring refrigeration systems across its supermarkets, and this will be a major step towards optimising the Group's cold chain, ultimately increasing efficiency and reducing wastage.

Lighting

In this fiscal year, the Group actively engaged with Eskom to identify electricity efficiency initiatives, the first of which will see all the Group's South African supermarkets retrofitted during the next fiscal year. It is estimated that this project will realise a total energy saving of more than three megawatts.

The Group will continue to analyse its electricity consumption data to establish internal benchmarks and targets and assess energy efficient technologies, and will explore the availability of grants for implementing energy-saving programmes. (The rollout of smart refrigeration technology has been noted elsewhere.)

The Group hopes to increase its level of public reporting on electricity consumption, pending the availability of accurate data from its new measurement system and the development of industry-wide reporting standards for energy consumption.

WATER CONSUMPTION

The Group is investigating and piloting a range of large-scale water-saving initiatives. One of these is the installation of a state-of-the-art grey-water system at the Group's new distribution centre in

Centurion, currently being monitored for its effectiveness and cost efficiency. Among smaller initiatives, only water-wise indigenous plants are to be selected for all new facility gardens.

The Group aims to enhance its water monitoring programme in line with the functionality enabled for electricity consumption across its supermarkets in the next year.

TRANSPORT AND FUEL CONSUMPTION

Distribution is a fundamental component of the retail industry's business activities, and the Group recognises that its distribution fleets and those of its suppliers have an impact on both the environment and the cost of product in stores. Minimising fossil fuel use throughout the supply chain is therefore not only an environmental responsibility, but also a strategic long-term business sustainability imperative.

The Group's current supply chain initiatives provide it with a distinct competitive advantage. The Group's ability to distribute centrally in South Africa has minimised the number of supplier vehicles making direct-to-store deliveries, with suppliers now able to make fewer bulk deliveries to the Group's distribution centres at any time of day or night.

Improvements arising from centralised distribution apart, the Group actively monitors and evaluates all technologies and processes available for reducing fossil fuel use across its supply chain.

Initiatives to improve operational and fuel efficiency include:

- Vehicle routing and scheduling systems implemented at all distribution centres to assist in optimising travel distance, cost and driving time.
- Store ordering systems allowing for improved delivery scheduling and a reduction in unnecessary deliveries to replenish out-of-stock items.

As an extension of its centralised distribution, the Group has in the period under review initiated a 'Reverse Logistics' system to optimise the transportation of equipment and unsold product from stores back to the distribution node. The system will be extended to all store-level recyclable materials in the near future.

RECYCLING AND PACKAGING

According to the National Environmental Waste Act of 2008, "Sustainable development requires that the generation of waste is avoided, or where it cannot be avoided, that it is reduced, re-used, recycled or recovered and only as a last resort treated and safely disposed of."

In the period under review, a number of initiatives to reduce packaging and waste across the Group's operations were implemented:

- Re-usable roll-tainers were introduced to replace wooden pallets and reduce the use of shrink-wrap material for stabilising product during transportation.
- A reclamation centre for damaged goods is now operational and extending the service to cover more types of recyclable material is under investigation.

CARBON DISCLOSURE

During the period under review, the Group initiated its first carbon footprint assessment following Carbon Disclosure Project (CDP) protocols. While the measurement of Scope 1 emissions is still limited, the Group is now able to report on Scope 2 emissions (electricity consumption) more accurately. Electricity consumption in supermarkets and fuel usage in the supply chain constitutes the bulk of the Group's carbon footprint. The Group attributes the increase in Scope 2 emissions over last year's estimate to better reporting.

The Group has not yet completed a full carbon footprint assessment and consequently has not set any specific reduction targets. As the Group gains a deeper understanding of its carbon footprint across the various categories, it will graduate towards full disclosure and the setting of reduction benchmarks.