

# Competing with the Right Strategy

SUSTAINABILITY 2011



# Non-Financial Report

## EMPLOYEES

### Remuneration policy

It is the Group's objective to provide a level of remuneration that will attract, develop, retain and motivate its employees to implement and execute its strategy in a highly competitive business environment. The Group places a very strong emphasis on "pay for performance", as is evident in the short and long-term incentive schemes that form an integral part of the remuneration package of all executive and managerial employees. These incentive schemes seek to align the Group's business strategy with those of its shareholders.

The remuneration packages of executives and management consist of the following components:

- guaranteed pay, which consists of a cash salary and certain benefits, amongst others a provident fund that provides for retirement, death and disability and medical aid;
- short-term incentive scheme; and
- long-term incentive schemes where applicable.

Total annual remuneration consists of guaranteed pay and short-term incentives. In order to attract talent the Group aims to set the total remuneration of executives at a competitive level in the market in which it competes. Due to the size of the group, its multiple brands and its extensive footprint on the African continent, the total remuneration of executives are benchmarked at the upper quartile values of the South African remuneration surveys used for this purpose. As variable remuneration in the form of short-term incentives comprises a substantial portion of the executives' total remuneration package, the benchmarked values aimed for will only be attained once the targets as set out in the short-term incentive scheme are fully met.

Reviews are performed annually to benchmark the Group's remuneration against the market. Executive positions are also evaluated frequently. Independent remuneration consultants (mainly PwC Remchannel) are utilized to perform the above reviews and benchmarking exercise.

The remuneration for management and other employees who are not included in the collective bargaining units are performance driven.

Collective wage increases are negotiated with the representative trade unions for all employees included in the collective bargaining units.

### Guaranteed pay

All employees falling outside the collective bargaining units receive guaranteed pay, which is based on the nature of their respective roles, the market value thereof and the individuals' personal performance. Annual increases in the guaranteed pay are determined by personal performance and competence, company performance and expected increases in the South African and other markets, as well as movements in the CPI during the preceding twelve months.

### Short-term incentive scheme

Executives and management participate in the short-term incentive scheme, that runs over the financial year of the group. This is a self-funding scheme, as the value of the on-target bonus is included in the annual budget and is provided for in the financial statements.

The criteria for the scheme are based on financial measures and contain targets for budget achievement and growth on the previous year. Each participant is measured against his specific area of respon-

sibility. Various weightings are also included in the criteria to encourage participants to maximize their role and functionality.

During the year under review, executives could earn an average of 35% and management 19% of their total package in the form of a short-term incentive bonus.

The scheme also makes provision for stretch targets above the annual budgets set. In exceptional cases participants can earn up to 150% of their on-target maximum incentive. Likewise no incentive will be payable if none of the performance criteria are met.

### Long-term incentive schemes

Three long-term incentive schemes are offered to executives and senior management, namely a share appreciation rights scheme, a virtual option bonus scheme and a long-term incentive bonus scheme.

### Share appreciation rights scheme

The share appreciation rights scheme was introduced during 2007 and is dependent on the performance of the share price of Shoprite Holdings Ltd. The share appreciation rights vest equally over a period of three, four and five years (2010 to 2012). The basis for calculation is the difference between the share price at the date of the exercise of the rights and the settlement date. The number of shares on which the rights are based, as well as the dates of issue and issue prices, are set out in the notes to the Group's financial statements.

### Virtual option bonus scheme

The virtual option bonus scheme was introduced in 2007 and operates on a notional capital amount, which is allocated to participants. Subject to certain provisos, a bonus is determined each year by multiplying the capital amount allocated with the percentage growth in the operating profit of the group. The bonus determined as such vests equally over a three-, four- and five- year period.

### Long-term incentive bonus scheme

The long term incentive bonus scheme was introduced in 2007. Participants are measured on the same criteria which is applicable for the short-term incentive scheme. The bonus determined as such vests equally over a three-, four- and five- year period.

### Diversity

Employees are the backbone of any business, and a stable, skilled and committed workforce is critical to business success. In the wholesale and retail industry – which is challenged by high turnover rates and a skills shortage – it is especially important to manage employees carefully, ensuring that the right people are employed and remain invested in the company. The most salient features of the group effort to effectively manage its workforce comprise of:

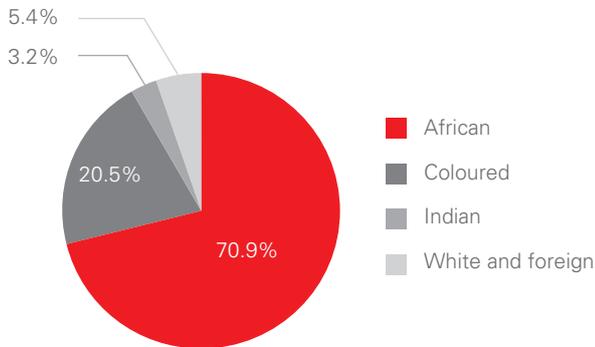
- diversity and inclusion;
- attracting and retaining talent;
- developing and training employees;
- organised labour; and
- HIV/Aids.

The Group is focused on improving the quality and decreasing the quantity of its recruitment activities, while remaining committed to equality and non-discrimination in the recruitment process. A workforce that is representative of the communities it serves is the ultimate goal, as the Group believes that this will aid the success of the business long term.



# Non-Financial Report (continued)

## STAFF REPRESENTATION



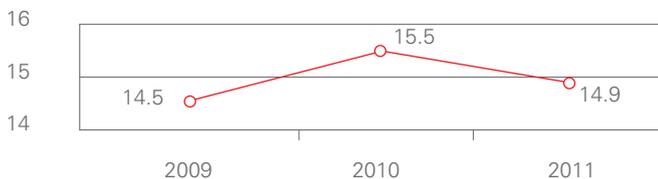
	2011	2010
Total permanent (SA)	83 867	76 318
% black representation	94.67	94.47

New recruitment systems have been developed and implemented at head office in order to improve and streamline the talent pipeline, with a focus on previously disadvantaged individuals (PDIs) and people with disabilities. In the last year, there has been a 10% increase in the size of the South African employee base, with an almost 3% improvement of overall PDI representation within top management. In terms of employment equity, the Group is on track to achieve its numerical goals for the current plan period (2010 to 2015) and continues to outperform the rest of the wholesale and retail sector.

### Retention

Retention strategies are constantly evolving in consultation with employees. Internally, care is taken to ensure that employees at all levels are well provided for. The Group boasts a relatively low turnover – 14.9% for full-time employees compared with the retail industry norm of 20-25% – which is viewed as a robust indicator of overall staff satisfaction.

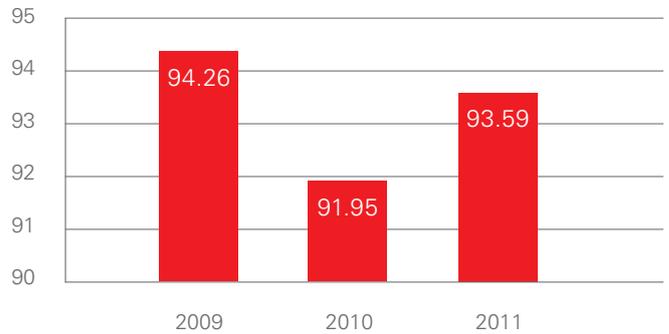
## STAFF TURNOVER



### Training

Training and career development form part of the employee retention and succession planning strategies, and the Group spent 2.7% of payroll on training in the period under review. There have been significant changes to the Sector Education and Training Authority landscape over the last two years, and the National Skills Development Strategy (NSDS) III has been implemented.

## PERCENTAGE OF TRAINING SPEND ON PDIs



The Group has been aligning its Skills Development Strategy with the NSDS III. Continuous development is promoted and the Group offers a number of training programmes recognised by the National Qualifications Framework (NQF), focussing on the development of scarce and critical skills that will give the business a competitive edge. Five hundred and twenty learners were placed on various Learnerships (for 12 months) and 613 learners on skills programmes (for 2 months). The Group is committed to employing 90% of successful candidates after completion of their learning. Funding of university bursaries for scarce and critical skills totalled R9.3 million.

There is also a focus on disability training to enhance diversity, and 33 hearing-impaired learners participated in various skills programmes leading up to an NQF Level 2 operations qualification. Free grants are also made available to lower income employees and their dependents (for school and tertiary studies) through the Group's Educational Trust.

### Employee unions

Just over one third of the Group's staff members in South Africa (36.5% of non-management staff) are represented through employee unions and collective bargaining structures. An agreement with Uni Global Union (an organisation representing over 900 unions worldwide) was recently signed. This agreement is a commitment to global standards on labour relations, and aims to create a forum for social dialogue between the group and the unions within all countries of operation. The Group works closely with the unions in South Africa, utilising some innovative strategies to maintain good relations.

### Health

An actuarial evaluation estimated a 17.8% HIV infection rate amongst group employees. This is a serious issue, which the Group approaches through a number of healthy living campaigns targeted at staff. A voluntary counselling and testing programme has been launched, and qualified nurses and doctors are available to staff through the Group's HIV/Aids Call Centre. The Group aims to test 25 000 employees in the coming year.

## REMUNERATION OF DIRECTORS

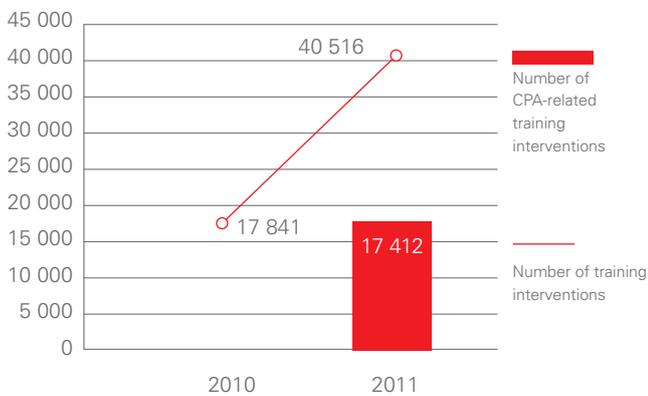
Emoluments paid to directors and alternate directors of the Shoprite Group during the year ended June 2011 and comparatives for the previous year are set out on page 79 of the Group's financial statements.

## CUSTOMERS

Retail customers tend to have a wide choice enabling them to shift quickly between one retailer and the next. To foster a loyal customer base and achieve customer service excellence, the Group endeavours to satisfy the changing needs of customers. It does this by combining the best technology with sensitivity to customer expectations and consumer trends. A number of customer issues are now governed by the new Consumer Protection Act (CPA), which prescribes the rights of consumers and increases the level of protection across the Board. The most pressing issues adopted by the Group to ensure a satisfied customer base are:

- customer needs and service levels;
- food and product safety; and
- responsible credit provision.

## CUSTOMER SERVICE TRAINING



In the past, responsibility for faulty products and related customer grievances was placed squarely on the shoulders of the manufacturer. The CPA now divides this responsibility between both the manufacturer and the retailer. The Group's policy includes the nine key consumer rights identified by the CPA. To support this change, the Group launched a compulsory CPA Awareness Training Campaign in the supermarket environment in April 2011.

The Group aims to ensure that all customers are satisfied and their reasonable expectations are accommodated. Customer-facing staff members are provided with customer service training. In the period under review, the number of customer service training interventions more than doubled, reaching 40 516. Of these, 17 412 involved initiation into the CPA.

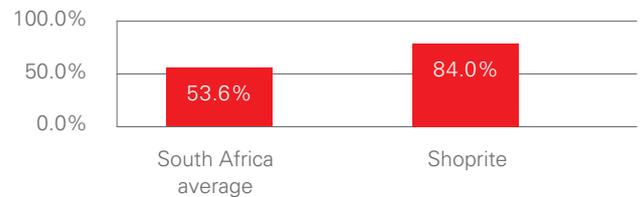
Customer feedback, received through a variety of different avenues and media is viewed as an opportunity to gather first-hand customer knowledge and enables an immediate response to customer needs. A new Customer Feedback System, based on internationally developed technology, has been installed. This will give the Group access to more intelligent customer experience data in order to better respond to potential problem areas.

The CPA applies to a range of issues, including food safety and product labelling. The Group has therefore allocated considerable time and resources to the implementation of a robust Food Safety Management System (FSMS), including a policy for both internal use and suppliers. Product recall processes and stock rotation disciplines are in place.

Customer satisfaction through price leadership is the top priority

for the Group's business. This and its smaller low-cost retail model, Usave, which caters for smaller, economically disadvantaged communities, is aligned with the CPA's requirement that services be made available to marginalised and underserved markets.

## CREDIT – PERCENTAGE OF ACCOUNTS NOT IN ARREARS



Lower income consumers in particular need to be protected against reckless lending. Credit is only offered to customers of the three furniture chains. The Group's credit offering is aligned with the provisions of the National Credit Act (NCA), and applications are processed using more than 25 granting policies to determine a customer's eligibility for credit.

## SUPPLIERS

The Group aims to develop a base of suppliers that are responsible, loyal and reliable, founding these relationships on open and honest communication. Suppliers that are not compliant with basic human rights and environmental standards place the Group's reputation at risk, and impact negatively on the health of the environment and affected communities. The Group aims to develop its suppliers and they are therefore the focus of its enterprise development initiatives, which are closely linked to preferential procurement initiatives.

The most material issues relating to suppliers are:

- supplier relationships;
- preferential procurement; and
- enterprise development.

All suppliers are subject to a contractual agreement providing a platform for monitoring and managing each relationship. The Group follows international best practice in terms of orders and supplier account management, using electronic data exchange systems to manage supplier issues. In the period under review, new packaging legislation was one of the main subjects of engagement. Education and assistance are being provided to the Group's suppliers within South Africa and across Africa, where bar coding is being developed and improved.

Freshmark maintains growing programmes for each of its 456 local suppliers annually, most of whom enjoy a long-term, close relationship with the Group. Farmers' Days were held in all provinces in South Africa (as well as in Zambia), where supply performance and operational issues were discussed and produce category performance was analysed.

Meat Market currently has 274 registered meat suppliers, all of whom have been visited and approved by the relevant divisional managers prior to being selected.

In the coming year, two workshops on food safety standards will be held with suppliers in all major centres, and an electronic guideline on implementing minimum food safety standards will continue to be distributed to all small suppliers.



# Non-Financial Report (continued)

By supporting local suppliers, the Group makes a substantial contribution to the transformation of the South African economy. The Group therefore allocates time and resources to enterprise development within its own supply chain in order to create a stable and sustainable supplier base. The Group spent more than 2% of its net profit after tax (NPAT) on enterprise development initiatives in the period under review.

The R65 million Shoprite Development Trust was initiated to further target the Group's substantial Corporate Social Investment (CSI) financial contributions. This Trust targets enterprise development through the Group's property developments and is aimed at facilitating the ownership of the Group's developments or properties by economically disadvantaged entrepreneurs and community organisations.

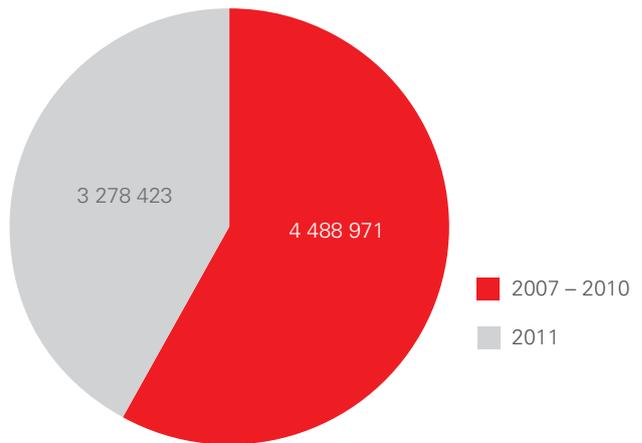
The Group is committed to supporting black suppliers, and aims to assist small, medium and micro-enterprises (SMME's) to become efficient suppliers. B-BBEE performance forms part of the supplier selection criteria and preference is given to black female suppliers. This strategy assists in the identification of new supply opportunities and efficiencies. The Group's Code 600 Preferential Procurement spend for the period under review was R37,1 billion.

The Group aims to extend its strategic goals of rural economic development and local economic development into marginalised communities with the knowledge and assistance of the independent trustees of the Shoprite Development Trust. The Group also intends to actively seek out co-operative ventures with government and other entities, improving the status and stability of its preferential procurement successes.

## COMMUNITIES

A business does not function in isolation from the communities it operates in and these communities also have an impact on the business. In particular in the retail space, good community relations can enhance the sustainability of the Group's profit line. The Group makes its CSI contributions with specific focus on women, children and senior citizens.

### SHOPRITE MOBILE SOUP KITCHENS – SERVINGS OF SOUP AND BREAD



26



In the period under review, the Group spent more than 1% of its NPAT on corporate social investment projects. A successful new initiative involved the Group partnering with the Western Cape Police during December 2010 to help combat crime through various campaigns. Due to the success of the partnership this project has also been rolled out in Gauteng.

Shoprite Mobile Soup Kitchens is an ongoing initiative the Group is very proud of. In the period under review, 3 278 423 servings of soup and bread were distributed largely to children, senior citizens, and people affected by job losses and disasters countrywide, bringing the total since launch in February 2007 to 7 767 394. This is a dramatic increase compared to the first three years and was made possible by an increase in the truck fleet.

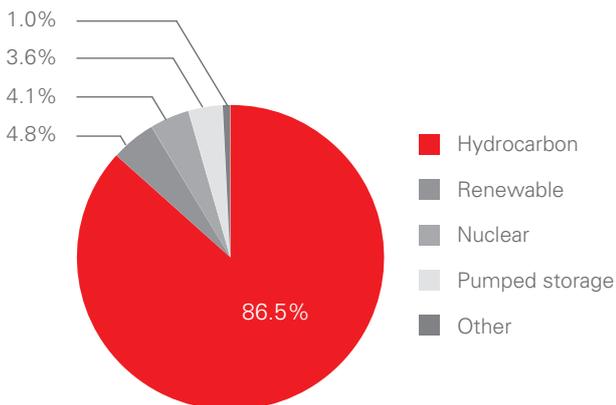
Other significant projects include The Shoprite Checkers Women of the Year Awards (which awards R130 000 to one exceptional woman in each of five different social development categories), and The Shoprite Community Network (which provides approximately R1.2 million per year in support of organisations that are making a difference in their communities).

## ENVIRONMENT

The Group depends on the environment for all its resources, either directly (for fresh produce) or indirectly (for processed materials and energy). The Group recognises that degradation of the environment will undermine its ability to produce resources cost effectively and is therefore paying attention to this issue. While the Group endeavours to consider its environmental impacts in all areas, four key aspects are reported on:

- electricity consumption;
- fuel consumption;
- packaging and recycling; and
- carbon disclosure.

### SOUTH AFRICA'S ENERGY SUPPLY MIX IN 2010



As almost 90% of South Africa's electricity is coal-generated, electricity consumption results in a number of externalised effects, including pollution and the release of carbon dioxide (CO2) into the atmosphere. In addition, the country's electricity supply is subject to rapidly rising costs as capacity is increased. The Group adopts a holistic approach to managing electricity consumption and is in the process of establishing a programme to continually measure, monitor and report on electricity consumption in supermarkets. Energy efficient initiatives are being assessed and a number of these have been implemented in our supermarkets. Systems have also been put in place to enable the optimisation of the cold chain.

Transportation constitutes a significant part of the retail industry, where moving large quantities of produce is a daily requirement. Road transport relies on fossil fuel, which is growing scarcer and more costly. Fuel is also a significant contributor to air pollution. The Group explores and evaluates all technologies and processes available for reducing fossil fuel use across the entire supply chain and has adopted a centralised distribution approach in line with international best practice.

Transporting produce requires large quantities of packaging resulting in waste. The Group supports the National Environmental Waste Act of 2008 principle of waste avoidance first, followed by reduction, re-use and recycling where possible. The Group aims to reduce the use of one-way packaging by purchasing and implementing re-usable packaging equipment. Ways to recycle materials and reduce landfill contribution are constantly being assessed, and the Group also collaborates with suppliers to implement new packaging initiatives. A reclamation centre in Centurion is in the pilot phase and will enable central management of damaged products and waste, in accordance with international best practice.

Electricity and fossil fuel consumption and the production of waste all contribute to emissions responsible for climate change. The Group has begun the journey of accounting for its impacts by responding to the Carbon Disclosure Project (CDP) for the first time in the period under review. A number of measurement systems and protocols have been developed and implemented to enable the Group to perform a comprehensive assessment of its carbon footprint. Scope 2 emissions for the year under review was estimated at 1 079 659 metric tonnes of carbon dioxide equivalent (CO2e).

The Group's supply chain strategy and structures provide the business with a competitive advantage. The focus on supply chain efficiency will continue, in parallel with the responsible management of health, safety and environmental impacts such as carbon emissions and waste management. This holistic approach to supply chain management will assist the Group in retaining a competitive edge as future challenges are encountered and addressed.

