





## Purpose

# We are pleased to present this 2019 Integrated Annual Report for Shoprite Holdings Limited and its subsidiaries in its 40th year.

Here we report on progress towards delivering on our vision – to be Africa’s most affordable and accessible retailer – and how we plan to continue to do so in future. This year’s report underlines our recognition that our capital, resources and relationships play an important role in our success. These range from our strategies and investments, which help us provide accessible and affordable food and other fast-moving consumer goods to our customers, wherever they are, through to our evolving understanding of how to continually pursue shared value through our business performance.

For 40 years, the Group focused on lowering prices. In recent years, our focus has shifted from low prices to affordability, as we provide a range of options to people who may not be able to afford the lowest prices in the market. We aim to make our customers’ money work as hard as they do.

We believe that our business model enables us to create sustainable, long-term value that balances the interests of today’s stakeholders with the interests of future generations.

## Values

### Doing the right thing

We want to be known as a company that puts customers first through **excellent service**. Our employees are empowered to do whatever it takes to ensure that all customers leave our stores happy.

**Integrity** is important to us. We treat everyone with respect. Each of us is accountable for our actions and strives to behave in an ethical way. We value trust and long-term relationships with our stakeholders.

We **#ActforChange** beyond our own doors. Through job creation, affordable products, and hunger relief and other programmes, we work to support our communities.

### Saving to share

We are committed to reducing waste. That’s one reason why we focus relentlessly on **keeping costs low**, so that every rand we spend must fight for its life. We aim to **become more efficient**, including in our resource use, by minimising harm to the natural environment and maximising the value we offer to our customers. Where we have **surplus** food or resources, we distribute them to people in need.

### Developing local

We’re an African company that believes in Africa’s potential. We **invest in our people** by developing their careers and promoting from within. In turn, they invest in us.

We create jobs, provide suppliers with access to markets and contribute taxes to **develop local economies**.

Our size and effective supply chains create opportunities for local, smaller suppliers to **access our markets**. Through procurement and support, we help them grow and thrive.

We **embrace economic transformation** through job creation, skills and career development, local sourcing and social upliftment.



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## How to navigate our report

Throughout our Integrated Annual Report, the following icons are used to provide linkages to relevant aspects, or indicate where further detail is available.

### Material issues

Trade performance and growth opportunities	
Supply chain configuration and cost structure	
Remuneration strategy and policy	
Our employees	
Socioeconomic impact and contribution	
Information and technology	
Leadership transformation and employment equity	
Regulatory environment	
Quality and safety (employees, workplace and customers)	
Social licence to operate	

### Strategy

A truly customer-first culture	
Develop future-fit channels	
Enable precision retailing	
Trusted, profitable private labels	
Grow share in premium food and fresh	
A stronger franchise offer	
Preserve our African advantage	
Refocus capital allocation	
Unlock alternative revenue	

### Stakeholders

Customers	
Shareholders and financiers	
Communities	
Trade unions	
Employees	
Suppliers	
Regulators	

### References

	This icon signifies related information elsewhere in this report.
	This icon signifies related information available online at: <a href="http://www.shopriteholdings.co.za">www.shopriteholdings.co.za</a>

### UN Sustainable Development Goals





## How to read this report

This 2019 Integrated Annual Report is aimed primarily at our shareholders, as the primary providers of the Group's financial capital, and the local and international investment community.

The report demonstrates our ongoing commitment to improving transparency and striving for the highest reporting and disclosure standards.

It strives to provide balanced insights into how the Group aims to create and sustain value for shareholders in the short, medium and long term while balancing our responsibilities towards our other stakeholders, recognising the influence our key stakeholders have on the Group as a sustainable business.

### Forward-looking information

This report contains forward-looking statements regarding the Group's performance and prospects, which, unless otherwise indicated, reflect our best judgement and estimates at the time of publication. Various factors can cause outcomes to differ from our forward-looking statements, so readers are cautioned not to rely unduly on them. The Group does not take responsibility for updating or revising any forward-looking statements unless required by legislation or regulation.

### Overview of the Group's external reporting suite

For a full understanding of the Group, the Integrated Annual Report should be read alongside the following reports, which comprise the Group's external reporting suite:

- Annual Financial Statements for 2019
- Sustainability Report 2019
- Carbon Disclosure Project reports
- Application of the King IV Code of Corporate Governance Principles



All of these reports are available on our website at [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za).

### Basis of reporting

The Group has adopted the International Integrated Reporting Council's International Integrated Reporting <IR> Framework as the basis for reporting on a comparable and consistent basis year-on-year how the Group creates long-term value through the transformation of six capitals applied within the Group's business: financial, intellectual, human, manufactured, social and relationship, and natural capital.

All Group financial reporting complies with International Financial Reporting Standards, the South African Companies Act and the JSE Listings Requirements.

The Board has disclosed the Group's application of the *King IV Report on Corporate Governance for South Africa, 2016*, in the 2019 financial period.

For further information on this Integrated Annual Report, please contact Sarita van Wyk on +27 (0)21 980 4269.

### Reporting scope and boundary

The report covers the integrated performance of the Group's operations for the period 2 July 2018 to 30 June 2019.

The financial reporting boundary covers the results of the Group's subsidiaries of which the following are the direct subsidiaries:

- Shoprite Checkers (Pty) Ltd
- Shoprite International Ltd
- Shoprite Investments Ltd
- Shoprite Insurance Company Ltd
- Shoprite DTMC (Pty) Ltd

The report provides an overview of the Group's operating environment in the current reporting period, its approach to value creation, and its strategic risks, opportunities and growth drivers. It also covers its stakeholder engagement activities and performance for the year.

The report covers the Group's four operating segments, namely Supermarkets RSA, Supermarkets Non-RSA, Furniture and Other operating segments. The Shoprite Group operates primarily in South Africa and has a presence in 14 other African countries.

### List of acronyms

AGM	Annual General Meeting
B-BBEE	Broad-based black economic empowerment
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
DRC	Democratic Republic of Congo
DSTI	Deferred short-term incentive
DTMC	Domestic Treasury Management Company
EBITDA	Earnings before interest, income tax, depreciation and amortisation
ESG	Environmental, social and governance
ESP	Executive share plan
FMCG	Fast-moving consumer goods
GDP	Gross domestic product
HR	Human resources
IFRS	International Financial Reporting Standards
<IR>	Integrated Reporting
IT	Information and technology
JSE	Johannesburg Stock Exchange
LTI	Long-term incentive
ROIC	Return on invested capital
RSA	Republic of South Africa
PwC	PricewaterhouseCoopers Inc.
SACCAWU	South African Commercial, Catering and Allied Workers Union
SAP	Systems, Applications and Products in Data Processing
SARS	South African Revenue Service
SDG	Sustainable Development Goal
SEC	Social and Ethics Committee
SENS	Stock Exchange News Service
SME	Small and medium enterprise
STI	Short-term incentive
TGP	Total guaranteed pay
UN	United Nations
USD	United States dollar
VAT	Value-added tax
YES	Youth Employment Service





## Determining materiality

We have applied the principle of materiality in developing the Integrated Annual Report, with a focus on information that the directors believe is material to investors' understanding of the Group's ability to create value in the short, medium and longer term.

The Group's executive team, in consultation with management, has identified the material issues, positive and negative, that management believes are most likely to substantively affect the Group's ability to execute its strategy to create sustainable value, including matters that could materially impact revenue and profitability. In determining these issues, the team considers internal and external factors, including the economic and trading environment, the Group's strategy, and the needs, expectations and concerns of our key stakeholders.

The materiality test applied by the Board is based on internal and external matters, both positive and negative, that substantively affect the Group's ability to deliver its strategy and that could have a material impact on revenue and profitability.

Our disclosure of material matters excludes information that could lead to the loss of our competitive advantage or is considered price sensitive.

## Material issues for 2019



Trade performance and growth opportunities



Supply chain configuration and cost structure



Remuneration strategy and policy



Our employees



Socioeconomic impact and contribution



Information and technology



Leadership transformation and employment equity



Regulatory environment



Quality and safety (employee, workplace and customer)



Social licence to operate

Key risks and opportunities relating to these material issues are disclosed in the report, together with the Group's strategic focus areas as part of explaining the factors that substantively affect the Group's ability to continue as a sustainable business (see Creating sustainable value on pages 44 to 52.)



## Assurance

The Group applies a combined assurance model to support the integrity of information contained in the Group's external reports, the effectiveness of which is subject to Board oversight. For more information, refer to page 63.



The content of the Integrated Annual Report has been reviewed and approved by the Board, with management verifying the processes and information applied to develop the report. It has not been externally assured.

The Group's external auditor [PricewaterhouseCoopers (PwC)] has expressed an unqualified audit opinion for the reporting period and provided external assurance services for the Annual Financial Statements. Management has also reviewed the accuracy of the financial information extracted from the Annual Financial Statements that appears in the Integrated Annual Report.

## Board/executive approval

The Board of Directors of Shoprite Holdings is responsible for the Integrated Annual Report. The Board believes that this Integrated Annual Report complies with the <IR> Framework in all material respects.

The Board further confirms that this Integrated Annual Report fairly represents the Group's performance for the period under review as well as the growth strategies, material issues, risks and opportunities, and prospects of the Group. The Audit and Risk Committee has oversight responsibility for the integrity of the Integrated Annual Report and recommended it for approval. The Board has unanimously approved the Integrated Annual Report for release to shareholders.

Christo Wiese  
Chairperson

Pieter Engelbrecht  
Chief Executive Officer

19 August 2019

## Our value creating highlights in 2019

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Shareholders and funders

**R150.4 billion**

turnover

**R6.9 billion**

trading profit

Employees

**3 175 jobs**

created in the financial year



**5 079**

unemployed youth trained on Retail Readiness Programme.

Customers

**30.6% market share**

in South Africa



**Over 53 million**

R5 deli meals sold

Environment

**Recycled 3 995 tons**

of plastic from our stores



**Reused & recycled**

36 439 tons of cardboard from our stores

Society

**R58.1 million**

donated in surplus food



**R35.6 million**

spent on corporate social investment programmes

## SHOPRITE

Awards

**Ask Afrika Kasi Star Brands**

- Kasi Star Brand
- Food Retailer Category Winner

**Sunday Times Top Brands**

- Best Grocery Store Winner

**Sunday Times/ Sowetan Shopper Survey**

- Grand Prix Award
- Best Grocery Store Winner

**Ask Afrika Icon Brands**

- Achieved Icon Brand Status
- Food Retail Category Winner

**The Star Reader's Choice Awards**

- Best Grocery Retailer





**R4.3 billion**

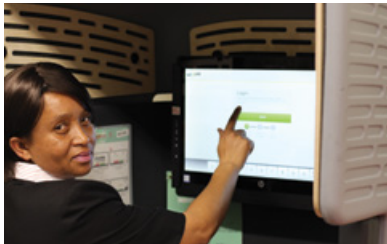
headline earnings

**4.6%**

trading margin

**2 863**

e-learning kiosks  
across 1 355 sites



**3 494 949**

training hours  
in 2019

**9 679  
products**

priced lower  
than in 2018



**126 net**

new stores

**1 101 tons**

of carbon emissions  
saved through  
backhauling



**Generated  
2 637 MWh**

of renewable  
electricity for  
our stores

**R6.2 billion  
contributed**

in taxes across  
15 countries



**2 366 small  
suppliers**

given access to market



**Ask Africa Icon  
Brands Awards**

- Furniture category  
Winner



**Zululand Reader's  
Choice Awards**

- House & Home  
Richard's Bay  
– Best Furniture Store



**Kasi Awards**

- Best Pharmacy

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## What sets us apart

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The Shoprite Group strives to generate long-term sustainable growth for our equity investors through our established food retail business operations in 15 economies on the African continent. We are focused on cost-effective operational performance throughout our large footprint of leading technology-enabled retail operations and distribution channels, as described in this report. This, together with our strategic focus areas (outlined on pages 22 to 27),  provide further context for the investment case.



### Our unmatched food retail positioning across 15 African countries

We operate 1 845 corporate-owned food and liquor retail stores, supported by considerable distribution infrastructure and an integrated enterprise-wide information and technology system, across 15 African countries – a profile unmatched by any other retailer on the continent. In addition, our OK Franchise brand extends across the whole food retail convenience market with 460 stores.

Over the past 30 years, the Group has built extensive brand trust, recognition and goodwill in the countries where we operate, as shown by our top ranking<sup>1</sup> in Brand Africa's 2019 Top 100 brands survey. Our skills and execution are unrivaled and we are well positioned for when the economies in which we operate outside of South Africa rebound. The medium- to long-term opportunity provided to us as the established food retail leader on the African continent will be worth the current challenges, which resulted in a loss in our Non-RSA division during 2019.

### Our customer-first approach focusing on affordability

In recent years, our approach has evolved to put the customer at the centre of all our thinking and development: our decisions aim to save our customers time and money, and increase convenience for them. We prioritise affordability across the business, which for some segments means a R5 deli meal and in others means reaping the benefits of our rapidly expanding private labels. We are also expanding our digital services portfolio to respond effectively to a greater range of customer needs.

### Our corporate-owned food retail model addressing all market segments

The Shoprite Group includes four major corporate-owned and -operated food retail brands: Shoprite, Usave, Checkers and Checkers Hyper, together with operations serving the furniture, pharmacy and food services market. The Group generates the majority of its R150 billion turnover from food retailing, about 75% of which stems from its core division, Supermarkets RSA. We operate in 14 other African countries and we estimate our share of the food retail market in South Africa to be the largest of all the major retailers. Beyond food retail, the Shoprite Group operates substantial businesses in the categories of liquor, pharmacy, general merchandise, furniture and the franchising of food and liquor. Across our brands, our diverse store formats range from large hypers to smaller convenience formats. Aside from our furniture division, which now generates 12.7% of its sales on credit, the Group's turnover is generated entirely through cash sales.

<sup>1</sup> We ranked fourth overall and highest of all the African brands.





## Our low price leadership with Shoprite Supermarkets

The Shoprite brand champions low prices for the people, providing almost 70% of South Africa's population with access to the lowest prices on a wide range of commodities and grocery items. The business's unwavering 40-year customer commitment to "lower prices you can trust, always" remains at the centre of everything we do and we monitor, on a daily basis, our pricing relative to peers. At Shoprite we are constantly focused on practical solutions to saving our customers money, across all facets of our business.

## Our Usave format, committed to underserved communities

Our Usave brand is a no-frills, hard discounter, with a limited range of basic commodities at stripped-to-the-bone prices. It serves a traditionally underserved market segment, taking food retailing right into the heart of communities. Usave store fixturing is minimal and product ranging is limited to basic necessities, with a strong focus on our own private label ranges, offering customers unequalled value for money. The most recent addition to the Usave store portfolio is a container store format branded Usave eKasi, which translates to "my community". The eKasi store uses five or six shipping containers carrying roughly 1 000 products. This flexible format allows us to establish outlets where bigger, formal stores would not be viable.

## Our growing share of the mid-to-upper food segment in South Africa

We believe in the significant opportunity that exists from growing our share of the mid-to-upper segment of the food retail market, where historically we have been under-represented. This market segment demonstrates greater resilience in South Africa's current economic context. We have made great strides with our Checkers brand in recent years by improving and extending our convenience ranges while aligning our products with healthy eating and cleaner living. We are also modernising stores where appropriate, upgrading to our new FreshX store concept.

## Our growing convenience footprint with our OK Franchise formats

The OK Franchise Division includes three different retail formats: OK Foods, OK MiniMark and OK Express, as well as a liquor outlet (OK Liquor) and a wholesale outlet (Megasave). It has a wide geographic reach, serving both metropolitan and rural and remote areas. Its success stems from the powerful combination of community-based ownership and the Shoprite Group's infrastructure and buying power support. In recent years, its rebranding has ensured it presents a single, consistent brand and the franchise is performing well.

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## What sets us apart (continued)



### Our leading position in ancillary services

Our services extend beyond bricks-and-mortar supermarket retailing. We are meeting different consumer needs, as well as providing services to other businesses. These include our LiquorShop outlets, MediRite pharmacies (supported by our pharmaceutical wholesaler Transpharm) and Checkers Food Services.

Our in-store money market kiosks offer a range of value-added services, including bill payments, cross-border money transfers and travel tickets, while our web-based Computicket business sells nation-wide event tickets both online and in-store. We have recently embarked on a new standalone store format, K'nect, which sells cellular products and services as well as entry-level financial services products. We are also building a new media business using the Group's existing customer and store assets as a platform, called Rainmaker Media Services. We will start selling our own physical (in-store collateral) and digital (mailers, website banners and preferential in-app space) assets, combined with customer insights for fast-moving consumer goods (FMCG) suppliers and other advertisers.

### Our world-class centralised supply chain

The Shoprite Group began its centralised supply chain journey about two decades ago and we have consistently raised the bar in this area ever since. Our primarily corporate-owned store base, coupled with our company managed centralised supply chain model, provides us with a closed-loop supply chain eco-system, giving us the visibility to manage and integrate the end-to-end supply chain right down to shelf level, and to derive benefits beyond centralised buying, warehousing, distribution and logistics. Our information and technology (IT) capabilities allow us to prioritise and execute tasks consistently using context-specific analytics across the supply chain. Through integrated planning, procurement, logistics and sales, we continue to optimise our business efficiency at scale.

### Our IT capabilities

The Shoprite Group has invested considerably in information and technology in recent years. Over the past year, we implemented an enterprise-wide system as a consistent, integrated product and transactional data platform for all supermarket operations. This platform allows real-time line of sight to integrate planning, supply chain management, sales and supporting activities, including international trade compliance, across the entire supermarket business.

### Our proud commitment to employment in Africa

The Shoprite Group is whole-heartedly committed to training, skills development and employment in Africa, as our staff complement of 147 268 attests. We are proud to be the largest employer, after government, in South Africa. Our commitment to employment, as evidenced by our consistent growth in this area each year, is in stark contrast to escalating South African unemployment, which currently stands at 29% (Q2 2019). With youth unemployment in South Africa at chronic levels, we are pleased to report that much of our growth in employment is focused on this segment. About 69% of our staff are between the ages of 18 and 35. In 2019 we created 3 175 new jobs and trained 5 079 unemployed young people through our Retail Readiness Programme and our participation in the South African government's Youth Employment Service (YES) initiative.

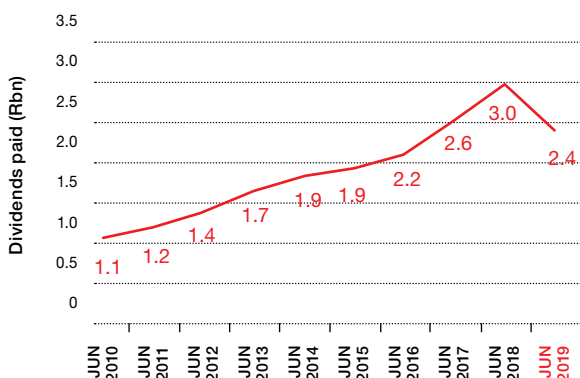




## Our commitment to returning capital to shareholders as dividends

Reliable and consistent returns for our shareholders remains a focus area for the Group. Our policy is to return capital to shareholders as a dividend calculated at twice the value of cover using headline earnings per share, however this year, we adjusted our headline earnings for the non-cash hyperinflation gain.

In rand terms, the dividend payment has declined this year, following the high base created in prior years, during which our Non-RSA business generated significant profits under more favourable economic conditions.



## Our consistently high trading margin

The focused execution of our retail proposition, supply chain support and lean cost structure results in a leading trading margin. The Group has consistently reported trading margins above 5% in its Supermarkets RSA segment, an enviable return for our region that compares favourably with international standards. Following another year where we have held thousands of key lines in deflation, we achieved a trading margin of 5.3% in Supermarkets RSA – testament to our ability to keep goods affordable without unsustainable price cuts. At a Group level, after accounting for a difficult year in our Non-RSA markets, our trading margin measured 4% in 2019 and, including the hyperinflation adjustment, a trading margin of 4.6%.

## Our commitment to addressing environmental, social and governance matters

We are committed to continuously improving transparent and accountable governance. We govern compliance and risk in line with our commitment to increase transparency and accountability as part of good corporate governance. We have assessed our risk landscape and our enterprise risk management framework is configured to achieve integrated risk and compliance monitoring on a daily basis across our operations.

We acknowledge the importance of environmental, social and governance (ESG) matters in our business, and our commitments are demonstrated by embedding them in our values. As the largest retailer on the African continent, we recognise that we can make a significant and positive impact in the countries and communities in which we operate. Within this context, we have worked hard over the past few years to create the internal systems and capacity necessary to support our long-term ESG ambitions. We continue to align our sustainability work with the United Nations' Sustainable Development Goals, focusing primarily on fighting hunger, giving access to quality education, providing decent work and promoting sustainable production and consumption. This gives us a social licence to operate and makes business sense.

# Chief Executive's report

## Strengthening the business through our transformation strategy

Our business is now 40 years old. Over the past four decades we have developed a deep understanding of our customers and their needs which has provided excellent guidance for our current business digitalisation and innovation processes. This year in particular has been transformational for the Shoprite Group as we continued harnessing our expanded IT capabilities to further improve our processes. We are now able to apply significant data analytics capability to generate new customer insights and avail ourselves of new business opportunities.

Being the largest retailer in Africa and South Africa's largest private-sector employer has some distinct benefits. Our extensive footprint provides a unique business advantage, allowing us to access opportunities to benefit from the continent's growing population and to further leverage this advantage as we continue to transform the business, building on the new technology backbone we have worked towards implementing this year.

Although this year has tested our resilience, the fundamentals of our business remain strong. We experienced difficult trading conditions in our largest markets and unanticipated internal setbacks that caused distribution bottlenecks. Our trading profit after accounting for hyperinflation declined to R6.9 billion, a drop of 14.3% on the

previous year. As a result, our diluted headline earnings per share contracted by 19.6%. But, our sales performance in our South African business recovered in the second half of this year, proving the fortitude of our people, our brands and our operations. Our Non-RSA business endured tough conditions and reported losses this year but in our view operated stores worthy of commendation.

We have invested in our future by expanding our talented management team, implementing an enterprise-wide system across the business and improving governance. We look ahead with confidence in our resources and plan to increase our resilience and profitability in the long term.



### Operational performance

This year, we invested heavily in our IT transformation to power our future growth and improve our operational efficiency. The past 12 months can be summarised as a tale of two halves: poor first-half performance was partly offset by much improved performance in the second half of the year. Our sales overall grew by 3.6% to R150.4 billion, our consolidated trading margin declined from last year to a still respectable 4.6% and our return on invested capital (ROIC) declined from 14.8% to 11.0% in 2019.

Whilst macroeconomic conditions were not supportive, the poor performance of our Supermarkets RSA division in the first six months was the result of several factors, including industrial action, migrating to a new enterprise-wide system, and internal price deflation. These operational problems resulted in lost sales and as such Supermarkets RSA grew sales by only 2.6% in the first half of the year. Our team worked tirelessly to improve performance in the second half of the financial year. Our top priority was to improve on-shelf availability, which satisfied our customers and boosted our second half sales growth to 7.4%. We implemented the enterprise-wide IT retail system across all supermarkets on time and within budget. A project of this magnitude is inherently disruptive, but it is now functioning well.

Although testing economic conditions and currency devaluations weighed in on our Non-RSA operations the region overall remains a component of our competency and long-term strategy. We are reviewing our operations in certain of the more challenging Non-RSA countries in which we operate and if required will adjust accordingly. We are confident the issues are not operational and commend our team for their efforts and resilience during a particularly testing year.

Our work this year has set us on a path to improved performance and it is pleasing to move into 2020 with positive momentum.



Our key financial information is summarised on page 20.

In 2019,  
Shoprite Holdings  
turns

# 40





**Pieter Engelbrecht**  
Chief Executive



## Responsible business

We are led, more so than ever before, by our very clear purpose which is to be Africa's most affordable and accessible retailer. It is a privilege to live with such a positive and constructive ideal and to see daily how it manifests in the lives of millions of people. This is the rewarding outcome of the joint efforts of the thousands of Group employees who come together every day to serve their fellow citizens with excellence.

As we navigate the influences impacting our operations in South Africa and across the African continent our purpose keeps us connected to our customers and their communities and the ongoing need for us to prioritise responsible and sustainable operations.

The Shoprite Group's business philosophy has always extended beyond our direct business operations to investing in community initiatives that boost food availability, empower women and small suppliers, and provide training and employment opportunities for unemployed youth.

We have broadened and deepened our focus on sustainable development in recent years by seeking to align the outcomes achieved from our business work to the Sustainable Development Goals, and exploring ways to make our operations environmentally sustainable. By 2020, we plan to have a comprehensive sustainability strategy and framework in place to guide our operations in this regard.

The Group employs 147 268 people in 15 countries. We are committed to supporting our employees' fitness for the working world of the future and their personal development through a range of employee enrichment programmes. Beyond providing decent work conditions and a safe working environment, these include providing online training opportunities and artisanal skills development courses. Our shared value initiatives include focusing our sustainable business initiatives towards immediate and long-term interventions geared to fighting hunger, supporting early childhood development practitioners and facilities, and providing disaster relief where needed.



## Optimising returns from our business transformation initiatives

During the past 40 years, the Group's experience, resilience and ability to innovate has grown the Shoprite Group into Africa's largest retailer. We are committed to sustainable growth that creates long-term value, rather than chasing high returns in the short term. Our focus is on ensuring reliable returns to preserve our investors' capital, so that they regard us as a safe investment in Africa. Our next step is to optimise our existing investments. We aim to improve our ROIC from 11.0% to a range of 14.5% to 16.5% by 2022. We plan to manage our capital expenditure strictly in the future and to unlock value on the balance sheet by selling and leasing back certain assets such as selected trucks, real estate and distribution centres. These changes also afford us flexibility so we can adapt quickly to changing trends or legislation.

In recent years, the Group has invested capital in the physical infrastructure of its supply chain and in digital infrastructure, particularly its enterprise-wide system. This system is a digital platform providing real-time line of sight of the entire business, allowing us to integrate planning, supply chain management, sales and supporting activities, including compliance. Over the next year, we are focused on ensuring we quickly realise the benefits of these investments by embedding the resulting information and insights into our decision-making processes to improve our operational efficiency and boost growth over the long term.



See our Chief Financial Officer's financial review and future financial outlook on pages 79 to 85.



Our significant ongoing business transformation initiatives are summarised on pages 30 to 31.

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Our current key sustainable business initiatives are focused on achieving greater efficiency in our water and energy usage, and minimising food losses and waste.



Our 2019 Sustainability Report, which is available at [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za), explains these initiatives in more detail.



See our explanation of our approach to Responsible Business in the governance section of this report (pages 56 to 57).

## Strategic focus areas

Our long-term value creation strategy centres on the strategic focus areas identified as key levers for achieving the Group's objectives – financial and non-financial – on which we base our plans.

We have expanded our strategic focus areas to explore new business capabilities unlocked by our IT re-platforming. We aim to increase our customer base and sales through an enhanced business model that leverages IT to create value beyond our financial performance targets. At the core of our business strategy is a customer-first culture, which we define as “all customers leave the store happy”. We are relentlessly focused on working to satisfy our customer needs and concerns, and we judge our successful performance by measuring ourselves on whether we have achieved this more affordably and more easily than our industry competitors. By building sustainable relationships with our customers, we have built a trusted brand associated with a wide range of quality products and services across Africa.



Refer to our strategic approach (pages 22 to 27) for more information on these focus areas.



## Engaging investors

Over the past few years, we have increased our investor communication and transparency as part of our commitment to continuously improve governance and accountability. Last year, investors raised four main concerns: Board composition, remuneration policy, shareholding structure and declining ROIC. We have made significant progress on all of these issues.

During the year, the Group brought a proposal to investors to amend its dual-class share structure. The proposed transaction was, however, cancelled due to insufficient support from shareholders. Nonetheless, the engagement was transparent and constructive.



Refer to pages 54 to 55 for more detail.



Refer to pages 68 to 78 for our remuneration report.



## Expanding our management capacity

In a tightly contested, rapidly evolving business environment, it is essential that we have the right people in the right places. We aim to be an employer of choice and are improving the way we attract, develop and retain talent.

Globally, businesses are transforming to adapt to technological changes and ensure their business models are sustainable. The past two years have brought a flurry of changes at executive and management levels, but most of our new leaders were promoted from within, ensuring business continuity. Executives are well supported by an expanded management team. We have restructured so that each segment is led by a Chief Operating Officer and we have appointed Group-level heads of risk and compliance, sustainability, and health and safety. This structure ensures we have specialist oversight, our leaders are held accountable and we can easily adapt at an operational level. As our lines of reporting have expanded, we have streamlined reporting processes through digitalisation and increased regular communication such as weekly and monthly meetings. Our leadership team is adaptable, resilient and committed to the business vision. In the next few years, we expect to see the benefits through higher productivity and greater agility.

## Looking ahead: A trusted brand spanning Africa

At the end of a challenging year, I am optimistic about our future. As a retail market leader rooted in Africa, we understand our customers' needs so that we can – as we always have – innovate to meet them. Our store footprint, decades of know-how and high trading margin are unmatched in Africa. And our rapidly improving digital capabilities create new opportunities for customisation and business development.

Our customers know that we provide high-quality, affordable products and services, and we work hard to earn trust and acceptance wherever we go. As we evolve our systems, products and services, our promise to put customers first remains unchanged.

Over 40 years, we've proved our resilience and value. We operate in a mature, competitive and increasingly disrupted retail environment. What differentiates the Group is our high volume of customers and transactions, dominance in underserved markets with growing populations, centralised physical and digital infrastructure, and lean cost structure.

There will be more challenges ahead but our combination of historical and modern advantages positions us to thrive as our industry and continent evolve. I am confident that we will continue to improve our financial performance and seize new business opportunities as they arise.

## Appreciation

This year we've laid a strong foundation for future success thanks to our employees' commitment, our Board's guidance and our customers' loyalty. I am proud of the adaptability we have demonstrated. Thank you to all our customers, who continue to trust and support us. We are also grateful to the Board for their support and guidance. Our executive and management teams lead our business with integrity and passion. Finally, I am inspired daily by the dedication and enthusiasm of our employees across the Group. Thank you for your continued efforts to ensure we remain Africa's most affordable and accessible retailer.

**Pieter Engelbrecht**  
Chief Executive

19 August 2019





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## Chairperson's report

**It is generally recognised that the past financial year was one of the most difficult, economically since the advent of democracy in South Africa. Many of the disruptive influences significantly impacted our operations in South Africa and across our continent.**

We are therefore not able to report the sort of results that we would have liked to. However, it is important not to lose sight of the fact that in many areas the business has performed extremely well in these trying circumstances. We have managed to make a remarkable turnaround in the second half of the year after a rocky start in the first six months, the once-off reasons for which we have tried to explain as fully as possible.

The Shoprite Group and its people, however, have a very positive approach to the current macroeconomic problems. We have many plans in the pipeline to make our business better every day. Details will emerge in the months ahead and the results will hopefully reflect in our performance.

Being connected to our customers enables us to constantly raise the already high bar we have set for ourselves as we embrace the fast-changing world of food retail and strive to remain one of the best in this category.

We recognise the need for long-term growth in profits and efficient capital allocation while also focusing on sustainability and ongoing transformation to create value not only for our shareholders, but also for the countless communities that we serve.

We continued advancing our business transformation initiatives, completing the implementation of our new technology platforms this year, which creates a solid foundation for future growth.

**Christo Wiese**  
Chairperson

Our Non-RSA operations have been particularly disappointing this past year with many African economies in dire straits and with Angola suffering a currency devaluation of unprecedented magnitude.

We do, however, have clear and precise plans in addressing the issues around our Non-RSA division without giving up our conviction that we are investing for future growth in Non-RSA. If we consider our performance in Non-RSA over the past 20 years, I think one cannot help but conclude that it has been a worthwhile exercise, bearing in mind the future growth potential.

### Overview

In Non-RSA, we expect our return to profitability will be aligned with economic stability and growth in the key regions in which we trade. We are critically assessing new and incremental investments as well as the way forward with respect to our existing base. That being said, the Group's ability to operate stores in these regions is an unparalleled achievement. We believe that

there is a considerable medium- to long-term growth and profit opportunity from our position as the leading food retailer on the African continent.

We remain mindful of the need to preserve capital while organically growing our business for both performance and impact. This holistic value creation perspective is also reflected in the positive impact we achieved, including a large array of stakeholder-focused initiatives that are covered in detail in our 2019 Sustainability Report.

The Shoprite Group's policy has always been to invest for the long term through the economic cycles.

Our business model is now configured to leverage a range of growth and improvement opportunities not available to the Group prior to the implementation of the new technology-enabled, digitised operational platform.





## Responsible business

The Group's values and culture play a fundamental role in implementing our strategy with the right behaviours that demonstrate our core values.

As Africa's largest retailer, the Group prides itself on being a responsible business and a good corporate citizen. The wide positive impact our business has on our customers, our people and the communities we serve represents a significant contribution to societal value and sustainable development in all the countries in which we operate.

We are proud of the fact that, in the context of South Africa's huge challenge to achieve lower unemployment, we succeeded in creating another 3 175 jobs this past year, retaining our position as the largest private-sector employer in the country, and maintaining our record of creating thousands of employment opportunities every year.

We are particularly proud that we have trained 5 079 unemployed youth. During the 2018 academic year we also allocated 298 bursaries to the value of R16.3 million, of which 48 supported students in Non-RSA countries. We continue to play a leading role in the communities in which we operate by providing affordable meals, alleviating hunger, assisting with disaster relief and helping to provide sustainable solutions in the form of water provision and food gardens.

## Our Board

We have a capable and competent Board, effective in its core role of selecting a strong and capable executive leadership team and providing guidance. New non-executive directors are appointed from time to time to maintain fresh and critical thinking and to ensure that the Board has the necessary experience to meet its oversight responsibility.

I am pleased to welcome Professor Shirley Zinn and Ms Alice le Roux as non-executive board members this year. It is gratifying that people of their calibre have accepted these positions and we look forward to working with them and benefiting from their input.

I would also like to extend my gratitude to Carel Goosen, Jimmy Fouché and Nols Louw who this year retired from the Board, and Edward Kieswetter who resigned. Their collective contribution over many years has been invaluable.

We continue to work towards our transformation goals at Board level and throughout the company. Diversity at Board level encourages constructive debate and ensures that the needs and concerns of our key stakeholder groups are addressed. Our Board composition is aligned with our voluntary race and gender diversity policy targets, as 33% of our directors are now female and 44% are black.

## Appreciation

On behalf of shareholders, a word of gratitude to all our people across the continent for the significant contributions that they make every day and the obstacles they overcome to ensure that we achieve our goals and fulfil our customer promises. Also, a word of thanks to our customers across the continent, for continuing to support our business in growing numbers. Our executive management has certainly shown their mettle this past year under difficult circumstances, working tirelessly to restore stability and growth, and we thank them.

There is no doubt that we have the right plans in place to strengthen the Group's resilience and continue to grow, thereby meeting the demands of all our stakeholders. This is our focus for next year and beyond as we continue to drive long-term value creation.

**CH Wiese**  
Chairperson

19 August 2019

**In the context of South Africa's huge challenge to achieve lower unemployment, we succeeded in creating another 3 175 jobs this past year, retaining our position as the largest private-sector employer in the country, and maintaining our record of creating thousands of employment opportunities every year.**

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## Our Board of Directors



From left to right: Joseph Rock, Adv. Jacob Wiese, Alice le Roux, Pieter Engelbrecht, Prof. Shirley Zinn, Ram Harisunker, Dr Anna Mokgokong, Anton de Bruyn, Dr Christo Wiese, Johan Basson.





## Our business

Shoprite Holdings Ltd (the Group) and its subsidiaries is Africa's largest fast-moving consumer goods retailer. Our Home Office is in South Africa and we operate across the continent.

### Shoprite Holdings Group structure



#### Core business

Our core business is food retailing, although we sell a broad range of goods and services, including furniture, pharmaceuticals, household products and financial services. Our 16 brands span all income levels and needs.

#### Target

We target improving return on invested capital, cost-effective operational performance and strategic focus areas, and we apply environmental, social and governance principles to create shared value.

#### Success

Our success is underpinned by the strength of our brands and continuous improvement initiatives. We invest significantly in our core brands and have leading positions in the market, as illustrated by a South African retail market share of 30.6% and wide recognition across Africa.

### Our Group




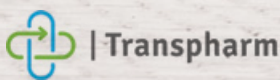





## Our brands



Brand	Description	Store count	
Supermarket brands			
	Our flagship brand, providing goods and services to the mass middle-income market.	RSA 488	Non-RSA 177
	Small-format stores that offer a limited range of basic foods for lower-income customers.	RSA 367	Non-RSA 57
	Our brand for affluent customers, which prioritises convenience, quality and freshness.	RSA 219	Non-RSA 9
	Large-format, wider-range stores with similar products to Checkers	RSA 37	Non-RSA —
Furniture brands			
	Quality furniture, electrical appliances and more for middle-income customers.	RSA 333	Non-RSA 84
	Quality homeware, furniture, electrical appliances and more for affluent customers.	RSA 44	Non-RSA 4
Liquor brands			
	Liquor stores located adjacent to our supermarkets that provide a range of local and international alcoholic and non-alcoholic beverages at supermarket prices. The first wholesale standalone Shoprite LiquorShop also opened recently in Anderbolt in Johannesburg.	RSA 468	Non-RSA 22





Brand	Description	Store count	
Pharmaceutical brands			
	Located inside supermarkets, MediRite provides access to medicines for underserved communities.	RSA <b>144</b>	Non-RSA <b>11</b>
	Our wholesale brand distributes pharmaceutical products and surgical equipment across South Africa.	Distribution centre in Johannesburg and Cape Town	
Franchise brand			
	Each of our five retail (OK Foods, OK Grocer, OK MiniMark, OK Express and Sentra), liquor (OK Liquor) and wholesale (Megasave) franchise outlets offers a clear identity to its market.	RSA <b>398</b>	Non-RSA <b>62</b>
Hospitality brand			
	Checkers Food Services use the Group's buying power and distribution network to deliver quality products to the catering and hospitality industries. Our new service initiative includes delivery to the everyday consumer's door. World-class wholesale products are delivered at everyday prices.	Distribution centres in Johannesburg and Cape Town	
Ticketing brands			
 	The largest ticketing service provider in South Africa, offering a range of events and business solutions such as stadium and travel management.	Situated in most supermarkets and furniture stores in the Group	
Financial and cellular services			
	Shoprite k'nect stores offer convenience and expert knowledge on a range of affordable products and services for tech-savvy, connected customers. We opened our first store in June 2019.	RSA <b>1</b>	Non-RSA <b>—</b>

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## Key financial information

## Financial highlights

	% change	52 weeks 2019 Rm	Restated* 52 weeks 2018 Rm
Sale of merchandise	3.6	150 395	145 104
Trading profit	(14.3)	6 876	8 024
EBITDA	(5.9)	9 531	10 127
Profit before income tax	(13.7)	6 339	7 347
Basic headline earnings	(19.9)	4 330	5 408

## Performance measures

Diluted headline earnings per share (cents)	(19.6)	779.9	970.5
Dividends per share declared (cents)	(34.1)	319.0	484.0
Dividend cover (times)		2.0**	2.0
Trading margin (%)		4.6	5.5
EBITDA margin (%)		6.3	7.0
Return on invested capital (ROIC) (%)		11.0	14.8
Return on average shareholders' equity (%)		12.0	17.9

## Definitions

ROIC: Trading profit after tax (calculated by applying the effective tax rate) expressed as a percentage of invested capital.

Invested capital: Net asset value excluding borrowings and bank overdrafts.

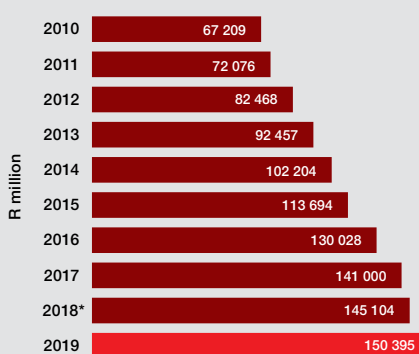
Return on average shareholders' equity: Basic headline earnings, expressed as a percentage of the average of capital and reserves and interest-bearing borrowings at the beginning and the end of the financial year.

## Notes

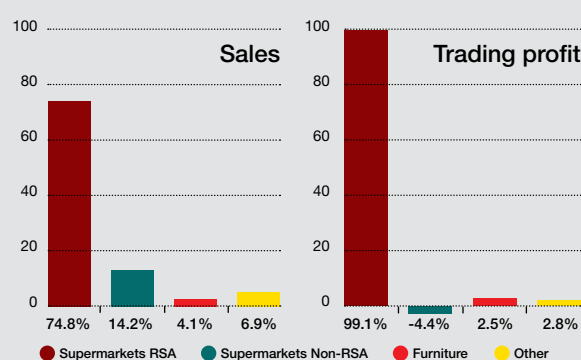
\* Restated for the change in accounting policy for the adoption of IFRS 9 and IFRS 15. Sales for years prior to 2018 have not been restated for the impact of IFRS 15, as the effect is not considered to be material to the Group.

\*\* Based on dilutive headline earnings per share excluding the impact of hyperinflation accounting.

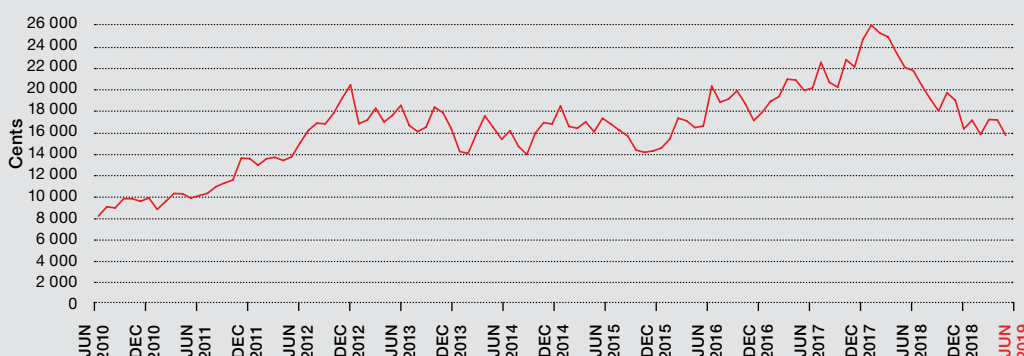
## Sales



## Contribution per segment



## Shoprite Holdings Ltd share price

Ghana  
7

Gross domestic product, constant prices (% change)	8.8
Inflation, average consumer prices (% change)	9.1
Population (millions)	30.2

Angola  
48

Gross domestic product, constant prices (% change)	0.4
Inflation, average consumer prices (% change)	17.5
Population (millions)	30.0

Namibia  
94

Gross domestic product, constant prices (% change)	1.4
Inflation, average consumer prices (% change)	5.2
Population (millions)	2.5

South Africa  
1957

Gross domestic product, constant prices (% change)	1.2
Inflation, average consumer prices (% change)	5.0
Population (millions)	58.6

Economic data source:  
International Monetary Fund,  
World Economic Outlook  
Database, April 2019





## Distribution of operations

**Nigeria**  
**25**

Gross domestic product, constant prices (% change)	2.1
Inflation, average consumer prices (% change)	11.7
Population (millions)	199.2

**DRC**  
**1**

Gross domestic product, constant prices (% change)	4.3
Inflation, average consumer prices (% change)	8.4
Population (millions)	97.9

**Uganda**  
**5**

Gross domestic product, constant prices (% change)	6.3
Inflation, average consumer prices (% change)	3.6
Population (millions)	40.0

**Kenya**  
**2**

Gross domestic product, constant prices (% change)	5.8
Inflation, average consumer prices (% change)	4.4
Population (millions)	49.4

**Mozambique**  
**30**

Gross domestic product, constant prices (% change)	4.0
Inflation, average consumer prices (% change)	4.2
Population (millions)	31.1

**Zambia**  
**48**

Gross domestic product, constant prices (% change)	3.1
Inflation, average consumer prices (% change)	10.8
Population (millions)	18.3

**Botswana**  
**34**

Gross domestic product, constant prices (% change)	3.9
Inflation, average consumer prices (% change)	3.6
Population (millions)	2.4

**Malawi**  
**7**

Gross domestic product, constant prices (% change)	4.0
Inflation, average consumer prices (% change)	8.7
Population (millions)	20.3

**Madagascar**

**Madagascar**  
**10**

Gross domestic product, constant prices (% change)	5.2
Inflation, average consumer prices (% change)	6.7
Population (millions)	27.1

**Eswatini**  
**25**

Gross domestic product, constant prices (% change)	-0.4
Inflation, average consumer prices (% change)	5.6
Population (millions)	1.1

**Lesotho**  
**26**

Gross domestic product, constant prices (% change)	3.9
Inflation, average consumer prices (% change)	5.4
Population (millions)	2.0

**2 319**

Total corporate stores

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# Our strategic approach

The Group's strategy and operational activities are intrinsically linked to the value it creates for stakeholders, including investors. Over the past two years, the Group has focused on six drivers of revenue growth. In 2019, we expanded to nine strategic focus areas, largely as a result of new capabilities developed through our IT replacement project. Following our successful implementation of the enterprise-wide system, we are in the next phase of growth.

## Our strategic focus areas

As technology enables more personalised shopping and communication channels to reach more customers, retailers have to become responsive and more innovative to survive. Taken together, our nine strategic focus areas indicate our business priorities for the next three years, as we aim to become smarter, close the gap in key segments and then win in the long term.

Our strategic focus areas address global retail trends, such as customer centricity, a convenient omnichannel shopping experience, while also considering our African context. By pursuing these objectives in an ethical and sustainable way, we create long-term value for all our stakeholders, including our customers, employees, suppliers and the communities where we operate.

## A smarter Shoprite Group

### 1

#### A truly customer-first culture

The core of our strategy is pursuing a truly customer-first culture. Our digital transformation project will enable deeper customer engagement and personalisation across the business. As our digital systems provide insights and encourage customisation, we will deepen our understanding of our customers so we can serve them better.

Through our range of brands, we serve customers across all income levels and needs: from upmarket customers looking for the best value at Checkers, to mid-income customers searching for the lowest prices at Shoprite, to lower-income customers seeking discounted products at Usave. Our wide range of products and formats meet every need.

For decades, we have led the market in costs and prices. We remain the price leader, but – knowing that low prices are no guarantee that a customer can afford choice – we have shifted our approach to place customers at the centre of business development and pricing decisions. We are embedding and incentivising customer-centric behaviour across the organisation.

We have invested in understanding our customers by extending our existing data and analytics capabilities into new areas and dimensions. Our customers already recognise us for low prices and great value. As we improve our understanding of them we can personalise our offerings to give them exactly what they want, where and when they want it.

## Highlights:



Shoprite ranked number 1 for lowest prices (BrandTracker 2019)



Checkers ranked number 1 for best value (BrandTracker 2019)





## 2

### Develop future-fit channels

We have the largest store footprint of any supermarket in Africa. Over the next few years we are focusing on winning the “race for reach” by increasing our digital presence. Our channels include physical stores ranging from large hypermarkets to small box containers, e-commerce delivery for catering and liquor, and digital services such as our money market. These channels form a strong foundation for the omnichannel shopping experience that is fast becoming the retail norm.

We continue to innovate our store formats so that customers can reach us in a way that suits their needs and finances. Expanding into convenience formats benefits us in two ways: It will allow us to serve customers better and will require lower capital investment than our larger format stores.

Our IT replatforming project laid the foundation for digital channels and smaller, better organised physical stores: over time, the project will allow us to tailor our store offerings more effectively and quickly, thereby customising our inventory levels.

#### Highlights:

**386%**

online sales growth in 2019

**80%**

of South Africans shop with the Group  
(Establishment Survey 2018)

## 3

### Enable precision retailing

For 40 years, our innovative, cost-conscious approach to retail has served us well. Now, with our investment in digital transformation, we can use data to embed insights and analytics into our processes, and we will enable more agile decision-making across the supply chain.

In addition, we have expanded management capacity to professionalise the business and act on our increased capability. We have developed our e-commerce, supply chain, financial services and sustainability management teams to lead innovations and improvements in these areas, all of which are important to maintain our competitiveness.

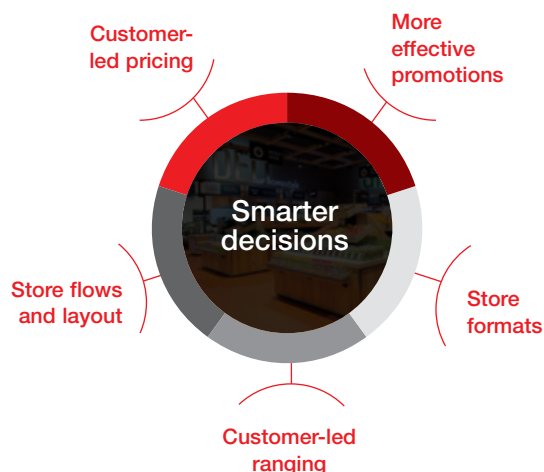
Fundamentally, accessibility is about filling gaps and inadequacies in the market to save our customers time, money and hassle. Our expansion is increasingly data- and context-driven, so we consider the most effective way to meet an identified need. That might involve changing the layout of a store or building a small Usave store in a lower-income area with a smaller range of products, which saves our customers transport costs to use towards weekly shopping.

Our state-of-the-art supply chain ensures that each store is stocked for local needs and is able to adjust promotions, pricing, formats and stock at a granular level. Going forward, we will learn more about our customers from every change we make, allowing us to improve incrementally every day.

#### Highlights:

**57**

Merchandising categories revised  
and adjusted using customer data



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## Our strategic approach (continued)

### Closing the gap in key segments



4

#### Trusted, profitable private labels

Through our private label products, we innovate and provide our customers with greater choice and value in line with our commitment to accessibility. In 2019, our private label offering grew to comprise 16.5% of our South African supermarket sales, up from 14% two years ago. Over the reporting period, we added 1 251 new private label products – and, compared to our competitors, we still have room to grow.

We aim to produce products that match the brand leader's quality – but at a lower cost thanks to our size and efficient supply chain, which allow us to develop and distribute products more cost-effectively. As a result, we can meet our customers' growing demand for diverse product ranges from grocery staples to premium and fresh products, and general merchandise.

Increasingly, we are building full product ranges within recognisable brands that fulfil specific needs, such as our Simple Truth brand for healthier, more environmentally friendly products. By providing our own labels, we can offer customers both our choice-grade entry-level products and our premium products in a single store. As we control our private-label supply chain, we can customise ranges in detail and rapidly adjust to changes in demand to maximise sales.

In 2019, sales of both our Ubrand range in Usave stores and our Simple Truth range of cleaner, healthier products in Checkers Supermarkets exceeded our targets. Annual sales for 21 of our own brands now each exceed R100 million.

#### Highlights:

**591**

premium private label products added in 2019

**660**

value and affordability private label products added in 2019



5

#### Grow share in premium food and fresh

Although we are the leading food retailer on the continent, we have room to grow our market share in fresh and convenience food, which we are pursuing through our Checkers FreshX stores and innovation in premium and fresh food. We have grown this area of the business with the same focus on affordability, quality and understanding our customers that defines all our brands.

Historically, the Group has appealed primarily to middle- and lower-income customers, whom we continue to serve. In tight economic conditions, however, higher-income customers are increasingly looking for more value. These customers seek a larger range of the freshest produce and healthy food, such as our healthier Simple Truth private label range.

In 2019, our upmarket customer base grew by 5.1%. We've grown this segment of our base by refreshing and expanding the fresh in-store experience in our FreshX stores to provide world-class fresh produce and a broad range of products for higher-income customers. Our stronger focus on procurement, food safety and quality controls across the business aligned with our fresh focus. By innovating in this area and producing lower-cost products, we are expanding access to healthier, value-adding food beyond just upmarket customers.

We added another 100 fresh and convenience products to our range in 2019. During the past year, we renovated three FreshX stores and opened five new FreshX stores aimed at the higher-income customer.

#### Highlights:

**21**

FreshX stores on track to 80 store target

**R123 million**

market share gains in fresh and convenience sales





## 6

### A stronger franchise offer

Our 460 franchises and buying partners benefit from the larger Group's know-how, product ranges, pricing power and supply chain efficiency. We continued to improve our franchise offer by rebranding stores and integrating them more tightly into our supply chain. Historically, our franchises were stocked through dedicated distribution centres. During the reporting period, we accelerated their integration into our corporate distribution channels so that they benefit from our fully integrated planning, procurement and logistics in the same way as our corporate stores do. This shift, which will be completed in 2020, also increases their access to our fresh and private label products.

We are growing our franchise options through express format and forecourt stores at fuel stations. These new formats provide more convenient shopping options, enhancing retail access for customers who are shopping more frequently than before.

#### Highlights:

**460**

franchise stores across  
3 countries, including 44 forecourt  
OK Express stores

**6**

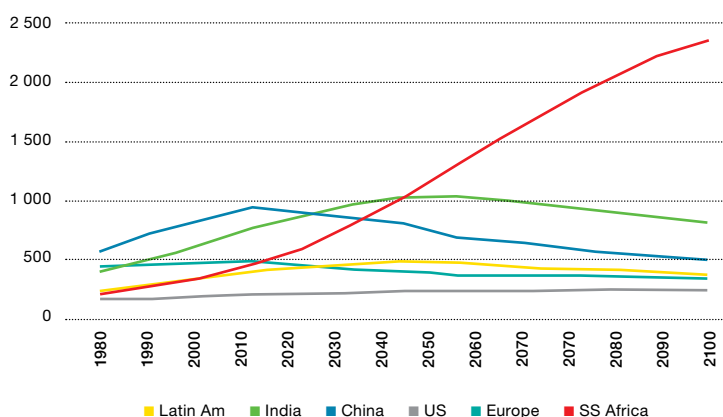
unique franchise formats

**42**

net new franchise stores in  
the reporting period

## Winning in the long term

African working population to grow to 2.4 billion by the year 2100



## 7

### Preserve our African advantage

Profits from our African operations have been volatile over the past few years, with the Group realising a loss in Non-RSA markets in 2019. Our underperformance was primarily the result of sharp currency devaluations in our most important trading countries outside South Africa, which negatively affected rand-value sales and profit. Although some countries, such as Ghana and Madagascar, performed well, Angola's performance overshadowed them after significant currency weakness.

In the short term, we are limiting capital expenditure in Non-RSA markets, and we continue to focus on controlling costs and maintaining our operational efficiency in these countries. Nonetheless, we remain committed to Africa over the longer term – no one is similarly positioned to serve Africa's growing population over the next few decades. Alongside our popular brand and large customer base, our extensive physical footprint, know-how and digital infrastructure give us a competitive advantage that we will amplify as soon as economic conditions improve.

In 2019, we opened nine net new stores in the 14 African countries outside South Africa where we operate, including our first stores in Kenya, while we closed our Mauritius operations due to continued non-profitability.

Wherever we go, we localise as quickly as possible to ensure that we understand local conditions and contribute to local economies. As a result, we are a trusted brand in the markets where we trade: we ranked fourth, the highest ranking of an African brand, in Brand Africa's 2019 Top 100 brands survey.

#### Highlights:

**424**

stores across 14 countries

The highest ranking of an African brand,  
in Brand Africa's 2019 Top 100 brands survey

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## Our strategic approach (continued)

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# 8

### Refocus capital allocation

We are shifting away from larger, more expensive capital projects to prioritise smaller and more productive store formats and technology projects with higher returns. These include our Usave eKasi stores that move us closer to customers' homes, as we continue to find more ways to serve them efficiently and effectively.

Over the past few decades, we've led the retail sector in developing and maintaining a centralised supply chain. As we've grown in size, the cost of owning the properties has crowded out spending on higher-return capital projects, such as our technology investments.

To unlock value on the balance sheet, improve our return on assets and pursue higher-return projects, we are selling certain non-strategic properties and distribution centres where the terms meet the Group's criteria. Our distribution centre infrastructure has been purpose-built for our needs, and selling and leasing back the buildings will not alter how we operate our supply chain. By taking this step, we become more agile in the longer term and improve our ability to adapt to changing legislation and retail trends in the future.

### Highlights:

# 23

Usave eKasi stores



# 9

### Unlock alternative revenue

Every week, 22 million customers visit one of the Group's channels, and our digital transformation will increasingly allow us to communicate directly with customers based on their needs and preferences. We are finding new ways to monetise our 2 779 stores, large customer base and supply chain strength.

In 2020, we will pursue an omnichannel media platform to enable advertisers to target their customers more effectively through digital advertising combined with traditional in-store promotions. We aim to formalise and accelerate this media income opportunity in the next year.

In addition, we are re-energising financial and mobile services through more accessible, standalone K'nect stores reaching underserved areas. These stores offer the full array of money market services as well as cellular products.

Our leading global procurement capability combined with a strong private label portfolio presents an opportunity to collaborate with global retailers who wish to fill gaps in their own markets. By opening these new routes to market, we can earn commissions in uncontested territories.



### Customer-centric innovation through money market services

Although the Group has a large physical footprint across multiple countries and geographies, it is increasingly becoming a digital organisation, connected by digital systems and providing digital services. Our money market services have grown into a range of digital products and services, including:

- Buying airline, electricity and insurance
- Paying municipal accounts
- Transferring money to friends and family.

In many cases, our customers have limited access to financial services, whether it's because they live in hard-to-reach areas, earn lower incomes, or cannot afford the high fees associated with withdrawing cash or transferring money. We provide access more broadly and affordably than almost anyone else.

Our advantage is that we can use our already profitable and capacitated physical stores to leverage new digital products and services. As a result, it costs us less to provide these services than it would for a bank to build, staff and maintain a branch, and we pass those savings on to our customers.

We also use our infrastructure to provide affordable cross-border money transfers to Lesotho and will soon provide transfers to Eswatini. FinMark Trust estimated that the Group's lower prices for money transfers had saved customers about R80 million in additional fees over the last three years. Customers can also transfer money affordably to over 100 countries online or by telephone or by visiting one of the 50 selected stores.

For smaller countries that are highly dependent on remittances, this service is invaluable, not just for recipients but for communities and governments.

Our savings stamps are another important innovation. The Group offers R5, R10 and R20 savings stamps, which can be redeemed at any Checkers, Shoprite or Usave store. These are purpose-driven savings that customers invest in for specific events, such as the beginning of the school year or for a birthday celebration. They motivate customers to save.

Our money market services are a growing source of revenue and foundation for future innovations. Nonetheless, there are associated risks, particularly the rising cost of keeping cash safe. Our focus in the coming year is to reduce our cash handling, for example, by enabling additional payment options, and we will launch several related initiatives over the next few months.





# Operating environment

## Macroeconomic trends

### South African economy

About 80% of the Group's profit stems from its South African operations. Retailers across South Africa are struggling with low economic growth, lower-than-expected food inflation, and persistently high administered costs (including electricity and fuel prices). South Africa's economy is expected to grow at 0.9% in 2019, compared to 0.8% in 2018. Unemployment reached a 10-year high of 29% in 2019.

The Group has proved resilient by expanding its offerings at higher and lower income levels, through Checkers and Usave.

### African economies outside South Africa

The UN estimates that Africa's population could reach up to 6 billion people by 2099, showing the continent's growth potential.<sup>2</sup>

GDP growth in most of our other African countries outstrips South Africa. However, currency devaluations reduce sales growth in rand terms.

In 2019, the Group realised a trading loss in other African markets. The commodity price downturn has constrained economic growth, although our extensive store footprint and brand recognition positions us for strong longer-term performance.

### Food security in Africa

Almost 30% of Africa's population experienced severe food insecurity in 2017.<sup>3</sup> Many people cannot afford or access sufficient quantities of food, and nutritional deficiencies are a problem. In addition, unpredictable floods and droughts increasingly threaten the continent, with further disruptions expected as the impact of climate change grows.

We are committed to playing our part by providing affordable, accessible food, building our climate resilience, and assisting communities where we operate through our corporate social investment programmes.

<sup>2</sup> United Nations (2017). World Population Prospects.

<sup>3</sup> FAO, IFAD, UNICEF, WFP and WHO. (2018). The State of Food Security and Nutrition in the World 2018. Building climate resilience for food security and nutrition. Rome, FAO.





## Retail industry trends

### Digitalisation

Technology has fundamentally changed the retail industry. Digital platforms facilitate omnichannel shopping, so customers can have a seamless, satisfying experience across channels. In exchange for data that informs customer and product insights, customers expect retailers to understand their preferences and make shopping more convenient.

The Group's IT transformation scales our change capabilities, allowing us to realise operational efficiencies across the business quickly.

### Innovation

Retailers need internal systems to support innovation through business communication and integration, so that ideas are developed and evaluated for value and practicality. As competition increases, innovation is essential to maintaining a strong customer base.

Innovation has always been part of our DNA: when you're first in a place, you have to innovate to adapt to reach and serve customers.

### Diversifying revenue streams

The industry is changing so rapidly that retailers can no longer rely on narrow, traditional revenue streams such as making a margin on buying and selling food. As new entrants and channels disrupt business, retailers need to build on their competitive advantage and ensure sustainability through multiple markets and services.

We are leveraging our extensive store footprint to offer more affordable services as new revenue streams, such as money market.

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# Transforming our business

In 2019, the Group completed a three-year project to implement an enterprise retail system that consolidates all core information into a single database, providing consistent information from a single source to all departments. It's one step in a larger plan to ensure we have the IT capabilities to accelerate our business growth while protecting data integrity and privacy. In the year ahead we will focus on increasing operational efficiency through our new capabilities and harnessing their power through data analytics and predictive insights.

We implemented the platform in phases over 17 months across the entire supermarket business to realise benefits quickly and at scale. Despite our intensive preparations, the shift was more disruptive than we anticipated. However, the business has adapted to the new system well and the platform is now functioning smoothly. The Group was awarded the 2018 SAP Africa Gold Award for Business Transformation. Our decisions are now data-driven and our processes are standardised across the business.

The figure below summarises the enhanced capabilities now available across the Group's value chain following this investment. We expect that improved integration and data management across our supporting functions and supply chain operations will deliver significant business improvement dividends through process and systems optimisation. Our newly improved data analytics capability enables a range of innovation initiatives to further leverage the existing business model. Our competitive positioning in relation to FMCG discounters is much stronger, as the system capabilities enable us to apply agile, electronically-driven promotional pricing strategies to leverage the customer base in line with our medium-term strategic focus areas (see pages 22 to 27). In addition, the system allows us to scale ideas and new revenue streams (such as e-commerce) quickly across our entire business.

## Optimising our supply chain

Our significantly scaled centralised supply chain that controls the majority of local, imports and cross border export movements, continues to be a competitive advantage to the Group. This allows for greater integration and collaboration across all aspects of the supply chain. Our re-platformed IT system enhances this advantage by integrating planning, procurement, warehouse logistics and distribution. With real-time information and analytics, we will be able to continuously improve the process of prioritising and replenishing stock, ensuring that we manage variations in demand and supply more effectively. As a result, we will be able to improve stockholding levels, on-shelf availability and customer satisfaction.

## Business optimisation opportunities in our enhanced digital platform

### Strategy and innovation

- Align IT with business operations by providing analytics to enable data-driven, customer-focused decisions.
- Tactical experiments include digital ordering, AI-driven stock management and digital instore displays.

### PLAN

- Integrated budgeting and financial planning.
- Granular information (item level).

### PROCURE

- Streamline procurement and improve decision making.
- Share data with suppliers to improve forecasts.

### LOGISTICS

- Optimise management of stock and distribution channels.
- Leaner, more integrated and responsive supply chain.

### SELL

- Offer consistent customer experience across channels.
- Expand digital offerings and payment options.

### Risk and compliance

- Centralised system to track, manage and respond to events.
- Item and location data facilitates tracking and withdrawal of products, if there are safety or compliance concerns.

### Finance and human resources

- More granular information improves financial and workforce planning, monitoring and allocation of resources.

## Fast facts



**81 000**

days of training in preparation for new digital platform.



Near real-time item data.



Integrated data, insights and execution across every aspect of the business.



**16 000**

concurrent daily users across 1 989 stores, distribution centres, and divisional and home office locations.



Future capabilities include enhanced predictive models and artificial intelligence (AI).





More broadly, we continue to integrate technologies so that we use consistent, accurate data to produce and implement insights across the value chain. This is the foundation for applying more sophisticated artificial intelligence capabilities once we add new streams of data and use machine-learning tools to develop our predictive capabilities. In line with this, we are augmenting our data science capacity to harness the system's full capability.

### IT security and governance

As data and technology become more essential to retail, we will increasingly focus on our IT management, including IT risk management and monitoring, which is overseen by the Audit and Risk Committee. Our upgraded IT security measures include:



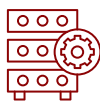
Benchmarking against international standards with positive results.



Regular validation of our security measures, including monthly dummy attacks and vulnerability assessments from three external service providers.



Certification against the Payment Card Industry Data Security Standard for card payments.



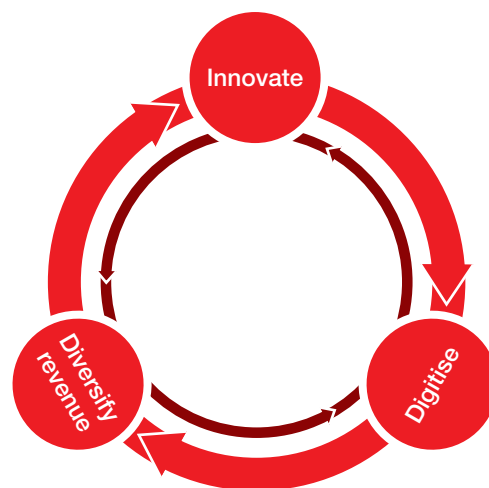
An enterprise data management unit, independent of the IT department, managing data quality and privacy across the business.



A security operations centre that monitors our landscape and automatically detects threats, assesses the risks and responds.

Implementing our industry-specific retail system across the business is our biggest digitalisation project yet, and we expect broader benefits through a mutually reinforcing relationship between digitalisation, innovation and revenue diversification. We have already seen the benefits of our financial cashback services, which became a new source of revenue through our money market services. As our customers' access to technology and demand for financial services have increased, these services have become increasingly digital (such as selling airtime and insurance), moving us into new spaces and creating new revenue streams.

Mutually reinforcing innovation, digitalisation and revenue diversification



One of the lessons our industry learnt from watching first movers digitalise was that the benefits do not accrue either immediately or automatically:

- Human capital investment is a critical success factor: employees need training to learn to use the system, and time to become familiar with the full capabilities of the system.
- Manager-level business-wide communication forums are critical to shape a digitally aware management team and to share and integrate insights across the business.
- The supply chain needs to be flexible enough to respond quickly.

We spent four years preparing for the transition to our new digital platform, including the equivalent of 81 000 days of training last year. At the same time, we expanded our management team so we can equip the right people with insights to improve and develop our business. A range of supporting projects are under way to increase our agility and harness the benefits of the new system.

In 2020, we will use the IT transformation project to increase our operational efficiency and help identify new products, services and areas of business that meet our customers' needs. Over the longer term, our IT capabilities unlock exciting new possibilities for growing our business.

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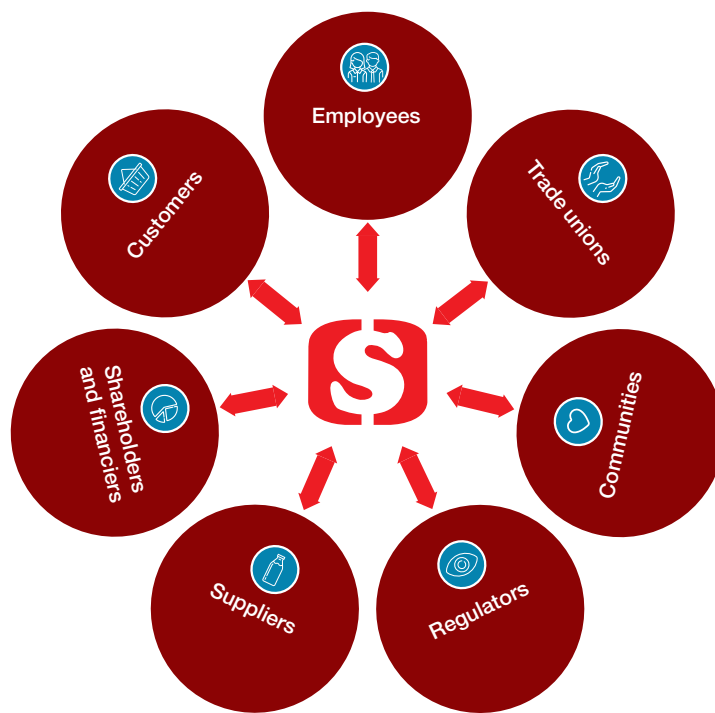
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## Engaging our stakeholders

We operate within an ecosystem of stakeholders who affect or are affected by our business and therefore influence, at different levels, our ability to create and sustain long-term value through the business. In addition, we maintain relationships with various financial and investment market intermediaries, including the media, analysts and rating agencies. By regularly engaging the primary stakeholders shown to the right, we ensure open lines of communication and stay abreast of potential risks and opportunities. The Group is committed to creating long-term, ethical and collaborative relationships, which are essential to our viability as a successful business. We continue to explore effective channels for engaging our stakeholders and integrating their feedback to identify material issues, risks and opportunities facing the Group.

Shoprite's stakeholder ecosystem



Social media followers as at 30 June 2019

Brands				
Checkers RSA	1 080 462	198 274	5 553	45 049
Shoprite RSA	1 011 179	154 164	6 690	7 484
Shoprite Nigeria	1 204 714	218 343	2 423	
Shoprite Zambia	88 863			



### Customers

#### Methods of engagement

Our customers come first. We engage them by conducting and monitoring surveys, which include direct interviews and analysis of social media perceptions. We also speak to customers directly on social media, including Facebook, Twitter and Instagram, and in stores, as well as through call centres and suggestion boxes.

#### Main issues in 2019

Our customers want affordable access to safe, nutritious food. They are increasingly concerned about businesses' environmental and social impact. As a result, they want us to support local businesses and communities, and help minimise our environmental footprint, including by providing sustainable packaging options.

#### Our response

In 2019, we subsidised the prices of the products our customers need most to the value of R141 million.

We improve access by saving our customers time, money and hassle.

Where possible, we support local suppliers, giving 2 366 small and medium firms a path to larger markets. We are increasing sustainable packaging options and developing a sustainability framework to help minimise our environmental footprint.

#### More information



**Material issues:**  
Quality and safety  
(page 49)



**Being a responsible business section**  
(pages 56 to 57)



## Shareholders and financiers

Methods of engagement	Main issues in 2019	Our response	More information
<p>In recent years, we've increased the depth and frequency of our investor communication, including in this Integrated Annual Report. We also communicate through the Stock Exchange News Service (SENS), conference calls, the annual general meeting, one-on-one meetings, roadshows, webcasts, presentations and investor days.</p> <p>Going forward, the Board will consider additional opportunities to engage directly with investors beyond specific transactions.</p>	<p>Our investors expect competitive returns earned in an ethical and sustainable manner. They want access to transparent and comprehensive strategic information to understand our strategy and activities, particularly in our African markets. In addition, investors want to see accountable and ethical governance, including through the implementation of our remuneration policy.</p>	<p>Our focus on improving governance and transparency has resulted in greater investor engagement and information exchange, so investors have a clearer understanding of what we are doing and how our business works. We provide detailed strategic updates through our financial results presentations and this Integrated Annual Report. We are revising our remuneration policy in line with investor feedback. The first phase will roll out in 2020.</p>	<p> <b>Good governance and value creation</b> (pages 53 to 57)</p> <p> <b>Remuneration report</b> (pages 68 to 78)</p> <p> <b>Case study on shareholder engagement</b> (page 55)</p>



## Trade unions

Methods of engagement	Main issues in 2019	Our response	More information
<p>We engage in respectful, constructive and open dialogue with trade unions. Across all the countries where we operate, we recognise our employees' rights to association and representation through unions. We currently recognise 10 unions across our operations. As most of our employees are based in South Africa, our primary union relationship is with SACCWU. We engage through regular meetings, correspondence and representation on various internal committees.</p>	<p>Unions are concerned about wages, work scheduling practices for full-time and part-time employees, transportation, and late trading hours. These are common features of the retail industry.</p>	<p>The retail industry is characterised by a need for flexible working hours. We proactively engage with unions to discuss these concerns and we are open about our position. We aim to negotiate one-to three-year sustainable wage agreements. In 2018, we signed a two-year wage agreement with SACCWU, which acknowledged the need for flexible work conditions. During discussions, we ensure that unions have access to relevant, complete information.</p>	<p> <b>Material issues: Our employees</b> (page 48)</p>



## Communities

Methods of engagement	Main issues in 2019	Our response	More information
<p>Our communities aren't just where we operate: they are our employees, customers and suppliers. We engage them through the same channels as our customers and through our corporate social investment programmes, which involve meetings and consultation. We also conduct research to understand their perceptions of the Group.</p>	<p>Many of the communities where we operate are characterised by high unemployment and relatively low income levels. In general, communities want upliftment through access to jobs and the formal economy. They seek opportunities for better lives through companies like ours. In addition, communities want assurance that we will not operate exploitatively and will be there for them.</p>	<p>We pride ourselves on our 40-year record as a net job-creating company. We create jobs and, through taxes, fund government services through our businesses.</p> <p>Our shared value approach addresses social challenges that relate to our business activities, in particular food insecurity. We fund extensive community programmes and donate surplus food to fight hunger. These programmes support 90 food gardens and 85 early childhood development centres, and we have provided 4.2 million meals through mobile soup kitchens. We also provide disaster relief by donating money and products.</p>	<p> <b>Being a responsible business section</b> (pages 56 to 57)</p> <p> <b>2019 Sustainability Report</b> (on our website)</p>

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## Engaging our stakeholders (continued)



### Employees

Methods of engagement	Main issues in 2019	Our response	More information
<p>We engage employees through CEO videos, the #OurShoprite internal newspaper, surveys, incentive programmes, weekly store meetings, training and suggestion boxes.</p> <p>After year-end, we introduced a mobile communications application to interact directly with all employees.</p>	<p>Our employees want to develop their skills and careers in a safe, healthy working environment with opportunities for growth and empowerment.</p>	<p>We offer training, development and career opportunities so that employees can grow and progress within the Group. Permanent employees received benefits, including leave, an employee discount, retirement benefits, educational assistance, funeral assistance and long-service recognition.</p> <p>In 2020, we will implement a revised human resources strategy, which incorporates feedback from our employees, particularly about expanding their career development and opportunities, and is linked to our revised remuneration policy.</p>	<div> </div> <p>2019 Sustainability Report (our website)</p> <p>Material issues: Our employees (page 48)</p> <p>Remuneration report (pages 68 to 78)</p> <p>Our employees (page 35)</p>



### Regulators

Methods of engagement	Main issues in 2019	Our response	More information
<p>We collaborate with regulators through meetings, submissions and industry bodies. In addition to complying with regulations, we provide information to contribute proactively to more effective setting and enforcement of regulations.</p>	<p>Regulators want to ensure that we comply with regulations and that we are creating jobs and economic opportunities in the countries where we operate.</p>	<p>We monitor legislation and regulations on a daily basis for ongoing compliance. We also collaborate to advocate ethical, sustainable and pragmatic regulations. By creating jobs, paying taxes and running community programmes, we create economic opportunities.</p>	<div> </div> <p>Material issues: Regulatory environment (page 47)</p> <p>Being a responsible business section (pages 56 to 57)</p> <p>Combined assurance (page 63)</p>



### Suppliers

Methods of engagement	Main issues in 2019	Our response	More information
<p>We engage a broad range of suppliers across the world through direct correspondence, farm and factory visits, market days and an electronic supplier platform. Where possible, we source locally (although we diversify supplier options to mitigate risks from climate change and high demand) and therefore engage local suppliers.</p>	<p>Our suppliers seek sustainable relationships and efficient, effective access to our markets through our supply chain. They want to expand their businesses with our support.</p>	<p>Our focus is on local sourcing where possible and on creating paths to market for small and medium enterprises (SMEs). We value and build long-term relationships with suppliers. We also share information on expected demand to help them plan and adapt their capacity. By facilitating access to our centralised distribution centres, which have large storage capacity, we also reduce smaller suppliers' production and distribution costs. As we grow, our suppliers grow with us, strengthening localised supply chains in each country.</p>	<div> </div> <p>Material issues: Supply chain configuration and cost structure (page 45)</p>



## Our employees: The basis of our success

We pride ourselves on being a job-creating company with a strong hire-to-retire model. In a globally competitive, rapidly changing retail environment, our employees join and stay with us because we offer challenging, varied and rewarding careers.

We aim to be an employer of choice. Over the past few years, we've increased our internal communications to ensure we inform, engage and empower employees. In 2019, we embarked on a project to adapt our HR strategy to improve the way we attract, develop, reward and retain talented employees. We will also focus on developing an internal talent pipeline to ensure smooth succession, initially for executive and management level. At the same time, we will embed a customer-first approach through our development and reward components.

The HR strategy underpins the revised remuneration policy through the remuneration components shown on page 71. We also recognise our employees' dedication to service and the Group through our Customer Care Hero recognition programme, Super Service Awards, and TopStar singing competition.

Training empowers our employees, develops their skills and keeps our entire workforce abreast of changing industry trends. This is especially important as technology catalyses quicker change and disruption in the retail industry. We offer a range of training options, including compliance, job-based, artisanal, management and leadership development programmes. As a National Accredited Training Provider, Shoprite Retail Varsity offers formal qualifications in wholesale and retail, and food and beverage specialisations.

In addition to training employees, we offer a range of training programmes for unemployed people, as shown below. Where possible, we employ participants who qualify through these programmes.

### Targeted training programmes for vulnerable groups

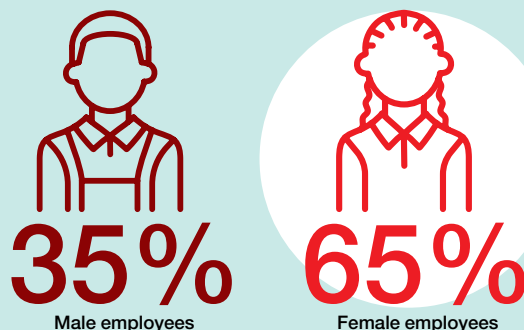
Key programmes	Number of beneficiaries in 2019	Objectives
Decade of the Deaf	211	Train deaf learners in accredited wholesale and retail chain store operations
Youth Employment Service	1 851	Assist unemployed South African youth to gain work experience
Retail Readiness Programme	5 079	Train unemployed people in retail skills over eight weeks

Digitalising our training allows for more efficient participation. We have installed individual e-learning kiosks at 1 355 sites so that employees can access consistent training programmes more easily. Our enterprise-wide system enhances our digital capabilities for training, allowing rapid implementation of standardised programmes across Africa. More than 93% of all the training courses in our catalogue are available as e-learning.

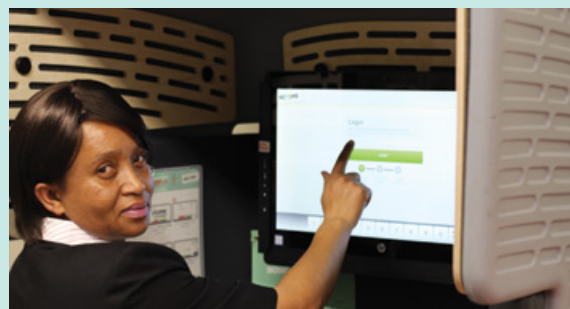
### Employee journey (HR strategy)



### Empowering women through employment



### Increasing training to develop our people



# Our value creating business model

## Our inputs



### Financial capital

Our capital inputs include a strong and healthy balance sheet, funding from equity and debt, and the earnings we generate and retain. We use these to fund our business activities in line with our strategy, transform our business through investments and continuously improve our customer and employee offering.



### Intellectual capital

Our 16 distinct brands and 4 171 private labels, 40 years of know-how, corporate reputation and goodwill, and information assets. In 2019, we substantively enhanced our intellectual capital by implementing our enterprise-wide system, adding to a strong intellectual portfolio through our established brands and popular private labels for customers in all income segments.



### Human capital

Our 147 268 talented, energised and dedicated employees across 15 countries. We invest in our people to develop their skills and careers. Through our revised HR strategy, we are committed to developing a pipeline of talent to ensure career growth and business sustainability.



### Manufactured capital

Our supply chain, including 2 779 stores, 30 distribution centres, 837 trucks and 1 211 trailers in our fleet. Our physical infrastructure spans a range of store formats, from large hypermarkets to small box containers, as appropriate for our context and customers. Our integrated, efficient supply chain is unrivalled in Africa.



### Natural capital

The water and energy we use in our operations and supply chain. We are committed to reducing our environmental footprint through increasing water and energy efficiency, reducing waste, and using our size to effect positive change where possible.



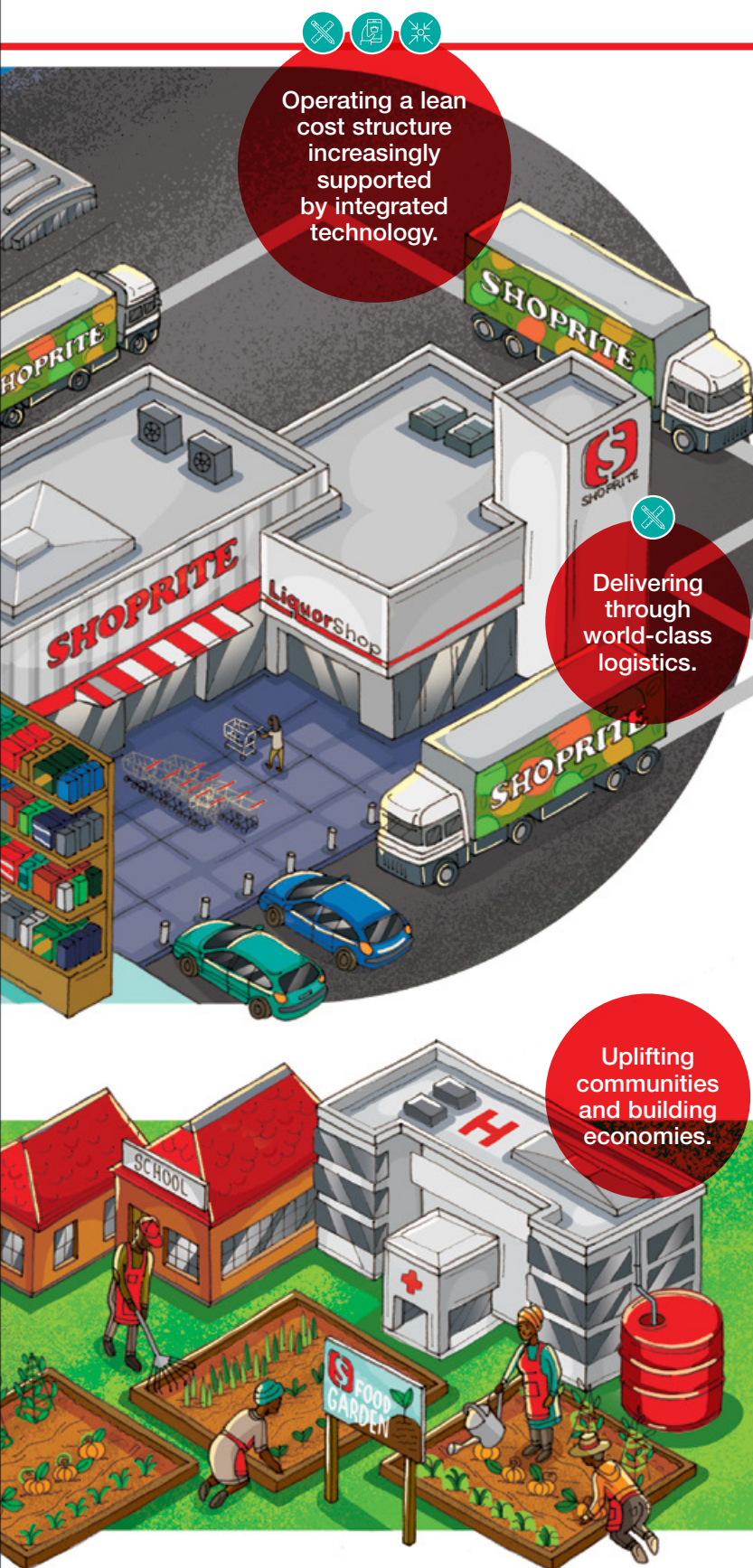
### Social capital

Our relationships with stakeholders, including the communities in which we operate, and key partnerships. These include Gift of the Givers, Food & Trees for Africa, FoodForward and the Lunchbox Fund for community work, Empowerment Capital to support small suppliers, and the Consumer Goods Council to communicate effectively with governments and regional bodies.

## Our business activities







## Our outputs

- Our extensive range of products and services that serve our customer needs, and related by-products including production waste.

## Our outcomes



### Financial

- Sales of R150.4 billion (3.6% growth).
- Trading profit of R6.9 billion (-14.3% growth).
- Return on invested capital of 11.0%.



### Intellectual

- 6 new private label brands and 1 251 new products within private labels.
- 16 000 concurrent users in enterprise-wide system.



### Human

- 3 494 949 hours of internal training and development.



### Manufactured

- 126 net new stores opened.
- 36 new trucks.



### Natural

- Installed 280 water-saving devices across the Western Cape, reducing annual water consumption by 408 million litres.
- About 55% of packaging used for fresh fruit and vegetables is widely recyclable in South Africa.
- Recycled 3 995 tons of plastic and 33 658 tons of cardboard and white paper.
- Sustainable procurement policy for fish and marine products.



### Social

- 3 175 net new jobs created.
- Tax contributions totalling R6.2 billion.
- R35.6 million spent on corporate social investment programmes.
- Developed 85 early childhood development centres with teacher training and infrastructure.
- Delivered 221 tons of surplus food and 4.2 million meals through mobile soup kitchens and to early childhood development centres.
- Established 39 community gardens.
- Partnered with Empowerment Capital to support two small suppliers.
- Provided access to market for 2 366 small local suppliers.



Please refer to our Sustainability Report 2019, which is available on our website [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za), for more information about our value-creating activities.

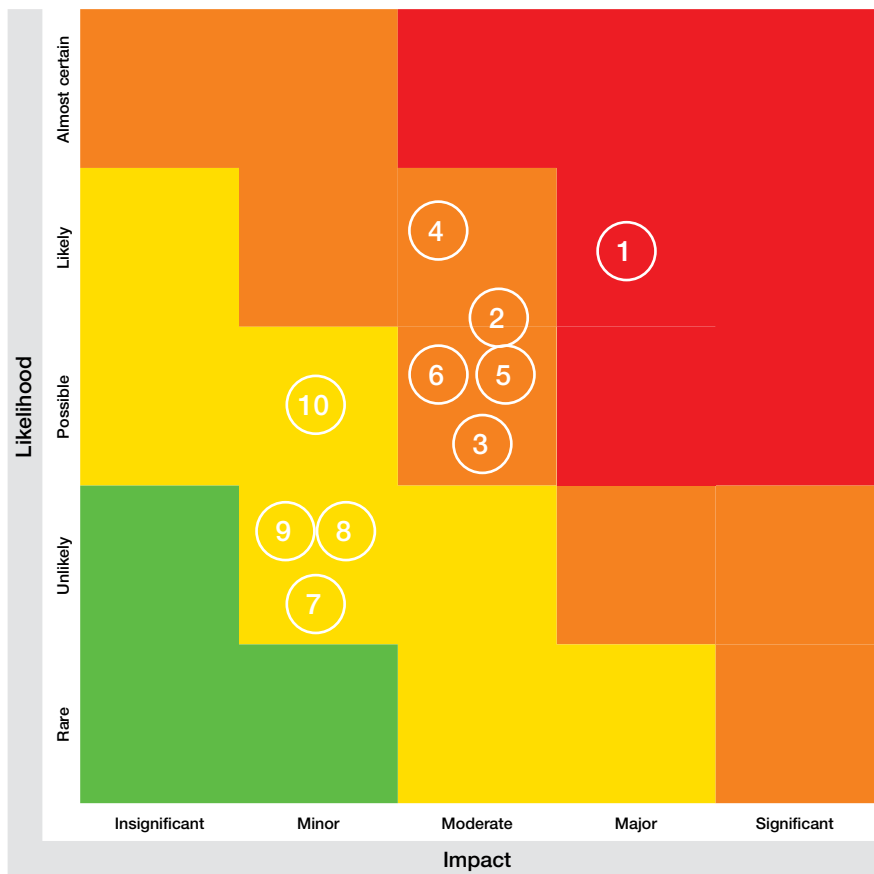
# Managing our risks

The Shoprite Group’s Board is accountable for governance, risk and compliance management. The cornerstone of risk and compliance governance is to assist the business achieve its corporate strategy and objectives. Therefore, risk and compliance management concepts and principles are incorporated into existing processes to develop and manage corporate strategies and objectives.

In each business area, management mitigates and manages its risks on a daily basis. Management also monitors the adequacy and effectiveness of its risk control measures and compliance with policies and procedures to provide the first line of assurance. The Group-level risk and compliance team provides a second line of assurance. The Group’s risk landscape includes 55 key strategic, operational, financial and compliance risk categories. Risks are rated for their likelihood of occurrence and projected impact (inherent risk), after which weighted risk control measures are deducted to arrive at the residual risk rating and planned focus areas to achieve improved residual risk ratings.

This process has helped the Group set its risk tolerance and appetite levels. Corporate strategy and objectives are aligned with the risk appetite, which drives risk tolerances throughout the Group, and are linked vertically and horizontally across the Group. The Group’s risk appetite is generally low, except for certain strategic business development areas.

Residual risk rating scale





The Group is affected by an increasingly complex regulatory and compliance environment across the 15 countries where we operate. We have zero tolerance for non-compliance with legislation and regulations. With the increased maturity of our regulatory compliance approach, new opportunities have arisen to collaborate with regulators. A summary of our current top 10 risks is set out below.

Risk number	Description of risk	Risk mitigation	Residual risk
1	Cyber and information security	<p>The Group is implementing an Information Security Management System that is aligned to the ISO 27001 standard. Current security measures ensure that:</p> <ul style="list-style-type: none"> <li>■ Security solutions (including user authentication and antivirus solutions) are deployed to address key security risks.</li> <li>■ Access to systems, infrastructure and the network is restricted and protected from virus and malware threats.</li> <li>■ Incoming and outgoing network traffic and e-mail are monitored.</li> <li>■ Data centre infrastructure and end-user devices are securely configured.</li> <li>■ Patches and updates to data centre infrastructure and end-user devices are applied.</li> <li>■ Data is classified and secured in line with its degree of importance.</li> <li>■ Security reviews of the Group's IT landscape are conducted and vulnerabilities addressed.</li> <li>■ Personnel receive security awareness education.</li> <li>■ Contracts with third-party service providers are in place and regulate security as well as various aspects of data handling, including confidentiality and the return or destruction of information.</li> </ul> <p>The implementation of the Information Security Management System continues through an information security defence project which has been segmented into a number of workstreams in line with key security priorities:</p> <ul style="list-style-type: none"> <li>■ Security operations centre</li> <li>■ Network segmentation</li> <li>■ Identity and access management</li> <li>■ Vulnerability management</li> <li>■ Information management</li> <li>■ Unified endpoint management</li> </ul> <p>The information security defence project's progress includes:</p> <ul style="list-style-type: none"> <li>■ Completing a request for information and related activities, and completing a full set of requirements for each workstream.</li> <li>■ Progressing short-term initiatives to upgrade the Group's information security defence systems while permanent solutions are being defined. These short-term initiatives include implementing an interim security operations centre, vulnerability scans and network segmentation.</li> </ul> <p>Although the Group has implemented effective risk mitigations, it still views this risk as critical due to its nature.</p>	Critical

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## Managing our risks (continued)

Risk number	Description of risk	Risk mitigation	Residual risk
2	Injury to employees, contractors, customers and other third parties	<p>The Group has developed and implemented various measures to ensure the safety of employees, contractors, customers and other third parties. These measures include:</p> <ul style="list-style-type: none"> <li>■ Appointing a dedicated Group health and safety manager.</li> <li>■ Developing a Group health and safety policy document.</li> <li>■ Developing and implementing a health and safety governance programme (safety appointments).</li> <li>■ Requesting proposals for a health and safety training provider service review and reintroduced successful providers to ensure compliance and quality service.</li> <li>■ Developing and implementing an occupational health and safety on-boarding video for the Group.</li> <li>■ Developing a new health and safety risk assessment methodology. This assessment methodology is being used to assess risk within the supply chain and stores.</li> <li>■ Developing, with the assistance of an external health and safety consultant, a fall protection programme for the supply chain.</li> <li>■ Procuring the services of an external compensation specialist to process and manage all workplace injury-on-duty cases within the Group's RSA operations.</li> <li>■ Implementing a temporary total disablement fund recovery programme in terms of the South African Compensation for Occupational Injuries and Diseases Act.</li> <li>■ Developing systems to analyse injury-on-duty cases to inform corrective and preventative actions.</li> <li>■ Developing systems to analyse any health and safety notices issued by a regulator within South Africa.</li> <li>■ Developing and implementing a health and safety construction compliance programme in terms of the South African Construction Regulations (2014).</li> <li>■ Introducing health and safety consultants in South African operations to manage physical health and safety on construction projects and store renovations.</li> </ul> <p>In addition, the Group continues to manage health and safety risks with its existing infrastructure. It does so by:</p> <ul style="list-style-type: none"> <li>■ Using a central platform to manage health and safety risks. This platform is being enhanced as part of the Group's efforts to continually improve.</li> <li>■ Regularly engaging with regional Department of Labour offices and officials.</li> <li>■ Regularly engaging with Compensation Fund officials.</li> <li>■ Introducing a quarterly meeting with the Department of Labour's Chief Inspector.</li> <li>■ Ensuring both regional management and internal audit incorporate health and safety requirements in their store audit programmes.</li> <li>■ Conducting training and awareness through an e-learning platform, as well as specific health and safety training through external service providers and the internal Insurance Department, with a specific focus on fire.</li> </ul>	High

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Risk number	Description of risk	Risk mitigation	Residual risk
3	Business continuity management and disaster recovery	<p>The Group:</p> <ul style="list-style-type: none"> <li>Established a data centre that complies with industry good practice.</li> <li>Uses IT infrastructure supplied by reputable vendors.</li> <li>Tests IT disaster recovery plans twice a year to cater for disasters affecting all systems.</li> <li>Is in the process of transitioning Home Office production systems from disaster recovery to geo-located, high-availability solutions to keep business downtime at a minimum.</li> <li>Has realigned its disaster recovery plans with the new high-availability strategy, and their effectiveness is tested on an ongoing basis.</li> <li>Monitors key systems 24/7 for uptime, performance and capacity.</li> <li>Established backup network communication channels such as 3G and satellite.</li> <li>Scheduled and stored automated data backups off-site.</li> <li>Maintains incident and problem management processes.</li> <li>Implemented comprehensive business continuity management plans in all major distribution centres.</li> <li>Collaborated with suppliers to respond to risks associated with major distribution centre disruption, by diverting high-demand stock to direct suppliers, relieving the dependence on distribution centre supply to store.</li> <li>Used systematic conversion processes of open branch orders to direct supply to reduce the associated IT lead time to a maximum of 24 hours.</li> <li>Maintains security and fire prevention systems, including alarms, access control, closed-circuit television and sprinkler systems.</li> <li>Performs regular fire risk assessments and provides training.</li> <li>Ensures all critical distribution centres have standby generators.</li> </ul>	High
4	Deterioration of trade union relationships and employee strike action as well as the risk of third party supplier employee strike action	<p>The Group:</p> <ul style="list-style-type: none"> <li>Revised and enhanced its HR strategy to further invest in its people.</li> <li>Continues to engage and collaborate with trade unions to strengthen relations and find effective and practical solutions. This is achieved through: <ul style="list-style-type: none"> <li>An understanding of retail industry and culture, where customers come first.</li> <li>Regular and continuous negotiations.</li> <li>Regular exposure to the global retail employment environment, through involving recognised unions when visiting trend-setting countries to benchmark.</li> </ul> </li> <li>Uses the services of reputable third-party suppliers and business partners who share our values.</li> <li>Engages with third-party suppliers regularly, monitoring performance and addressing challenges, including employee relations, where they arise.</li> <li>Supports our suppliers to align with the Group's best practice.</li> </ul>	High
5	Foreign exchange risk	<p>Exchange controls and foreign exchange shortages continue to create major obstacles. To minimise foreign exchange risks as far as possible, the Group:</p> <ul style="list-style-type: none"> <li>Monitors United States dollar (USD) stock loans and local currency cash positions, and hedges exposures where possible by capital injections and/or investments in USD-linked bonds and Treasury bills.</li> <li>Reduces external debt and settles short-term loans by having financial managers of subsidiaries in Africa transfer excess cash to Shoprite International Limited.</li> <li>Hedges foreign exchange exposures in South Africa in accordance with the Group's Treasury Policy.</li> <li>Uses USD banking facilities to meet debt obligations and mitigate the foreign exchange risks of the subsidiaries of Shoprite International Limited (a company with USD as functional currency).</li> <li>Keeps foreign currency reserves to cover imports in the Shoprite DTMC (a company with USD as functional currency), given accounting rules and the volatility of the South African rand.</li> </ul>	High

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## Managing our risks (continued)

Risk number	Description of risk	Risk mitigation	Residual risk
6	Food safety	<p>The Group:</p> <ul style="list-style-type: none"> <li>■ Employs food technologists who ensure compliance with the relevant regulatory requirements.</li> <li>■ Developed and is currently implementing a quality assurance system.</li> <li>■ Is a member of the Consumer Goods Council South Africa Food Safety Initiative and uses an additional regulatory alert subscription for RSA and Non-RSA to ensure that the business is kept abreast of all regulatory requirements. The Group also proactively engages with various government departments.</li> <li>■ Procures external service providers to conduct annual food safety and hygiene audits at distribution centres and quarterly food safety and hygiene audits at stores.</li> <li>■ Submits reports to all divisions for action and to senior management to ensure that repeat findings are avoided.</li> <li>■ Procures external service providers to conduct food safety audits at food processing sites once a year.</li> </ul>	
7	Brand deterioration and reputational risk	<p>The Group:</p> <ul style="list-style-type: none"> <li>■ Uses real-time editorial media monitoring tools and internal escalation protocols when negative sentiment/potentially damaging press is detected, with a process to implement strategic response messages.</li> <li>■ Uses listening tools on social platforms to understand sentiment around company brands and activity, and responds in line with its customer engagement strategy and protocol.</li> <li>■ Ensures that all external brand communication aligns with business objectives and principles through internal departmental approval protocols.</li> <li>■ Continuously builds strong media relations with key opinion leaders and journalists.</li> <li>■ Uses annual research to track consumer sentiment and brand preferences.</li> <li>■ Obtains a Net Promotor Score every six months, which helps to gauge overall customer satisfaction and loyalty by measuring their willingness to recommend the company's products or services.</li> </ul>	
8	Project and change management risk	<p>The Group:</p> <ul style="list-style-type: none"> <li>■ Follows industry good practices for project management.</li> <li>■ Established a framework (which includes appropriate tools and processes) for managing projects and programmes. The framework provides an IT-wide view of projects, new work requests and changes to existing services.</li> <li>■ Ensures that critical projects are subject to external third-party review and quality assurance.</li> <li>■ Independently assessed the level of maturity of the Project Management Office in line with industry good practices.</li> <li>■ Prioritises work: <ul style="list-style-type: none"> <li>– An enterprise-wide prioritisation list has been created by the CEO (top 10 projects) and is prioritised through the Project Approval Committee.</li> <li>– Business units prioritise projects considering impact, risk, resource allocation, demand or implications for other roadmap deliverables.</li> </ul> </li> <li>■ Increased the visibility of deliverables to ensure work is appropriately prioritised and resources appropriately allocated.</li> <li>■ Appointed a capacity planner to assist with resource allocation.</li> <li>■ Tracks project progress on a weekly basis to ensure that problems (such as time slippages) are addressed quickly.</li> <li>■ Assigns project managers in line with the level of specialisation demanded by projects.</li> <li>■ Uses the Project Management Office to provide support to projects, even those not specifically managed by the office.</li> <li>■ Controls project value management through the Group's central Finance Department and actively monitors return on investment.</li> </ul>	





Risk number	Description of risk	Risk mitigation	Residual risk
9	Fraud risk	<p>The Group:</p> <ul style="list-style-type: none"> <li>■ Segregates duties between the approval and the payment of expenses.</li> <li>■ Embedded a formal approval system, incorporating audit trails for capital and operational expenditure. The system is reviewed annually.</li> <li>■ Will implement an expense procurement project in 2020 to track and manage suppliers, goods and services in order to: <ul style="list-style-type: none"> <li>– Ensure better visibility of expenditure.</li> <li>– Improve budget control.</li> <li>– Reduce risk of irregular transactions.</li> </ul> </li> <li>■ Uses automated financial system controls in online banking.</li> <li>■ Reviews income statements monthly from lowest entity level.</li> <li>■ Reconciles ledger accounts monthly.</li> <li>■ Strives to conduct regular risk-based internal audits of selected financial systems.</li> <li>■ Processes all payments by electronic funds transfer with reputable banks, which are subject to external audit.</li> <li>■ Maintains a well-publicised hotline, which is managed by an independent party.</li> <li>■ Conducts online supplier due diligence and conflict of interest verification.</li> </ul>	Medium
10	Regulatory risk	<p>The Group:</p> <ul style="list-style-type: none"> <li>■ Has a dedicated Group Risk and Compliance Manager.</li> <li>■ Embedded a compliance framework in the business through all of the Group's internal assurance providers, namely the relevant business, legal, risk and compliance, and internal audit.</li> <li>■ Ensures internal audit incorporates regulatory risk as part of its annual coverage plan.</li> <li>■ Maintains a defined and risk-rated regulatory universe that includes critical, high, medium and low risk impact categories across legislation, regulations and international best practices.</li> <li>■ Receives daily regulatory alerts on new or amended legislation and uses software to assist the business with compliance risk management plans, monthly and quarterly reporting to the Management Risk Forum and the Audit and Risk Committee, and reporting to the Social and Ethics Committee three times per year.</li> <li>■ Facilitated compliance training through e-learning with a focus on critical and high-risk impact legislation.</li> <li>■ Regularly engages with regulators and industry forums.</li> </ul>	Medium

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# Material issues, risks and opportunities

## Our materiality determination process aligns with the <IR> Framework.

To determine our top 10 most material issues, the Group identified the range of matters that influence our ability to create value for our stakeholders over the short- medium- and long-term. We prioritised the most relevant issues based on our operating context, risks and opportunities, and considering our stakeholder engagement throughout the year. These issues were discussed and confirmed in workshops with the Group's management and executive teams. We plan to enhance our materiality determination process in future by seeking to obtain information directly from our key stakeholders.



### Trade performance and growth opportunities

Our trading performance weakened in 2019, but we have improved throughout the year and, more importantly, invested for the future. Our South African supermarkets continue to account for most of our trading profit. Despite volatile performance, the rest of Africa remains important to our longer-term strategy. We are responding to weak economic growth by reducing our expenses and exploring new areas of business. The Group also subsidised staple products to the value of R141 million in 2019.

In 2020, we will continue to manage our capital expenditure and selling and leasing back certain selected assets to improve our ROIC. We are embedding a customer focus across the business to ensure we anticipate and meet their needs.



For more detail, see our Chief Financial Officer's review on page 79 to 85.



The Group also subsidised staple products to the value of R141 million in 2019.

### Risks

- Evolving business models are slow to adjust to changing customer needs and trading environment.
- Declining ROIC, in part due to weak returns from Non-RSA operations.
- Rising food insecurity due to policy uncertainty, economic insecurity and climate change.
- Global or local recession compounds trading difficulties.
- Competition leads to unsustainable pricing strategies.
- Volatile economic growth and currencies depress Non-RSA earnings.
- Protectionist trade policies increase the Group's trading costs.

### Risk response

- New-format stores, such as Usave, developed to address customer difficulties, such as high transport costs.
- Improving ROIC by reducing capital expenditure and selling selected assets.
- Global supply chain mitigates supply risk from climate change.
- The Group subsidises food staples and funds programmes that mitigate food insecurity.
- Network of countries reduces risk from one poor performance.
- Lean cost structure ensures sustainable high trading margins.
- Localised operations support positive relationships with regulators and governments.

### Opportunities

- Challenge and evolve business models effectively.
- Increase flexibility by selling non-strategic assets.
- Optimise supply chain and digital platform performance.
- Partner with efficient organisations to help feed Africa.
- Non-RSA operations ready for any upturn in commodity price cycle.
- Expand new-format stores (such as Usave) in African markets.



## Information and technology

Over the past year, the Group implemented an enterprise-wide system for all supermarket business operations. While the implementation caused disruption in the first half of the past year, it was completed on time and within budget. The system was part of a technology refresh that will help improve operational efficiency, enhance customer insights and data analytics, and enable new areas of business at scale.

This implementation has been accompanied by improvements in our IT governance, with a focus on data security and privacy, to provide appropriate and sustainable IT governance.

<b>Risks</b>	<ul style="list-style-type: none"> <li>■ Unavailability of key systems disrupts business or compromises operations.</li> <li>■ Cybersecurity breaches due to insufficient security may violate data privacy or result in fraud, theft or business disruption.</li> <li>■ Insufficient realisation of benefits from IT projects.</li> <li>■ Data insights are insufficiently embedded in business to create additional value or growth and drive innovation.</li> <li>■ Large-scale implementation of new technologies disrupt business processes.</li> </ul>
<b>Risk response</b>	<ul style="list-style-type: none"> <li>■ Business continuity plan implemented, including disaster recovery plans that are tested biannually.</li> <li>■ Systems are monitored by specialists who immediately address system disruptions.</li> <li>■ Multiple copies of backups stored securely off-site.</li> <li>■ Enhanced project governance structures and improved quality assurance processes.</li> <li>■ Focus on improving IT governance including an Information Security Management System and other related protocols.</li> <li>■ Strong business focus on quickly embedding benefits from platform.</li> <li>■ Enhance IT risk management practices by increasing third level of assurance, provided by internal audit.</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>■ Benefits from enterprise-wide system are fully realised.</li> <li>■ Integrated platform enhances business model and provides deeper customer insights.</li> <li>■ Data-driven processes embedded across business to improve customer experience and operational efficiency.</li> </ul>



## Supply chain configuration and cost structure

We benefit from a historically lean cost structure and a centralised distribution system that is in line with global best practice but adapted to the African context and our size. Our trading margins are resilient even when internal price deflation is prolonged. We have expanded our supply chain capacity over the past few years, and our digital platform gives us an integrated view for planning, executing and distributing from our centres. Over the next year, we are embedding these changes. We have implemented a business continuity plan with contingencies for energy supply disruptions or shortages of natural resources. Our intermediate supply chain priorities are to care for our customers, products, costs and people. These priorities will optimise our performance and mitigate the risks of future disruptions.

<b>Risks</b>	<ul style="list-style-type: none"> <li>■ Capital investment not fully realised due to inefficient supply chain operations or insufficient expansion.</li> <li>■ Inconsistent energy supply causes disruptions or breakdown in operations or supply chain.</li> <li>■ Suppliers unable to meet the Group's demand due to its scale, reducing on-shelf availability.</li> <li>■ Suppliers unable to develop and grow their businesses.</li> </ul>
<b>Risk response</b>	<ul style="list-style-type: none"> <li>■ New supply chain managers implementing plans to optimise supply chain, including leveraging digital platform benefits.</li> <li>■ Business continuity plan implemented, including direct delivery to stores from key suppliers in case of disruption and backup generators with fuel supply for critical distribution centres.</li> <li>■ Larger storage capacity in distribution centres.</li> <li>■ Low-franchise model gives the Group more supply chain control.</li> <li>■ Effective supply chain alleviates the logistical burdens facing small businesses when accessing markets.</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>■ Capital investment fully realised through increased sales and lower operational costs.</li> <li>■ Operations fully integrated across supply chain. Teams refer regularly to data and insights to inform and improve work.</li> <li>■ Supply chain efficiency makes it easy for local small and medium enterprises to access markets.</li> <li>■ Improved on-shelf availability satisfies customer needs and maintains trust.</li> </ul>

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# Material issues, risks and opportunities (continued)



## Leadership transformation and employment equity

Globally, retailers are transforming to adapt to rapid technological changes and ensure their business models are sustainable. In the past few years, the Group's executive team has changed considerably, with new appointees bringing years of experience and fresh energy to their roles.

This year, the Group's Board became more diverse, which supports its governance oversight. We've improved governance and strengthened management by appointing COOs for each segment and experts to manage important portfolios, such as sustainability, and health and safety. This talented leadership team is adaptable, resilient and committed to the business vision.

The Group is committed to employment equity and is considering several approaches to improve its equity and empower its employees.

### Risks

- Leadership team may not be able to transform business.
- Scarce skills and shortage of expertise may compromise talent available to lead the Group.
- The Group's transformation may be outpaced by competitors.
- Employees want to be empowered and realise employment equity.
- The Group's dual share structure is not aligned with international best practice.

### Risk response

- New leadership entails a mixture of internal promotions and external experts, ensuring continuity and new skills.
- New leadership is well supported by Board and expanded management team.
- Expansion of management reduces business dependence on specific individuals.
- In South Africa, Group subsidiaries are on track to achieve 2020 employment equity plan targets (approved by the Department of Labour).
- A transaction was proposed to collapse the dual class share structure but was not supported by the shareholders.
- The internal B-BBEE Committee is chaired by the CEO.
- Appointment of a dedicated B-BBEE Compliance Officer.
- Adoption of a medium-term strategy to achieve Level 4 black economic empowerment by 2022.
- Biannual reporting to the Social and Ethics Committee.
- Implementation of a high-impact supplier development programme through our investment in a black-owned asset manager.

### Opportunities

- Enhanced management capacity transforms and grows business.
- New leadership brings fresh perspective, energy and increased adaptability.
- Improved governance through new management appointments.
- Empower employees through equity.





## Remuneration strategy and policy

The Group is committed to fair, responsible and transparent remuneration. After engaging our investors to understand their concerns, we have begun a comprehensive overhaul of our remuneration policy, the first phase of which will be rolled out for executives and senior management in the 2020 financial year. We have more closely linked remuneration to our HR strategy to ensure that employees are appropriately incentivised and rewarded. As a result, we've expanded the performance indicators evaluated for short- and long-term incentives.



For more detail, refer to the remuneration report on pages 68 to 78.

Risks	■ Insufficient alignment between remuneration strategy and value creation, strategy and performance.
	■ Negative stakeholder sentiment influencing remuneration votes.
	■ Perception of unreasonable executive remuneration in difficult operating conditions.

Risk response	■ Sustainable remuneration policy developed in conjunction with revised HR strategy.
	■ Consistent, open engagement with investors and other stakeholders about concerns.
	■ Regular external benchmarking of salaries and incentives.

Opportunities	■ Rethink to ensure interdependence of long-term value creation and remuneration strategy.
	■ Improved remuneration policy disclosure, including expanded performance criteria.



## Regulatory environment

The Group engages in an increasingly complex regulatory and compliance environment. In each business area, risks and compliance are closely monitored and managed daily within the different areas of the business. Our legal, risk and compliance functions provide a second line of assurance on these risks, while internal audit is the third line. The different internal functions and teams communicate and collaborate regularly. External assurance providers, including auditors and inspectors, provide the fourth and final line of assurance. Our digital platform will automate some of our compliance monitoring.

As far as possible, the Group standardised its approach based on the highest standard applicable in its different operating areas. Our regulatory approach has become progressively integrated and sophisticated over the past few years. This has created new opportunities to collaborate with regulators to identify potential obstacles to compliance and enforcement.

Risks	■ Corporate governance failure.
	■ Non-compliance with regulations or legislation may lead to penalties, fines or cessation of trade.
	■ Insufficient regulatory monitoring and compliance processes lead to internal breakdowns of control and non-compliance.
	■ Government policy, and legislative and compliance changes or uncertainty increase the business's compliance burden and operating costs.
	■ Higher compliance costs compromise product affordability.

Risk response	■ King IV™ corporate governance principles applied where possible across countries, and active engagement with differences where required.
	■ Effective combined assurance approach.
	■ Centralised compliance and regulatory monitoring through increasingly integrated online platforms, regular communication and daily alerts.
	■ Regular training and awareness sessions.
	■ Active engagement with regulators and in industry forums.

Opportunities	■ Integrated compliance approach embeds compliance as an essential, proactively managed component of business activities.
	■ Proven commitment to regulatory compliance improves relationship with regulators.
	■ Effective engagement with regulators helps develop regulations that are practical to enact and monitor.

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## Material issues, risks and opportunities (continued)



### Our employees

In a tightly contested, rapidly evolving business environment, it is essential that we have the right people in the right places. We want to be an employer of choice, with engaged, proactive employee relationships. Over the past year, we revised our HR strategy in response to employee and business needs. We aim to attract, develop, retain and reward talent, and to strengthen our customer-first culture through employee engagement. We are also improving our succession planning, skills development, training and career opportunities. We communicate constructively and regularly with our employees' trade unions. In 2018, we signed a two-year agreement with SACCAWU, the union representing our South African employees.

#### Risks

- Poor employee relations and a disengaged workforce may result in:
  - High levels of employee turnover.
  - Difficulty in attracting and retaining talent.
  - Disruptions and strike action.
  - Lower customer satisfaction and loyalty.
  - Lower productivity and profitability.
- Changing retail environment demands new hard and soft skills, including digital skills, adaptability and resilience, which may not be adequately developed.
- Politicisation of the trade union/employer relationship can lead to unrealistic demands.

#### Risk response

- Improving employee engagement tools to provide interactive communication and insights into employee satisfaction.
- Revised HR strategy increases employee opportunities and development.
- Extensive learning opportunities, including individual e-learning and targeted, scheduled training.
- Implemented Retail Readiness and YES programmes.
- Maintained internship and leadership development programmes and bursary opportunities.
- Regular and proactive engagement with unions.
- Recent SACCAWU wage agreement in line with the national minimum wage in South Africa.

#### Opportunities

- Advance a flexible workforce model to meet business requirements.
- An engaged, loyal and passionate workforce provides excellent customer service.
- Relatively new management team is changing culture of employee engagement and empowerment.
- Developing a pipeline of talent supports smooth succession and creates career opportunities.
- Committed, resilient employees as shown by implementation of enterprise-wide system.
- Ongoing engagement and constructive relationships with unions protect employee rights.







## Quality and safety (employees, workplace and customers)

**Our employees and customers trust us to protect their health and safety, and to provide them with quality products. We prioritise safety and security in our workplaces and shopping environments, and we ensure effective quality control in our sourcing and systems. In South Africa in particular, this issue includes the external threat of crime.**

Our work is increasingly proactive and preventative: it includes a health and wellbeing programme, a centralised digital monitoring and compliance platform for health and safety reporting, and regular health and quality checks and audits. Our aim is to maintain the Group's reputation for quality and to move towards zero tolerance for any safety threats.

### Risks

- Employees and third parties exposed to health or injury risk due to inadequate safety and security measures.
- Fires pose a risk to employees, stock and infrastructure.
- Customers exposed to unsafe products or environment due to inadequate safety and security measures.
- Customers exposed to poor-quality products due to inadequate quality control processes or sourcing.
- Potential damage to relationships, reputation and finances from loss of confidence or litigation.

### Risk response

- Updated health and safety policy will build safety culture and improve consistent protocols across the Group.
- The business manages health and safety through a centralised platform.
- Significant training and infrastructure investments to prevent fire, including extensive sprinkler systems, fire extinguishing equipment and monitoring systems. In 2019, we conducted 59 298 audits and 149 605 training hours related to fire risk.
- Crime prevention initiatives include a centralised command centre for 24-hour store surveillance.
- Safety and quality are actively monitored across the business through monthly self-assessments in business units, training and awareness, multiple product testing and checks, and inclusion of health and safety in store audits by regional management and internal audit.
- An external service provider assesses health and safety risks at stores, including food safety and hygiene. The Group works closely with the Department of Labour to address any concerns.

### Opportunities

- Develop a safety culture with zero tolerance for injury through effective workplace processes and infrastructure.
- Centralised, digital monitoring allows quicker response times for safety incidents and better information for preventative measures.
- Maintain a reputation for quality products and services with customers.



## Protecting our customers and employees

**Our customers and employees trust us to keep them safe in our stores. Over the past few years, our South African stores have been increasingly affected by violent crime. Stores are often located in low-income areas that experience higher incidences of crime. In many of these areas, we are the only large corporate organisation, which makes us a target.**

The Group takes a zero-tolerance approach to threats against our customers and employees. We are investing in significant security measures to prevent crime and to help track and arrest criminals. Our centralised command centre is staffed at all times and is able to monitor stores and vehicles, and trigger security devices remotely. Our cameras are capable of producing a completely identifiable identikit of any suspects.

The command centre is supported by an online crime intelligence team that tracks any disruptions in stores, including protests and crimes. Our security team works closely with the South African Police Service and the National Prosecuting Authority to find, arrest and prosecute suspects. We also retain specialist legal services to help with prosecution.

Our anti-crime work enhances our safety and quality control in other areas. For example, our 24-hour surveillance of stores helps prevent risks such as fire, and identify

problems such as loose cabling or lights left on. We have an experienced internal team of data and crime analysts who identify stores or areas that may be targeted ahead of time. Larger quantities of consistent store-level data from our digital platform will also help our analysts improve their predictive capabilities relating to crime. As our security operations are integrated across the Group, lessons learnt in one area can be quickly applied to other relevant areas.

These preventative measures are yielding positive results: the number of armed robberies decreased by 11.86% between 2018 and 2019. We are uncompromising in our commitment to fight crime so that every employee and customer can feel safe at the Shoprite Group.

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# Material issues, risks and opportunities (continued)



## Socioeconomic impact and contribution

The Group is committed to leading ethically as a good corporate citizen. We contribute significantly to the governments and countries where we operate, including through direct and indirect taxes. We recognise the invaluable role that taxation plays in enabling governments to budget for and provide social services to their people. In some cases, such as the South African value-added tax (VAT) increase in 2018, the Group absorbs these price increases for customers.



For more detail, refer to Being a responsible business section on pages 56 to 57.



### Risks

- The Group is perceived as a purely profit-driven business.

### Risk response

- Good governance, ethical leadership and proactive tax compliance.
- Positive relationships with governments and regulators.

### Opportunities

- Demonstrate the Group's responsible performance and commitment to Africa.
- Show positive impact on broader economy.



## Social licence to operate

Fundamentally, the Group can operate because it is accepted by its communities, as well as its suppliers and customers. The Group is committed to creating shared value through its business model, which helps to develop communities. We are proud of being South Africa's largest private-sector employer and Africa's largest retailer, with 147 268 employees across Africa. In 2019, we created 3 175 new jobs and trained 5 079 unemployed young people through our Retail Readiness Programme and our participation in the YES initiative. We spent R35.6 million on corporate social investment programmes. In addition, we helped 2 366 small suppliers access our markets and provided business support. We have invested R85 million in a high-impact supplier development programme which grows top-performing SME suppliers by providing growth capital and much-needed access to market.



For more detail, refer to our 2019 Sustainability Report.

### Risks

- Perception of the Group as extractive and uncaring towards the communities where it operates leads to its rejection by communities.
- Demand for greater job creation and access to the economy.
- Perception that we eliminate space for local and informal businesses.
- Concerns that the Group does not do enough to mitigate its environmental impacts.
- Concerns that the Group is not focused on the growth of small business.

### Risk response

- Programmes to support communities through hunger and disaster relief.
- Active engagement with stakeholders.
- Net job creator for 40 consecutive years.
- Operations are localised.
- Increasing focus on providing growth capital and access to market for small businesses.
- The business is developing an environmental sustainability framework to guide operations.

### Opportunities

- Establishing a collaborative approach to communicate openly and understand the needs of our stakeholders.
- Maintain partnerships within communities to ensure social projects are effective.
- Expand SME partnerships through growth capital and access to market for small suppliers.



## Our material issues and alignment with the Sustainable Development Goals (SDGs)

Our business activities support achievement of the following SDGs	Linked to our material issues	By focusing on
<p><b>1 NO POVERTY</b></p>	<p><b>Eradicate poverty:</b> End poverty in all its forms everywhere</p> <ul style="list-style-type: none"> <li>Socioeconomic impact and contributions</li> <li>Regulatory environment</li> <li>Trade performance and growth opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Meeting our obligations as a responsible corporate citizen (see Being a responsible business section on pages 56 to 57)</li> </ul>
<p><b>2 ZERO HUNGER</b></p>	<p><b>Zero hunger:</b> End all forms of hunger and malnutrition by ensuring all people, especially children, have access to sufficient and nutritious food year-round</p> <ul style="list-style-type: none"> <li>Social licence to operate</li> </ul>	<ul style="list-style-type: none"> <li>Keeping our promise of providing affordable food</li> <li>Supporting community-level food and nutritional security</li> </ul>
<p><b>3 GOOD HEALTH AND WELL-BEING</b></p>	<p><b>Good health and wellbeing:</b> Ensure healthy lives and promote wellbeing for all at all ages</p> <ul style="list-style-type: none"> <li>Quality and safety (employees, workplace and customers)</li> </ul>	<ul style="list-style-type: none"> <li>Supporting the wellbeing of our people and customers</li> </ul>
<p><b>4 QUALITY EDUCATION</b></p>	<p><b>Quality education:</b> Achieve inclusive, quality education for all, including affordable vocational training and access to quality higher education</p> <ul style="list-style-type: none"> <li>Social licence to operate</li> </ul>	<ul style="list-style-type: none"> <li>Providing accredited vocational and ongoing learning opportunities for our people</li> <li>Providing workplace experience and retail training for unemployed youth in South Africa</li> <li>Providing vocational training in food production</li> </ul>
<p><b>5 GENDER EQUALITY</b></p>	<p><b>Gender equality:</b> Achieve gender equality and empower all women and girls</p> <ul style="list-style-type: none"> <li>Leadership transformation and employment equity</li> </ul>	<ul style="list-style-type: none"> <li>Supporting women to enter the economy through employment or as suppliers</li> </ul>
<p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p>	<p><b>Decent work and economic growth</b></p> <ul style="list-style-type: none"> <li>Remuneration strategy and policy</li> <li>Our employees</li> </ul>	<ul style="list-style-type: none"> <li>Providing decent work</li> <li>Helping to build an inclusive economy</li> </ul>
<p><b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b></p>	<p><b>Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation</b></p> <ul style="list-style-type: none"> <li>Our employees</li> <li>Trade performance and growth opportunities</li> <li>Information and technology</li> <li>Quality and safety (employees, workplace and customers)</li> <li>Supply chain configuration and cost structure</li> </ul>	<ul style="list-style-type: none"> <li>Improving the resource efficiency of our current buildings</li> <li>Focusing on environmentally friendly options for new builds</li> </ul>

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# Material issues, risks and opportunities (continued)

About this report	Our business activities support achievement of the following SDGs	Linked to our material issues	By focusing on
About Shoprite Holdings	 <p><b>Responsible production and consumption:</b> Ensure sustainable consumption and production patterns</p>	<ul style="list-style-type: none"> <li>■ Social licence to operate</li> <li>■ IT</li> </ul> 	<ul style="list-style-type: none"> <li>■ Re-using and recycling waste material where possible</li> <li>■ Sourcing sustainable packaging</li> <li>■ Focusing on water and energy efficiency</li> <li>■ Reducing food loss and waste areas across our operations</li> </ul>
	 <p><b>Climate action:</b> Take urgent action to combat climate change and its impact</p>	<ul style="list-style-type: none"> <li>■ Supply chain configuration and cost structure</li> </ul> 	<ul style="list-style-type: none"> <li>■ Building a climate-resilient business</li> <li>■ Monitoring and reporting on our carbon emissions and water usage</li> <li>■ Committing to reducing our energy and water usage</li> <li>■ Making our logistics infrastructure work more efficiently</li> </ul>
	 <p><b>Life below water:</b> Conserve and sustainably use the oceans, seas and marine resources</p>	<ul style="list-style-type: none"> <li>■ Social licence to operate</li> </ul> 	<ul style="list-style-type: none"> <li>■ Committing to sustainable seafood procurement practices</li> </ul>
	 <p><b>Life on land:</b> Protect, restore and promote sustainable use of terrestrial ecosystems: manage forests, combat desertification, halt biodiversity loss and land degradation</p>	<ul style="list-style-type: none"> <li>■ Social licence to operate</li> <li>■ Supply chain configuration and cost structure</li> </ul> 	<ul style="list-style-type: none"> <li>■ Complying with all environmental legislation and regulations throughout our operations</li> <li>■ Sourcing sustainable products where we can</li> </ul>
	 <p><b>Peace, justice and strong institutions:</b> Promote just, peaceful and inclusive societies</p>	<ul style="list-style-type: none"> <li>■ Regulatory environment</li> <li>■ Leadership transformation and employment equity</li> <li>■ Remuneration strategy and policy</li> </ul> 	<ul style="list-style-type: none"> <li>■ Focusing on corporate social responsibility, good governance, transparency and accountability</li> </ul>
Performance summary	 <p><b>Strengthen the global partnership for sustainable development:</b> Mobilise and share knowledge, expertise, technology and financial resources</p>	<ul style="list-style-type: none"> <li>■ Social licence to operate</li> </ul> 	<ul style="list-style-type: none"> <li>■ Building on partnerships with implementation stakeholders and public and private institutions</li> </ul>



## Governance philosophy

The Group is committed to high standards of corporate governance and applies principles of fairness, transparency and integrity at all levels across our business. Over the past few years, the Board has mirrored the Shoprite Group's focus on increasing transparency and accountability. The Board is the custodian of corporate governance for the business and members take collective responsibility for governing and ensuring accountability within the Group, as well as taking considered, ethical risks.

The Board is guided by its terms of reference, which align with the King IV™ code of corporate governance, the Companies Act and the JSE Listings Requirements, and encourage an integrated approach to governance. By fulfilling its terms of reference, internal code of conduct, ethical considerations, and legal and regulatory requirements, the Board can ensure sustainable value creation for investors and other stakeholders.

### Group governance framework

The Group consists of multiple subsidiaries, which are governed by individual boards of directors and recognised as separate and independent juristic persons. As far as possible, governance is standardised across these subsidiaries, as managed by a Group-level Risk and Compliance Department. Across Africa, we are committed to transparent and good governance alongside compliance. Over the past few years, governance has been increasingly integrated across the Group – for example, the King IV™ code is applied across all subsidiaries as far as possible. Group-level governance is supported by local company secretaries, attorneys and accountants as necessary.

### The Group's values and ethical leadership

Directors are committed to governing with integrity and in a way that supports an ethical culture. They continuously develop their competence to lead effectively. The Board is committed to the Group's three values:

- **Doing the right thing:** Directors hold themselves and one another accountable. They work to build trust and long-term relationships with shareholders. They also support the Group's commitment to creating shared value beyond customers, employees and investors.
- **Saving to share:** Directors believe in working as efficiently as possible to maximise the value we offer our stakeholders and minimise our environmental harm.
- **Developing local:** Directors support our commitment to Africa and its people, which we realise by developing local economies through employment, supplier access and tax contributions.

### Board responsibilities

The Board is responsible for corporate governance across the Group and ensures accountability for performance, while management implements strategy and makes day-to-day operational decisions. The Board guides strategic direction, which management develops, and approves strategic plans and policies. It also monitors the management of the business against the Group's identified strategy and governance principles. Although the Board delegates responsibilities to the four Board committees, it retains collective responsibility for these delegated matters, including risk and ethical governance.

The Board delegates responsibility for business operations to the Group CEO, Pieter Engelbrecht, who reports directly to the Board.

The Board is confident that it has discharged its responsibilities in line with its terms of reference and the relevant regulatory and compliance requirements.

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## Lead Independent Director's statement

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**This is an exciting period for the Board. I see an energised, determined and well-capacitated management team ready to realise the opportunities ahead. Their hard work has created a platform for future growth and success.**

As a Board, our role is to ensure that the business is run in line with the principles of good corporate governance. We engage deeply and robustly with the governance of the business and with one another to ensure that we are supporting the executive and management teams as they prepare the Group for an innovative, digital future.

In line with King IV™, our Board sees the Lead Independent Director role as one of maintaining an appropriate balance of power in the corporate governance structures to avoid dominance by any single member. My role includes engaging with investors where appropriate.

My predecessor's appointment as SARS Commissioner is a sign of the quality of our Board. As long-tenured Board members retired in 2019, the Chairperson's experience provided invaluable guidance and continuity for the Board. At the same time, the Lead Independent Director chaired meetings where the Chairperson had a conflict of interest – as with the proposed transaction to collapse the Group's dual class share structure during the reporting period – or was unavailable. The Lead Independent Director was also available to act as an intermediary between Board members and the Chairperson, although this role was not required during the reporting period.







**Prof. Shirley Zinn**  
Lead Independent Director



## Governance focus areas in 2019

**Over the past two years, the Board has actively led the executive team's efforts to increase the Group's transparency and accountability. The Board has increased its investor engagement to ensure regular, direct conversations with key investors on relevant issues, including the remuneration policy and shareholding structure. These actions support a constructive, cordial relationship with investors.**

In 2019, the Board focused on the following areas, in line with investor conversations:

- Continuing to demonstrate ethical and effective Board leadership, including through increased diversity and inclusion. During the reporting period, the Board exceeded its diversity targets of 15% to 20% women and 30% previously disadvantaged individuals (as shown on page 61). 
- Addressing the dual class share structure, the Board approached the Chairperson with a proposed transaction to collapse our dual class share structure by redeeming the deferred shares held through Thibault Square Financial Services (Pty) Ltd. The Lead Independent Director led Board meetings, discussions and engagements with shareholders, alongside the Company Secretary and executive directors. This transaction was proposed to address the risk that the Chairperson's interest in Thibault Square may be passed on through succession or disposal to a party who may not be aligned with the Group's long-term strategy and direction. Acting on external advice and after robust internal discussion, the independent Board proposed a redemption consideration of 20 million ordinary shares for the deferred shares. Ultimately, in accordance with the conditions precedent outlined in the initial Stock Exchange News Service (SENS) notice of 18 April 2019, it cancelled the transaction after more than 15% of ordinary shareholders indicated in writing that they did not support the proposed transaction in its current form and would vote against it. Nonetheless, the engagement was highly constructive (see the case study on page 55). 
- Modifying the remuneration policy, as discussed in the remuneration report (page 68 to 78). Following the 2018 Annual General Meeting (AGM), the Group engaged with key investors to understand their concerns and is revising the policy to align more closely with business objectives. In 2020, the first phase of the revised policy will be implemented. This is an important component of the Board's broader work to enhance corporate governance transparency and reporting. 
- Embedding a long-term value creation perspective from Board leadership within the Group's ongoing strategy development and current plans. This includes Board oversight of the Group's sustainability work.
- Continuing to develop the Group's responsible business activities and aligning key financial and non-financial objectives with the UN SDGs. This includes publishing the Group's total tax contribution as part of its economic contribution on page 57 of this report. 

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## Case study

### Engaging with our shareholders

Over the past few years, the Group and the Board have focused on increasing transparency and accountability as part of a commitment to improving corporate governance. This helps to build strong, constructive relationships with our shareholders, ensuring our interests are aligned to create value over the long term. Investors appreciate our direct, clear communication. We, in turn, benefit from a deeper understanding of their concerns.

In 2019, the Board approached the Chairperson with a possible transaction to collapse our dual share class structure by redeeming the deferred shares held through Thibault Square Financial Services. In line with the Board's terms of reference, the Lead Independent Director led Board meetings and discussions, as well as engagements with shareholders, relating to this proposed transaction. All Board discussions excluded the Chairperson, who had a conflict of interest, to include only the independent Board members.

The Lead Independent Director, Company Secretary and executive directors engaged with shareholders throughout this process to inform them of the Board's intentions, explain its reasoning, understand and respond to their reactions, and update them on progress. These engagements included:

- A SENS announcement on 18 April 2019, which clearly outlined the proposed transaction, rationale, process and terms.
- A SENS update on 22 May 2019, informing shareholders of the date by which they could expect more detailed information on the proposed transaction requirements and process.
- An extensive domestic and international roadshow to engage personally with shareholders. The team leading this proposed transaction discussed it directly with the majority of the Group's 20 largest shareholders.

- A SENS announcement on 3 June 2019, stating that the transaction had been cancelled, sharing feedback and thanking investors.

Investors generally supported the proposed transaction in principle but disagreed on the value attributed to the deferred shares. Their engagement was extremely constructive and valuable. Shareholders complimented the Group for its regular communication and personal engagement, particularly given the limited engagement experienced in the past.

Going forward, the Group will adopt a similar transparent and direct approach to investor engagement for other transactions. The Board will also consider additional opportunities to engage more directly with shareholders outside of specific transactions and events such as the AGM.



# Being a responsible business

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The Shoprite Group is the largest retailer on the African continent. We contribute to local economies by creating jobs, enabling access to market for small suppliers and paying taxes. We also support the communities in which our customers, employees and suppliers live and we work to minimise the impact of our operations on the environment.

The Group recognises that being a good corporate citizen that embraces responsible and sustainable business practices needs to be at the core of how we run our operations. In June 2019, the Group was included in the FTSE4Good Index, which recognises companies with strong environmental, social and governance practices (measured against internationally recognised standards).

## Evolving responsible business practices

The Group is focused on creating value holistically, so that our daily operations positively augment the full capital value of the business – including social and natural capital. We have embedded the principles underlying responsible business and good corporate citizenship into our business strategy, plans and operations to ensure the Group is positioned to create sustainable value in line with stakeholder interests over the short, medium and long term.

By 2020, we will have a comprehensive and fully integrated sustainability strategy to guide our business development and direction, and ensure alignment with the UN SDGs.

## Our sustainable development plans

We are enhancing the sustainability of our business through initiatives that will deliver positive environmental, social and economic value. We are currently working hard to reduce food losses and waste and to grow our use of sustainable packaging. Over the medium term, the Group aims to use its water and energy more efficiently, and to increase its use of renewable electricity. Through our ability to influence sustainable behaviour across our entire value chain, we will also increase our focus on responsible sourcing in the long term.

4. FAO, IFAD, UNICEF, WFP and WHO. (2018.) The State of Food Security and Nutrition in the World 2018. Building climate resilience for food security and nutrition. Rome, FAO.



## Focus on reducing food losses and waste

Many people in Africa struggle to access or afford food, particularly nutritious food. Climate change will exacerbate this challenge.<sup>4</sup> In addition, much harvested food is lost on farms due to inadequate storage facilities or along the processing and retailing stages of the food chain.

We have always focused on reducing food losses and waste in our operations. We donate surplus food from our distribution centres and stores to registered charities. We have invested significantly in cold chain technology and sophisticated monitoring and ordering platforms to ensure that we keep food fresh for as long as possible. We are currently reviewing our entire value chain to identify where wastage occurs and how we can prevent it. See our Sustainability Report for the targets we have set in this regard.



## Focus on climate change

We recognise that climate change, driven by global greenhouse gas emissions, will affect our business. These effects will be seen in rising average temperatures, more extreme and frequent weather events, water shortages, and higher energy and water costs. We are committed to doing our part to lower greenhouse gas emissions in accordance with the Paris Agreement and South Africa's National Climate Change Response Policy. We are already working to build a climate-resilient business model. We have:

- Built and maintained an extensive and diverse supply chain for fresh vegetables, fruit and meat that mitigates production risks (to some extent) because we are able to obtain supplies from other regions.
- Continued to improve the resource-usage efficiency of our properties and outlets. Where possible, we operate independently of municipal water and energy supply.
- Incorporated climate change in our risk assessment frameworks.



## Focus on social value through health and safety

We remain focused on the people closest to us: our customers and employees. The nature of our business significantly affects their lives and wellbeing, and we continuously seek to improve these effects. This year, one of our key focus areas was health and safety, which is increasingly proactive and preventative. Over the reporting period, we updated our health and safety policy. Our significant IT systems upgrade will improve system capabilities in the business to enable more sophisticated implementation of consistent protocols across the Group. In addition, we continue to focus on building a foundational safety culture in the hearts and minds of customers and employees, to encourage behaviour aligned with our emphasis on health and safety. Our aim is to maintain the Group's reputation for quality and to move towards zero tolerance for threats to safety. In addition, we are integrating and embedding product safety standards through a systems approach that enables us to maintain leading product safety standards. By reviewing and improving our product safety standards, we provide greater value to our employees, customers and communities.



## Focus on circular economy principles: Sustainable waste management

We are committed to significantly reduce the volumes of waste we send to landfills by adopting circular economy thinking and practices. We are working hard to shift to more sustainable packaging and to ensure that packaging waste can be recycled or reused. Some of our initiatives also create income opportunities for entrepreneurs in the recycling sector. Read our Sustainability Report for our targets related to sustainable packaging.



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### Focus on responsible taxation and positive economic contributions

Taxation plays an invaluable role in enabling governments to budget sustainably and provide social services to their people. We contribute enormously through direct and indirect taxation. In 2019, we generated external revenue of R150.4 billion, on which we made a profit before tax of R6.3 billion (excluding dividends).

The Group is committed to transparent and ethical tax practices, and we cooperate with tax authorities across our operating countries. We have a strong tax governance framework to guide timeous, accurate and effective taxation compliance.

We are committed to:

- Avoiding aggressive tax practices that increase our liability and reputational risk.
- Paying the correct amount of tax, compliant with the relevant taxation laws of each jurisdiction, on time.
- Using relevant tax incentives, such as the Employment Tax Incentive scheme in South Africa for employees between the ages of 18 and 30 years who earn less than R6 000 per month. During 2019, the Group claimed R266 million for 27 000 employees who participated in this programme.
- Ensuring that profits cannot be artificially moved between different jurisdictions through an appropriate transfer pricing policy.

The table below summarises the Group's contribution to its operating countries through taxes.

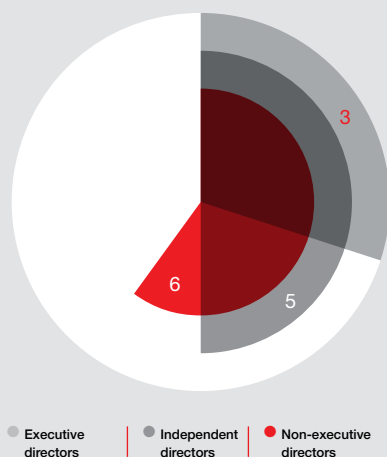
#### Summary of taxes borne and collected

Taxes borne	R million	Taxes collected	R million
Profit taxes	2 260.07	Profit taxes	28.39
Property taxes	83.39	Property taxes	
Product and services taxes	1 479.41	Product and services taxes	987.33
Planet taxes	0.31	Planet taxes	
People taxes	294.41	People taxes	1 094.49
<b>Total taxes borne</b>	<b>4 117.59</b>	<b>Total taxes collected</b>	<b>2 110.20</b>
<b>Total tax contribution</b>	<b>6 227.79</b>		



# The Group's leadership

## Our Board of Directors



Shoprite Holdings has a unitary Board of Directors. As of 30 June 2019, the Board consisted of six non-executive directors – five of whom are independent – and three executive directors. All the directors are South African.

## Chairperson

Christo Wiese chairs the Board and ensures it functions effectively. The Chairperson is not independent due to his direct shareholding in the company. He leads the Board in line with its terms of reference and relevant regulatory or legislative requirements, and ensures an environment of respectful, rigorous and honest discussion. On a practical level, Christo Wiese chairs meetings and ensures sufficient time to address agenda items.

## Lead Independent Director

The Board leadership includes an elected Lead Independent Director in line with good governance principles. This ensures a balanced and supportive structure. On 9 May 2019, Shirley Zinn was appointed as the Lead Independent Director.

## Non-executive director

### Dr Christo Wiese (78)

BA LLB DCom (hc)  
Chairperson

- Appointed as Chairperson of Shoprite Holdings in 1991.
- Chairs the Nominations Committee.
- Serves on the Remuneration Committee.
- Chair of Tradehold Ltd and Invicta Holdings Ltd.
- Serves as a non-executive director on the boards of Brait SE Ltd and Gemfield Group Ltd.

## Independent non-executive directors

### Prof. Shirley Zinn (58)

BA  
B.Ed – Honours  
M.Ed  
EdM (Harvard)  
Doctorate in Education (Harvard)

- Appointed as a director of Shoprite Holdings on 31 August 2018.
- Appointed as a member of the Social and Ethics, Nomination, and Remuneration Committees on 30 November 2018.
- Appointed as Lead Independent Director and Chairperson of the Remuneration Committee on 9 May 2019.
- Holds directorships at ADvTECH Holdings Ltd, Afrocentric Group Ltd, Sanlam and Sanlam Life Insurance Ltd, Spur Group Ltd, MTN South Africa and various other public/private companies.

### Mr Johan Basson (68)

BCom (cum laude) CTA CA(SA)

- Appointed as director of Shoprite Holdings in 2014.
- Chairperson of the Audit and Risk Committee.
- Previously partner at PricewaterhouseCoopers.
- Member of the board and Chairperson of the Audit and Risk Committees of various unlisted companies.

### Ms Alice le Roux (45)

B Compt Hons CA(SA)

- Appointed as a director of Shoprite Holdings on 30 November 2018.
- Appointed as a member of the Audit and Risk Committee on 30 November 2018.
- Director and shareholder of accounting firm Alice le Roux Incorporated and private companies.

### Dr Anna Mokgokong (62)

MB ChB, DCom (hc)  
Bsc

- Appointed as a director of Shoprite Holdings in 2012.
- Appointed as Chairperson of the Social and Ethics Committee on 30 November 2018.
- Serves on the Nominations Committee.
- Executive Chairperson of Community Investment Holdings (Pty) Ltd and non-executive Chairperson of Rebosis Property Fund Ltd, Jasco Electronics Ltd and Afrocentric Investment Corporation Ltd.
- Non-executive director of Adcock Ingram and non-executive chair of Seriti Coal.
- Holds directorships in various other public/private companies.
- Appointed as Chancellor of NWU in June 2019.

### Mr Joseph Rock (50)

BA Hons MA ACA AMP (Insead)  
CA(SA)

- Appointed as a director of Shoprite Holdings in 2012.
- Appointed as a member of the Remuneration Committee on 28 May 2019.
- Member of the Audit and Risk Committee.
- Previously Group Executive at SARS and General Manager at Exxaro Services.
- Currently Head: People Experience at Absa Group Limited.

## Alternate non-executive director

### Adv. Jacob Wiese (38)

BA MIEM (Italy) LLB

- Appointed as alternate director of Shoprite Holdings in 2005.
- Serves on the boards of various listed companies.
- Advocate of the High Court of South Africa.

## Executive directors

### Mr Pieter Engelbrecht (50)

BCompt Hons CA(SA)  
Chief Executive Officer

- Appointed as Shoprite Holdings CEO in 2017.
- Appointed to the Board of Shoprite Holdings in 2017.
- Served as Shoprite Holdings alternate director and as Chief Operating Officer of Shoprite Checkers (Pty) Ltd from 2005 to 31 December 2016.
- Director of Shoprite Checkers (Pty) Ltd.

### Mr Anton de Bruyn (48)

BCompt Hons CA(SA)  
Chief Financial Officer

- Joined Shoprite Checkers in 2000.
- Appointed as Shoprite Holdings CFO from 2 July 2018.
- Appointed as a director of Shoprite Checkers (Pty) Ltd from 2 July 2018.
- Serves on the boards of various other Group subsidiaries.
- Serves on the Social and Ethics Committee.

### Mr Ram Harisunker (67)

Divisional Manager

- Joined Checkers in 1969.
- Appointed to the Board of Shoprite Holdings in 2002.
- Director of Shoprite Checkers (Pty) Ltd and various other Group subsidiaries.
- Responsible for the Group's retail operations in Eswatini (previously Swaziland) and international sourcing.



## Board membership

### Non-executive director



Dr Christo Wiese

### Independent non-executive directors



Prof. Shirley Zinn



Mr Johan Basson



Ms Alice le Roux

### Independent non-executive directors (continued)



Dr Anna Mokgokong



Mr Joseph Rock

### Alternate non-executive director



Adv. Jacob Wiese

### Executive directors



Mr Pieter Engelbrecht



Mr Anton de Bruyn



Mr Ram Harisunker

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### Opportunities within the Shoprite Group



In May 2019, Ram Harisunker celebrated 50 years of employment within the Group. It was an incredible achievement illustrating the range of opportunities available to committed, talented Group employees.

Ram joined the Group as a Receiving Clerk in 1969. Through hard work and a willingness to try different jobs, he worked his way up to an Assistant Manager position within the next five years. In 2002, he was appointed as an executive director on the Shoprite Holdings Board. He currently oversees the Group’s Eswatini operations and global sourcing (including importing and Africa buying operations).

The Group is committed to developing employees and promoting from within where possible to ensure it continuously develops a pipeline of top talent that

understands and is integrated within the business. Ram’s broad experience within the Group – including as a Receiving Clerk, Shelf Packer, Cashier, Buyer and Manager – solidified his understanding of its culture and needs. In turn, he says, the varied work ensured he was never bored or tempted to leave the Group. “There are so many opportunities, ranging from retail to real estate to legal to logistics,” he says.

All three of the Group’s executive directors spent decades within the business before being appointed to the Board. This continuity complements newer non-executive directors and creates a strong passion for ensuring a sustainable future for the business. Employees like Ram Harisunker exist at all levels of the Group. The Board supports initiatives to find, develop and motivate them for the success of the Group.

## Company Secretary function



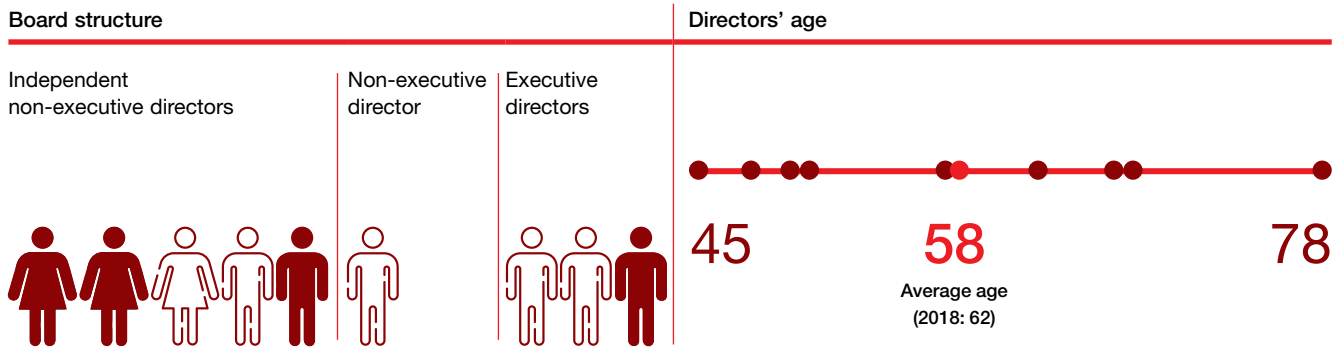
### Pieter du Preez Company Secretary

Pieter du Preez is the Company Secretary. Although he is a director of various Group subsidiaries, he is not a director of Shoprite Holdings and maintains an arm’s-length relationship with the Board. He is appointed by the Board and provides advice on ethics and corporate governance to the Board and the Group. The Company Secretary is responsible for the duties in section 88 of the Companies Act and for ensuring compliance with JSE Listings Requirements. He retains independent advisory services requested by the Board and its committees, and minutes all Board and committee meetings. Board members individually assess the Company Secretary’s eligibility, skills, knowledge and performance on an annual basis, as required by the JSE. They were satisfied with his capacity and performance during 2019.

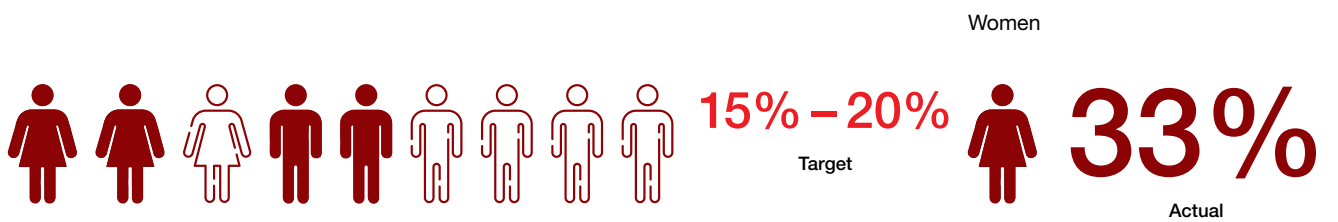




## Overview of Board composition



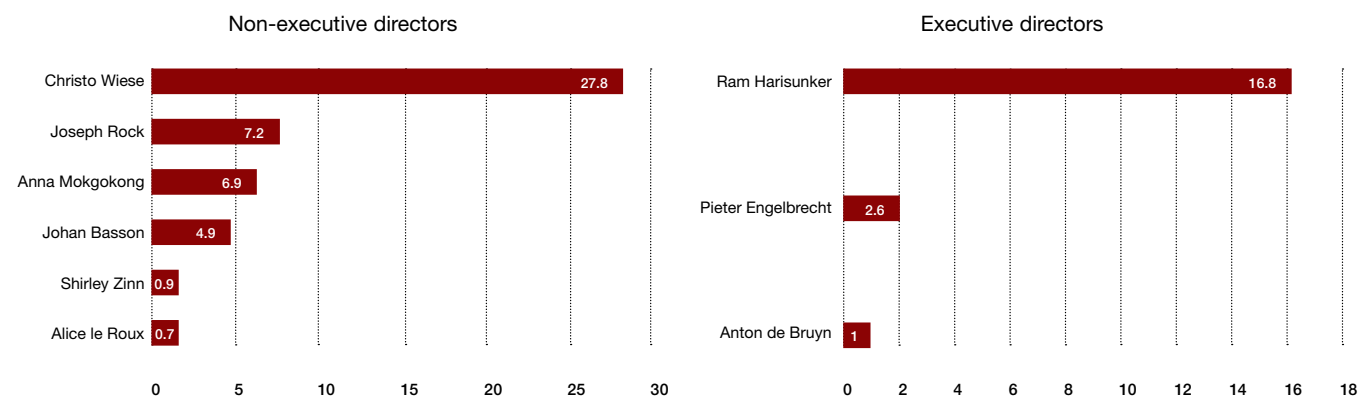
## Gender



## Race



## Tenure (years)



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New Board appointments are identified by the Nominations Committee and approved by the Board. A formal process is under way to identify skills gaps in the Board and to recruit candidates that address these gaps. In the previous year, the Nominations Committee had set diversity targets of 30% previously disadvantaged individuals, of whom at least 50% should be women. The Board has now achieved those targets. Greater demographic diversity brings a broader range of perspectives, experiences and skills to the Board, allowing members to engage robustly and comprehensively with one another and with management. While

new candidates bring fresh insight and energy to their roles, long-serving directors (including the Chairperson) ensure continuity and institutional experience.

The non-executive directors bring diverse experience, including from other boards on which they sit. The three executive directors are closely involved in managing the business. The Board takes decisions collectively and relies on robust discussion and involvement of all members.

All non-executive directors retire by rotation every three years but can make themselves

available for re-election at the AGM. The Nominations Committee evaluates directors available for re-election.

During the reporting period, Carel Goosen, Nols Louw and Jimmy Fouché retired. Edward Kieswetter, the former Lead Independent Director, resigned upon his appointment as SARS Commissioner. Shirley Zinn was appointed as the new Lead Independent Director. Anton de Bruyn was appointed as a new executive director (upon his appointment as Group CFO) and Alice le Roux was appointed as a new non-executive director.

### Board effectiveness

#### Summary of Board and Committee meeting attendance in 2019

During the year under review, 7 Board meetings were held, with a 89% average attendance rate.

#### Board meeting register

	Board meetings		Audit and Risk Committee	Social and Ethics Committee	Nominations Committee	Remuneration Committee	AGM
	Attended	Maximum possible					
Chairperson							
Christo Wiese	3	4			2/2 (C)	1/2	x
Lead Independent Director							
Shirley Zinn***	3	6		2/3	1/2	2/2 (C)	✓
Independent non-executive directors							
Anna Mokgokong*	6	7		3/3 (C)	2/2		✓
Johan Basson	7	7	6/6 (C)				✓
Jimmy Fouché^	5	6	4/6				✓
Carel Goosen*	2	2					✓
Edward Kieswetter~	7	7			2/2	1/2	✓
Alice le Roux**	3	3	2/6				x
Nols Louw+	2	2	3/6	1/3	1/2		✓
Joseph Rock	5	7	5/6				✓
Executive directors							
Pieter Engelbrecht	7	7					✓
Anton de Bruyn	7	7		3/3			✓
Ram Harisunker	6	7					✓

Note: Board meeting attendance was affected by resignations, retirements, new appointments and recusals.

\* Appointed as Chairperson of Social and Ethics Committee on 30 November 2018.

\*\* Appointed as non-executive director and member of the Audit and Risk Committee on 30 November 2018.

\*\*\* Appointed as non-executive director on 31 August 2018, and appointed to Social and Ethics, Nominations and Remuneration Committees on 30 November 2018.

Appointed as Lead Independent Director and Chairperson of Remuneration Committee on 9 May 2019.

+ Retired at AGM (30 October 2018).

^ Retired on 27 February 2019.

~ Resigned on 30 April 2019, effective from 6 May 2019.



## Continuous development and evaluation

The Company Secretary is responsible for inducting new directors. The Group's induction programme, overseen by the Nominations Committee, ensures that directors have a robust understanding of the Group's structure, operations and policies, as well as their fiduciary and statutory duties. Directors are provided with relevant

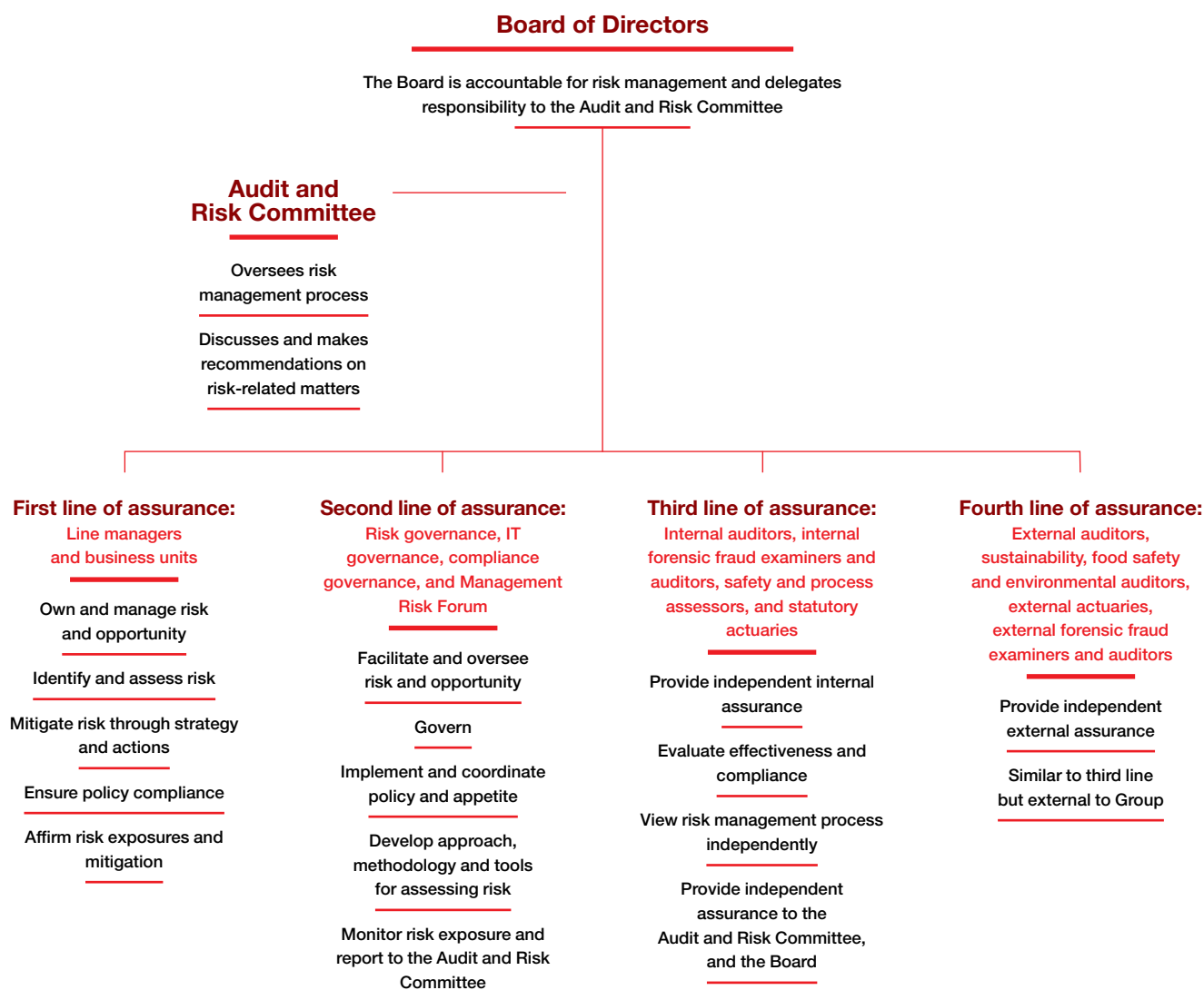
legislation, regulation, and internal and external documentation that they may need. They are also briefed in person or in writing on relevant updates to legislation and regulations. The Board is confident that its induction programme provides a solid foundation for directors to engage in an informed and valuable way during meetings. In 2019, the Board evaluated its performance. Members individually

completed a questionnaire developed by the Company Secretary and the Board Chairperson, which covered the composition of the Board, director induction and development, the effectiveness of meetings, the quality of documentation and the relationships between the Board and management. The Board is satisfied that it has performed its duties and mandate as required.

## Overview of combined assurance

The Group's combined assurance framework supports good corporate governance by ensuring four lines of internal assurance across the Group, as shown below.

### Combined assurance framework



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# Overview of Board and Committee activities in 2019

## Overview of Board structures

The Board and each committee perform a range of activities on an annual basis, such as assessing Board composition, monitoring risk governance, overseeing sustainability work, and recommending remuneration for approval. These activities, and the conduct that each member commits to while performing them, are set out in the Board's terms of reference and each Committee Charter. These documents, which are reviewed annually, are aligned with King IV™ and relevant legislation and regulations. They are available on the Group's corporate website at [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za).

Board governance structures as at 30 June 2019

### Shoprite Holdings Board



## Board report: Activities and future focus areas

During 2019, the Board fulfilled its responsibilities for monitoring management and strategy by monitoring major projects including the enterprise-wide system implementation, evaluating business development initiatives, and considering quarterly performance results by segment and department. It guided strategic direction by approving asset sales, approving the appointment of non-executive and executive directors, and considering business continuity matters. Furthermore, it ensured ethical governance by discussing and developing a proposal to collapse the dual share structure and considering committee reports, including those relating to risk and ethical governance.

### Compliance focus areas

Over the reporting period, the Board focused on the following areas of compliance:

- Competition law
- Occupational health and safety
- Employment equity
- Protection of personal information
- Food safety.

### The application of King IV™

The application of King IV™ is on an apply and explain basis. The practices underpinning the principles in King IV™ are entrenched in the majority of the Group's internal controls, policies and procedures governing corporate conduct. The Board is satisfied that in the main, the Group has applied the principles set out in King IV™. A full King IV™ narrative schedule can be found on our website at [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za).

### Compliance with JSE Listings Requirements

All directors are required to declare their interests through any shareholding or contracts with the Group on an annual basis. The declarations register is available for inspection at the AGM. Directors also declare personal financial interests that may relate to any Board matters, and recuse themselves from relevant discussions and meetings, in line with Companies Act requirements. In 2019, all directors complied with the Group's policy on share dealings, which prohibits share trading in closed periods relating to important announcements or events.

The Company has furthermore complied with all the corporate governance provisions in the JSE Listings Requirements during the reporting period.



## Legal matters

Over the year, fines were imposed on the Group in two legal matters. The first relates to a Competition Commission ruling against Computicket for an alleged abuse of dominance. Computicket was fined R20 million but has appealed the ruling. The second relates to a complaint lodged by the National Credit Regulator, who alleged that Shoprite Investments had granted credit recklessly. The National Consumer Tribunal subsequently fined Shoprite Investments R1 million, which has been appealed.

## Audit and Risk Committee report to shareholders

**The Audit and Risk Committee is responsible for overseeing the governance of risks, and information and technology across the business, as well as monitoring compliance, and internal and external audit functions. It also oversees reporting across the Group. As a result, the Committee evaluates and makes recommendations to the Board regarding the Group's:**

- Internal control framework
- Risk assessment and management
- Compliance governance
- Governance of information and of technology
- Fraud risk assessment and management
- Combined assurance
- Reporting.

During the year, the Committee held five meetings, with an average attendance of 90%. In addition, a special meeting was held on 16 August 2019 to approve the Group's 2019 Annual Financial Statements. For more detail on any of these matters, refer to the Audit and Risk Committee report in the 2019 Annual Financial Statements, available at [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za).

## Focus areas in 2019

The Committee monitored the cost and implementation of the enterprise-wide system during the year. In addition, it reviewed IT governance procedures and discussed IT risks, including potential cyber-risks, which are an important Committee focus as digitalisation increases across the business. The Group's Information Security Management System, which the Committee monitors as it is implemented, will address these risks.

Furthermore, the Committee reviewed regular reports on the status of the Group's business recovery plans, and on actual or suspected fraud, which is one of the key risks. Although the Committee is not

primarily responsible for social and ethics matters, it considers regular reports on these matters from management and the Social and Ethics Committee.

The key accounting matters that the Committee considered when reviewing the Group's Annual Financial Statements included several Angolan matters (using the official exchange rate, investment risk, hyperinflation, and classifying cash and bank balances), valuation of inventory, measurement of financial assets, provisions, impairments, taxes, rebates from suppliers, revenue recognition, leases and financial instruments. The Committee recommended both the interim and annual financial reports to the Board for approval.

In addition, the Committee performed its annual responsibilities as set out in its charter. These include evaluating the Group's finance function, its internal audit function and the performance of its external auditors (PwC). The Committee also reviewed this Integrated Annual Report and recommended it for approval by the Board in August 2019.

## Risk management

The Group's risk landscape includes 55 key strategic, operational, financial and compliance risk descriptions. These risks are closely monitored and managed daily within the different areas of the business. The relationship between the Group's strategy, material issues, and risks/opportunities is shown on page 44. Over the reporting period, the Committee focused on monitoring risk management, overseeing improvements in IT governance (including establishing an enterprise data management competency), and ensuring compliance, especially in the following compliance focus areas:

- Consumer protection
- Food safety
- Occupational health and safety
- Labour and employment equity
- Broad-based black economic empowerment
- Protection of personal information
- Competition law
- Environmental
- Taxation.

The Committee evaluated management processes and functions in its mandated areas, challenged management where appropriate, and was satisfied by the robustness of these processes and functions.

In future, the Committee will enhance the management of Group risk and compliance, the management of information and technology, and the combined assurance frameworks.

The Committee evaluated itself during the year and was satisfied that it is performing the responsibilities outlined in the charter. In addition, the independence of members was assessed against King IV™ and the Companies Act requirements, and all members were found to be independent. I am satisfied that we have performed our responsibilities during the reporting period.

**Johan Basson**  
Chairperson

## Remuneration Committee report

**The Remuneration Committee assists the Board to establish and administer a remuneration strategy aligned with the principles of fair, transparent and responsible remuneration, legislative and regulatory requirements, and the needs of the Group. The strategy includes remuneration at all levels, including executive directors.**

During 2019, the Committee held two meetings, with average attendance of 83%.

## Focus areas in 2019

Following the 2018 AGM, where more than 25% of ordinary shareholders voted against the remuneration policy, the Committee, together with executives and the Company Secretary, led shareholder engagement to understand their concerns. During 2019, the Committee, the HR Department, the Board and executives have begun overhauling the remuneration strategy to align more closely with the Group's strategy and address the concerns raised. In 2020, the first phase of the policy, covering executives and senior management, will be rolled out. Over the next three years, the Committee will focus on communicating, developing and monitoring the implementation of this policy as outlined in the remuneration report on page 68 to 78.

**Prof. Shirley Zinn**  
Chairperson

# Overview of Board and Committee activities in 2019 (continued)

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## Social and Ethics Committee report to shareholders

**For 40 years, the Group has supported social and economic development through the provision of accessible and affordable goods and services. The Social and Ethics Committee is responsible for ensuring that the Group lives its values and acts as a good corporate citizen. Our mandate is aligned to the Companies Act and the Companies Regulations through our Committee Charter, which is available on our website.**

The Group operates in an environment of high inequality and increasing impact from climate change. Our Committee is responsible for ensuring the Group responds timeously and appropriately to these and other challenges by:

- Complying with the relevant regulations, legislation and guiding principles to guard against unethical activities such as fraud and corruption. Across our operations, these include the 10 principles set out in the United Nations Global Compact and the OECD anti-corruption recommendations. In South Africa specifically, the Employment Equity Act and the Broad-Based Black Economic Empowerment Act also apply.
- Creating shared value through corporate social investment spending and upholding ethical standards in line with our values.
- Protecting the health and safety of our employees, customers and the public.
- Minimising and mitigating any negative environmental effects from our activities, products and services.
- Ensuring fair and responsible labour practices and developing our employees through education and training.
- Engaging with key stakeholders, especially customers and employees.

Our annual Sustainability Report, which is available on our website, comprehensively reports on activities relating to these objectives. Over the reporting period, the Committee monitored and supported the Group's expanded initiatives relating to sustainability and health and safety, as well as its continued commitment to a shared value approach through corporate social investment programmes.

The Committee also reports to shareholders at the AGM. Former Chairperson Nols Louw retired at the 2018 AGM and Anna Mokgokong was appointed as the new

Chairperson. The Committee Charter was reviewed during the reporting period and aligns with the King IV™ code.

The Committee held three meetings during the reporting period, with 100% attendance. In addition to the members, invitees included the CEO, Chief Human Resources Officer, and the Corporate Relations and Communications Head.

## Maintaining our customer relationships

The Committee monitors customer sentiment towards and perceptions of the Group, including through stakeholder surveys, social media monitoring and other initiatives. Customers have indicated that they want more information on how the Group supports local businesses, reduces its environmental footprint and treats employees fairly. This Integrated Annual Report includes additional information relating to these concerns.

## Building a sustainable business

The Group is focused on understanding and reducing its impact on the planet. In February 2019, the Group appointed a Group Sustainability Manager. He is supported by an experienced sustainability team, including an engineering specialist. This manager reports to the Chief Business Officer and submits reports to the Social and Ethics Committee.

Creating a dedicated sustainability team helps to focus and integrate our sustainability work as a business. By 2020, the Group Sustainability Manager will formalise a comprehensive and fully integrated sustainability strategy and framework. As outlined in the 2019 Sustainability Report, we have committed to increasing our use of sustainable packaging and reducing food waste in the short term. Our targets are to:

- Ensure that 100% of our own brands and in-store packaging is reusable, recyclable or compostable.
- Include an average of 30% recycled content in all plastic packaging.
- Review our entire value chain to identify opportunities to reduce food losses and waste.
- Set targets for continuous improvement on food losses and waste.
- Increase our use of renewable and low-carbon electricity in our operations.

Over the medium term, we aim to improve our water and energy use efficiency, and over the longer term we aim to source goods and services more responsibly.

The Committee monitors and supports this work and approved the 2019 Sustainability Report for publication in August 2019.

## Developing our employees

We retain a strong ethical focus on training and developing our employees for their careers within and outside the Group, as part of developing Africa's potential more broadly. In the past year, the Group completed work on individual e-learning kiosks to support targeted training interventions across stores. Employees also began using a Time2Train tool to schedule training effectively. The Group offers a range of training interventions, including interventions targeted at embedding compliance, expanding vocational skills and upskilling vulnerable groups (such as unemployed youth and people with disabilities). These form part of its hire-to-retire model, supported by a revised HR strategy to attract, develop, retain and motivate employees.

During the reporting period, the Committee expanded its work relating to employee development and protection. The Group Health and Safety Manager, appointed during the reporting period, submits regular reports to the Committee. He deepens the Group's capacity to implement best practices in these areas and has updated its health and safety policy to build the Group's internal safety culture. A new, comprehensive health and safety risk assessment programme tracks over 1 700 potential individual risks, over 125 activities, across our distribution centres and stores. In addition, substantial investments were directed at protecting South African customers and employees from the physical threat of crime.



See our case study on page 49 for more detail.

Furthermore, the Committee reviewed internal broad-based black economic empowerment initiatives received from the Group's Black Economic Empowerment Committee, discussed labour inspections and considered occupational health and safety incidents.

## Supporting our communities

We take a shared value approach to the communities in which we operate. The Group continued its extensive corporate social investment programmes to fight hunger, support early childhood development, empower women and provide





disaster relief for affected communities. Our initiatives include donating surplus food, funding mobile soup kitchens and community food gardens, and funding early childhood development centres.

During the reporting period, the Group spent R36 million on these interventions and donated surplus food to the value of R58 million to registered charity beneficiaries. Our partnerships enable us to reach a broad array of groups across Africa through this work, including with Food & Trees for Africa, FoodForward, the Lunchbox Fund, Gift of the Givers, the Early Learning Foundation and the Centre for Early Childhood Development.

The Committee received and discussed regular reports relating to this work.

#### Evaluating our performance

Our future focus areas will include aligning our sustainability work with our sustainable development and SDG work.

We look forward to engaging shareholders at the AGM on the basis of this report.

**Dr Anna Mokgokong**  
Chairperson

## Nominations Committee report

**The Nominations Committee is primarily responsible for ensuring that the Board and each Committee is composed of individuals with the skills, knowledge and experience required to perform effectively. To ensure an appropriate mix of diverse directors, the Nominations Committee establishes processes to set composition targets, as well as identify and appoint new candidates. In addition, this Committee monitors induction and training programmes aimed at directors. The Committee also ensures that succession plans are in place for the business's executive team and senior leadership. Over the reporting period, the Committee met twice, with average attendance of 100%.**

#### Focus areas in 2019

During the reporting period, the Committee formalised a transparent process to identify, nominate and appoint directors. We use external recruitment specialists to identify candidates, who are then assessed by the Committee. Once the Committee nominates a new or existing candidate for election or re-election, the Board considers and approves the appointment.

The Committee recommended three new candidates as directors during 2019:

- Anton de Bruyn was nominated as CFO (executive director).
- Shirley Zinn was nominated as an independent non-executive director (later as Lead Independent Director on 9 May).
- Alice le Roux was nominated as an independent non-executive director.

In addition, four retiring non-executive directors (Anna Mokgokong, Johan Basson, Jimmy Fouché and Joseph Rock) were nominated for re-election at the AGM after confirming their availability and once the Committee had assessed their independence.

After setting gender diversity targets of 15-20% female representation on the Board in 2018, the Committee developed race diversity targets of 30% black representation on the Board, of which 50% should be women. These targets align with JSE Listings Requirements.

In addition, the Committee completed its annual work requirements as outlined in the Nominations Committee charter.

In 2020, our key focus area is to develop the Group's succession plan further, following its evaluation this year.

I am satisfied that we have performed our responsibilities for this year, as outlined in our charter.

**Dr Christo Wiese**  
Chairperson

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# Part 1: Chairperson's letter

## Dear shareholder

I am pleased to present our remuneration report, which includes our remuneration policy and implementation report for the 2019 financial year, and is prepared in line with the Companies Act and King IV™.

The Remuneration Committee helps the Board to establish and administer a remuneration strategy aligned with the principles of fair, transparent and responsible remuneration, legislative and regulatory requirements, and the needs of the Group. The strategy includes remuneration at all levels, including executive directors.

At the 2018 AGM, the remuneration policy and implementation report were tabled for two separate non-binding advisory votes in line with best practice, JSE Listings Requirements and King IV™. 73% of ordinary shareholders voted against the remuneration policy and 69% voted against its implementation. These results excluded the voting of the deferred shares. The Committee, together with executives and the Company Secretary, led the engagement with dissenting shareholders to understand their concerns.

The below table summarises shareholder feedback from the 2018 AGM and our responses. Following the changes to our remuneration policy, we communicated with shareholders through a webinar during October 2019.

## Shareholder feedback

Shareholder feedback	Remuneration Committee response
Performance criteria are too narrow and are inadequately linked to the Group's strategy	Performance metrics for long- and short-term incentives will be expanded, including non-financial measures for long-term incentives
Long-term and short-term incentive performance metrics are identical	Different metrics will be used for long- and short-term incentives
The CEO's short-term incentive is based on a single metric (trading profit)	The CEO's short-term incentive will be based on five metrics, in line with the changed performance metrics for other senior executives
Vesting of long-term incentives is not conditional on future performance	The performance-based component of the long-term incentive will be measured against forward-looking targets over a three-year period
The companies or industries used for benchmarking are not disclosed	We benchmark against the retail industry for retail-specific jobs and against the general market and peer companies for executives and non-retail jobs

During 2019, the Committee, the HR Department, the Board and executives made some significant changes in the remuneration strategy to align more closely with the Group's strategy and address the concerns raised. In 2020, the first phase of the policy, covering executives and senior management, will be rolled out. Over the next three years, the Committee will focus on further revising the policy, and communicating and monitoring its implementation. Policy revisions will be proposed and implemented over the next three years.

## Operating environment

The Shoprite Group operates in a competitive and rapidly transforming retail industry. We are optimising our physical and digital infrastructure, while improving governance, expanding management capacity and embedding a customer-first culture.

Internally, our performance in the first half of the year was constrained by a third-party labour dispute in a crucial distribution centre and the transition to the new enterprise-wide resource planning system. Nonetheless, the business remains strong and showed a marked improvement in the second half of the year. Remuneration decisions were influenced by this context.

## Committee activities

In the 2019 financial year, the Remuneration Committee held two meetings, with average attendance of 83%. The Committee:

- Led engagement with key shareholders to understand the reasons for dissenting votes.
- Approved employee annual and promotion-related increases across countries.
- Approved the on-target amounts (bonus pool) for distribution as short-term incentives.
- Approved executive annual and promotion-related increases.
- Recommended non-executive director remuneration to be approved by shareholders.
- Revised the remuneration policy to address investor concerns, support the HR strategy and align more closely with the Shoprite Group's business objectives.
- Monitored wage agreement negotiations with SACCAWU.
- Reviewed and approved the Remuneration Committee Charter in line with King IV™ requirements.



## Remuneration policy revisions to short- and long-term incentive schemes

The Shoprite Group is increasing transparency and its accountability to shareholders and has revised its HR strategy to improve the attraction, recruitment and retention of top talent. The Committee welcomes greater transparency in the interests of healthy engagement and good governance. We are revising the short- and long-term incentive scheme components of the remuneration policy in line with valuable feedback from our shareholders and our changing business requirements. As we implement these revisions, we continue to engage with our shareholders and key stakeholders, to keep you informed through clear and timely communication.

Over the next three years, we will complete and implement our revised remuneration policy. In 2020, we will roll out the first phase, which affects 2 257 people in our executive, senior and middle management teams.

For 2020, we will revise the performance criteria and adjust the designs relating to long- and short-term incentives. These changes will first affect executives and senior management before being rolled out to additional eligible employees in 2021. These changes are summarised below.

### Summary of remuneration policy and short- and long-term incentive changes for 2020

Policy component	Changes	Affected employees
Short-term incentive	Expanded performance criteria	11 executives
Deferred short-term incentive (previously long-term incentive bonus)	Redesigned to improve retention of mid-level managers over 3 years	1 956 managers
Long-term incentive: Executive share plan (previously virtual option bonus)	Expanded performance criteria Redesigned to improve retention of executives and senior managers over 3 years	290 executives and senior managers

The Remuneration Committee engaged with PwC and 21st Century to advise on remuneration matters, and was satisfied with the independence and advice of these consultants.

### Areas of future focus

We are planning to:

- Complete the changes to the short-term incentive designs and roll them out to all eligible employees over the next two years.
- Design changes for the long-term incentive scheme and present it to shareholders for approval at the next AGM, rolling this out to all eligible employees once accepted.
- Explore and implement job-specific performance metrics for short-term incentives.
- Explore non-financial performance metrics for short-term incentives.
- Increase the number of Remuneration Committee meetings per year.
- Enhance remuneration disclosures in a considered and sustainable way.

The Remuneration Committee is confident that these revisions, once implemented, will support fair, transparent and responsible remuneration in line with the Shoprite Group's philosophy. In line with King IV™ and the JSE Listings Requirements, we will table our current remuneration policy and implementation report as two non-binding advisory votes at the 2019 AGM to be held on 4 November 2019. We look forward to engaging with you further and implementing the changes contained in this report with your support.

**Prof. Shirley Zinn**  
Chairperson

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## Part 2: Remuneration policy

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### Remuneration principles and design

The Group's remuneration policy considers the context of a globally competitive retail industry, with a focus on improving governance. We aim to ensure fairness across the organisation, take responsibility for sustainable and regulatory-compliant remuneration, and disclose the thinking and details of our policy in a clear, accessible way. Remuneration is one pillar of our holistic approach to employment, which encompasses performance and recognition, the work environment, career development and benefits.

The principles underlying our remuneration policy include a commitment to:

- Attracting, motivating, retaining and rewarding employees at all levels, including key talent and critical skills.
- Paying equally for work of equal value.
- Paying for performance and relevant experience where appropriate.
- Incentivising behaviour that creates sustainable value for the Group, employees, shareholders and other key stakeholders.
- Aligning reward and performance as measured by key business objectives for executives.

All permanent employees receive fixed salaries and benefits (or total guaranteed pay). As employees become more senior, "at risk" or variable pay accounts for an increasing proportion of their remuneration package. This is done to link their performance more closely to our business objectives. This portion is measured through a range of performance criteria at Group and operational or business unit level to align the interests of executives and shareholders.

None of the executives have a clause in their agreements that stipulates any lump sum payments when leaving the employment of the Group.

At the general and junior employee levels, the Remuneration Committee aims to motivate responsible and exceptional performance. Remuneration decisions are informed by considerations of internal equity, competitiveness, affordability, skills and capabilities, non-discrimination and the broader employee offering.

### Remuneration framework

Employees are remunerated through their total guaranteed pay, and their variable pay, which is known as short- and long-term incentives. These components are summarised in the table on page 71. The remuneration policy is aligned to the Group's HR strategy to entrench a balanced and sustainable approach to reward. Our focus in adjusting the remuneration policy has been to support our HR objectives, redesign certain components for greater transparency and effectiveness, and expand and enhance the performance criteria linked to variable pay.

#### Fair and responsible remuneration

The Remuneration Committee is responsible for ensuring that executive remuneration can be justified relative to overall employee remuneration. It does so by:

- Providing the Board with appropriate recommendations, after discussion with management, independent remuneration advisors and relevant third parties.
- Applying the principle of equal pay for work of equal value.
- Benchmarking roles to balance the need for competitive and fair remuneration.

The Group provides a holistic employee value proposition, including skills development opportunities, educational loans and bursary benefits, employee discounts, and job-specific incentives for qualifying employees, such as sales commission and 13th cheques.

#### Benchmarking remuneration

Remuneration in line with our philosophy, as outlined in our Committee Charter, is essential to our business success. The Shoprite Group is committed to competitive remuneration, which is generally positioned at the market median, although it may be higher to retain scarce or critical skills. We benchmark remuneration against PwC's REMChannel survey, with a focus on the retail industry as the benchmark for retail-specific jobs and against the general market and peer companies for executives and non-retail jobs. Occasionally, the Committee may request independent advice on benchmarking the Group against an appropriate comparator group. For example, during the reporting period, PwC prepared a benchmark report to inform non-executive remuneration decisions.



## Summary of remuneration components

Component	Nature	Objective	Link to strategy	Policy	Measurement period	
Total guaranteed pay (TGP)	Fixed	Provides comprehensive employee benefits and reflects scope and nature of role, performance and experience	Rewards employees fairly and competitively through financial and non-financial benefits	Generally at market median except for critical skills. Includes risk, insurance and retirement benefits	Annual	About this report
Short-term incentive (STI)	Variable cash	Rewards employees based on key performance criteria measured annually or quarterly	Rewards employees for short-term performance in key metrics	Depends on trading profit and, for senior executives, five other metrics. Bonus pool lies between 80% and 120% of trading profit target. If trading profit is less than 80% of target, a bonus is paid based on specific business unit criteria	Annual or quarterly	About Shoprite Holdings
Deferred short-term incentive (DSTI)	Deferred cash or, for employees in South Africa, equity	Retains mid-level managers and ensures continuity	Retains managers by matching 75% of short-term incentive with deferred cash or shares	Employees eligible every year, based on STI criteria, for awards in cash or invested in shares	Full vesting after three years	Creating sustainable value
Long-term incentive: Executive share plan (ESP)	Deferred equity	Retains executives and senior managers, and ensures continuity	Retains executives and senior managers by offering direct shareholding through three types of shares	Employees eligible for performance shares (based on average three-year performance of three metrics), for retention shares (if they remain within the company) and for co-investment shares (if they purchase Shoprite Holdings shares)	Full vesting after three years	Good governance and value creation

## Remuneration components

The table below shows employee eligibility for different remuneration components. Eligibility varies depending on seniority, role, legislation, and union membership status.

### Eligibility within the Group remuneration framework

Level	TGP	Variable pay			
		STI	DSTI	ESP	
CEO	✓	✓		✓	
Executives	✓	✓		✓	
Divisional/general management	✓	✓		✓	
Senior management	✓	✓		✓	
Middle management	✓	✓	✓		
Junior management	✓	✓			
Employees outside bargaining units	✓				
Employees within bargaining units:					
■ In South Africa	✓				
■ Outside South Africa	✓	✓			

## Total guaranteed pay

There are no significant policy changes to the total guaranteed pay component. It includes retirement benefits of between 7.5% and 10%, a staff discount, and risk and insurance benefits.

This guaranteed pay is increased annually by a percentage based on the employee's specific role, affordability, inflation, personal and company performance, and relevant benchmarks. The CEO proposes management increases to the Remuneration Committee for approval. The Committee also reviews and approves executive increases in terms of its mandate.

In addition, the Group regularly signs collective bargaining agreements with recognised unions for specific periods of time, which exclude performance-linked increases in favour of uniform increases typically linked to inflation and other conditions.

## Part 2: Remuneration policy (continued)

### Variable pay

Managers and executives are eligible for variable pay, which includes both short- and long-term incentives linked to Group and business unit performance. These incentives encourage behaviour that supports the Group's business objectives as defined in the performance criteria. For 2020, the design has been adjusted and the performance criteria expanded for both incentives.

### Short-term incentives

Short-term incentives are designed to encourage and reward strong personal and operational performance each financial year. The bonus pool from which short-term incentives are drawn is determined by the trading profit target and is included in the budget and Annual Financial Statements. About 11 000 employees from all of the 19 operational and business units within the Group qualify for these incentives. Employees managed within branches can choose to receive their bonuses quarterly. If there is a difference between the sum of four quarterly bonuses and the annual bonus, the employee receives the larger of the two amounts.

The total bonus pool and allocations for each participating employee are determined at Group level. The table below sets out the relationships between Group-level and operational or business unit bonus pools, and the impact on individual bonuses. The relevant performance criteria depend on the unit and role, and can include metrics like employment equity, inventory losses and stock turnover.

#### Interaction between bonus pools and effect on individual bonuses

Achievement of Group-level profit target	Achievement of operational/business unit target	Impact on operational/business unit bonus pool	Impact on individual bonuses
Less than 70%	Any	Bonus pool adjusted lower	Participants may earn a portion of their on-target bonus based on operational- or business unit-specific criteria determined at the beginning of the financial year
Greater than 70%	Equal to or above Group-level achievement	Bonus pool equal to percentage of achieved operational/ business unit profit budget	Participants can achieve up to 120% of on-target incentive, capped at 100% unless current performance exceeds previous year
Greater than 70%	Less than Group-level achievement	Bonus pool adjusted lower	Participants may earn a portion of their on-target bonus based on operational- or business unit-specific criteria determined at the beginning of the financial year

An executive's performance will not be measured against areas in which they have no responsibility (for example, the Head Food Buyer will not be measured against non-food stock turnover).

During 2019, the Remuneration Committee began the process of changing the short-term incentive by expanding the performance criteria that will apply to 11 executives, including the CEO and CFO, in 2020. We are still developing additional performance criteria to apply to all employees who qualify for short-term incentives. As far as possible, these criteria will be job-specific. For 2020, short-term incentives for all other qualifying employees (apart from the 11 executives) remain linked to trading profit only (unless the Group achieves less than 70% of its trading profit target).





### Deferred short-term incentive

This incentive applies to about 1 956 middle managers and aims to improve retention. It was previously known as the long-term incentive bonus scheme. This incentive is awarded based on the same criteria as applied when awarding the short-term incentive.

Each year, qualifying managers are eligible to receive 75% of their short-term incentive awarded in deferred cash or, for employees in South Africa, restricted Shoprite Holdings shares. Due to tax implications and foreign exchange legislation, employees outside South Africa are not eligible to receive the award in shares. These shares are known as retention shares, and cannot be traded, but carry dividend and voting rights. The value, on which participants must pay tax, is transferred after three years, and participants who leave the Group within the three years do not receive any cash or share payment related to this incentive. As the value is based on the short-term incentive, it reinforces the motivation for managers to achieve the performance criteria while encouraging them to remain with the Group.

### Long-term incentive: Executive share plan

The executive share plan, which was approved by the JSE and shareholders in 2012, aims to retain key employees to ensure continuity. This incentive, previously known as the virtual option bonus, will apply to about 290 executives and senior managers in the 2020 financial year.

Participants qualify to receive three types of shares:

- **Performance shares:** Awarded based on the Group's average three-year growth in headline earnings per share, ROIC target and employment equity against Group-level targets. If less than 80% of the targets are achieved, no performance shares are awarded.
- **Retention shares:** Awarded automatically if the participant remains at the Group for the full three years.
- **Co-investment shares:** The Group will match the purchase, up to 15% of the executive share plan value per year, of Shoprite Holdings shares by participants (optional). The Group may assist with financing options for participants wishing to purchase co-investment shares.

Awards range from 20% to 100% of total guaranteed pay. As participants become more senior, performance shares comprise a larger portion of their executive share plan due to their increased responsibilities. Vested shares are transferred three years after the award. Values previously approved under the virtual option bonus (as at 1 July 2019) will be converted into ordinary shares under the rules of the scheme approved by shareholders in October 2012.

#### Proposed share mix and awards for executive share plan

Level	Award	Performance shares	Retention shares	Co-investment shares
CEO	100% of total guaranteed pay	75%	10%	15%
Senior executives	70% of total guaranteed pay	70%	15%	15%
Divisional and general managers	50% of total guaranteed pay	65%	20%	15%
Senior managers	Between 20% and 49% of total guaranteed pay	60%	25%	15%

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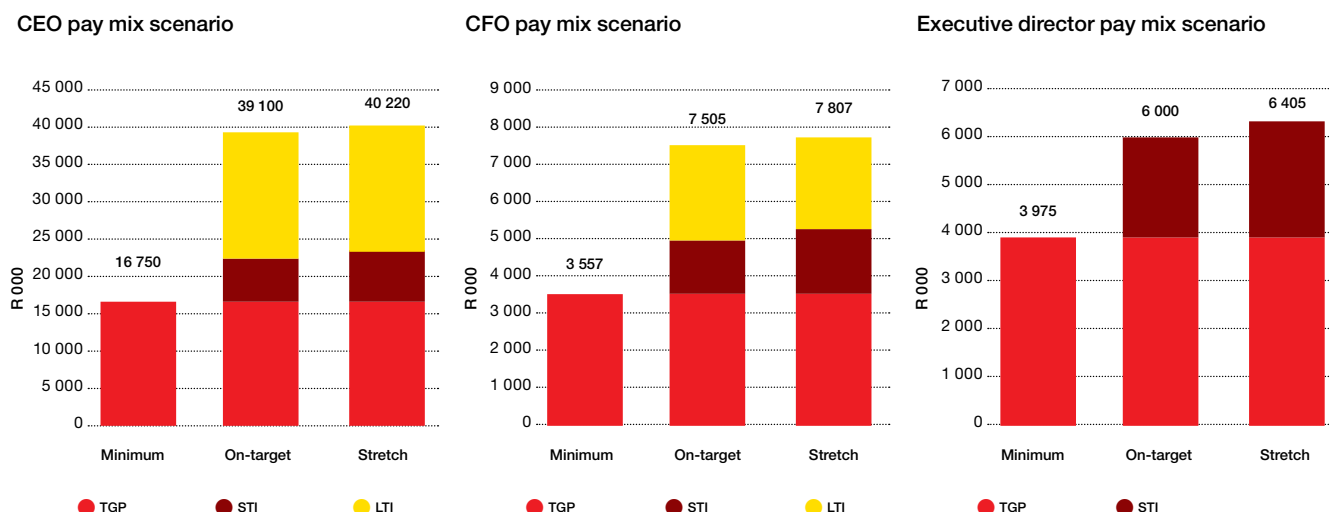
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## Part 2: Remuneration policy (continued)

### Total single-figure remuneration



The CEO's performance agreement was amended to align the performance criteria relating to his short- and long-term incentives to the same criteria set for the Group's executives, ensuring consistent treatment across the executive team. This change was made in line with earlier shareholder feedback. The CEO's pay mix will be brought in line with best practice over the next three to five years.

### Termination provisions

#### Provisions for termination of employment

Reasons for termination	Voluntary resignation	Dismissal/termination for cause or early retirement	Normal retirement or death	Mutual separation
Base salary	Paid over the notice period or as a lump sum	No payment	Paid for a defined period based on cause and local policy as executives have different employment companies	Paid over the notice period or as a lump sum
Benefits	May be provided during the notice period (as applicable) but will not be paid as a lump sum	Benefits stop when employment ends	Benefits stop when employment ends	May be provided during the notice period (as applicable)
STI	No payment	No payment	Payment made	Depends on agreement
DSTI	No payment or vesting	No payment or vesting	Awards vest or payments made	Depends on agreement
LTI	No payment or vesting	No payment or vesting	Outstanding awards forfeited at retirement  Pro rata vesting will take place on death	Depends on agreement



## Statement on malus and claw-back

The Group's policy relating to malus and claw-back applies to all recipients of short- and long-term incentive awards and is available on our website at [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za).

## Remuneration for non-executive directors

Independent non-executive directors receive a retainer for the time required to prepare for and attend meetings. These directors do not have employment contracts or receive benefits. The Group pays for travel and accommodation expenses incurred to attend meetings.

The Group Chairperson, Christo Wiese, is not independent. The Group pays his fees to Grene Properties (Pty) Ltd, a company related to him.

As outlined in the 2018 remuneration report, remuneration for non-executive directors within the Group is currently below the median benchmarks for JSE Top 40 companies. Over the past few years, the Remuneration Committee has referred to the PwC non-executive director remuneration report benchmarks for JSE Top 40 companies when considering non-executive director remuneration. In 2019, PwC was consulted to produce a benchmark report for the Group based on a comparator group of 14 listed companies with a similar profile. Given the size and complexity of our business, the Group has decided to adjust the fees for non-executive directors incrementally over the next few years. The proposed increases align with the results of that report.

The following table shows the fees that will be proposed for approval through a special resolution at the 2019 AGM, in line with the Companies Act. Subject to approval, these fees, which exclude VAT, will be paid retrospectively for the period from 1 November 2017 to 31 October 2018.

## Proposed non-executive director remuneration

	2019	2018	Increase
<b>Board of Directors</b>			
Chairperson*	R1 209 000	R598 000	102%
Lead independent director	R641 000	R466 000	38%
Non-executive director	R445 000	R424 000	5%
<b>Audit and Risk Committee</b>			
Chairperson	R316 000	R301 000	5%
Member	R160 000	R152 000	5%
<b>Remuneration Committee</b>			
Chairperson**	R193 000	R78 500	146%
Member	R92 000	R47 000	96%
<b>Nominations Committee</b>			
Chairperson	R193 000	R78 500	146%
Member	R92 000	R47 000	96%
<b>Social and Ethics Committee</b>			
Chairperson	R193 000	R102 000	89%
Member	R92 000	R47 000	96%
<b>Additional fee</b>			
Per meeting	R25 000	—	—
Per hour	R2 500	—	—

\* The median remuneration for the Board Chairperson at comparator companies is R1 456 269 (PwC Shoprite Holdings Ltd: Non-executive directors remuneration benchmark, June 2019).

\*\* The median remuneration for the Remuneration Committee Chairperson at comparator companies is R193 679 (PwC Shoprite Holdings Ltd: Non-executive directors remuneration benchmark, June 2019).

In addition, the Group is developing a framework for remunerating out-of-scope services from non-executive directors. Clear guidelines will be developed and approved by the Board in due course. The Committee proposes fees of R25 000 per meeting and R2 500 per hour for these services.

## Shareholder engagement and voting procedures

In line with best practice, King IV™ and the JSE Listings Requirements, the Group will table its remuneration policy together with the implementation report for two separate, non-binding advisory votes by shareholders at the 2019 AGM.

If 25% or more of ordinary shareholders vote against either or both the policy and report, the Remuneration Committee will engage shareholders to understand and address their concerns.

The SENS announcement on the results of the AGM will include an invitation for shareholders to engage on the reasons for their dissent. The invitation may include email or telephonic communication, in-person meetings and roadshows.

The Remuneration Committee will respond and provide feedback on shareholders' questions, queries and concerns. Following this engagement, the Committee may amend aspects of the remuneration policy.

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## Part 3: Implementation

About this report

This implementation report details how the remuneration policy was applied to prescribed officers, including executive, non-executive and alternate directors. The Remuneration Committee and the Board are satisfied with the implementation of the policy during the 2019 financial year. No policy exceptions were requested during the reporting period.

### Average growth in executive and employee remuneration

The Group comprises many subsidiaries operating in different markets, resulting in a large range in average remuneration increases primarily due to differences in roles and inflation.

The table below shows organisational performance for 2019 and the average increase in guaranteed executive pay. Executives who were promoted received an average increase of 16.7%. The Remuneration Committee approved an average increase of 6.5% for management across the Group, excluding promotions- and market-related adjustments. Across countries, increases varied based on inflation and sales performance. An inflation-linked increase was approved for all employees across the Group. Unionised employees in South Africa received an average annual bargaining unit increase of 9%.

The Group aims to structure their remuneration for executives on average at the median of the market, depending on years of experience and individual performance. In benchmarking executives against the market data, it was necessary to make certain above-the-norm increases which resulted in an average increase of 7.2%. During the last couple of years, the Group experienced a substantial number of new entrants into the executive group which also contributed to above-the-norm increases.

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### Average growth in executive guaranteed pay and organisational performance

	2019	2018	2017	2016
Average increase in total guaranteed pay for executives	7.2%	7.8%	7.9%	7%
Growth in basic headline earnings per share	(19.6%)	5.2%	13.1%	17%
Growth in trading profit	(14.3%)	(1.4%)	11.6%	15%
Growth in turnover	3.6%	3.1%	8.4%	14.4%
Growth in dividends per share	(34.1%)	(4%)	11.5%	17.1%
Growth in EBITDA	(5.9%)	1%	6.8%	16.2%

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### Variable pay outcomes for 2019

The tables below show the short- and long-term incentive outcomes for executives in the 2019 financial year. Short-term incentives were linked to trading profit, which measured R6.9 billion in 2019, or 91.6% of the target. Short-term incentive earnings were calculated by excluding the effects of hyperinflation which resulted in achieving 80% of the target. Long-term incentive awards were granted based on retrospective performance conditions based on the King IV™ methodology.

### Short-term incentive outcomes

	Minimum	On-target	Actual short-term incentive for 2019	
	Short-term incentive earning potential (% of total guaranteed pay)		R'000	% of total guaranteed pay
Executive directors				
Pieter Engelbrecht	Nil	33.4	4 436	26.5
Anton de Bruyn	Nil	42.2	1 161	32.6
Ram Harisunker	Nil	50.9	1 402	35.2

### Long-term incentive outcomes

	Value granted under the virtual option bonus		Value to be settled	
Executive directors	R'000	% of TGP	In cash	In shares
Pieter Engelbrecht	—	—	—	—
Anton de Bruyn	1 960	55.1	—	1 960
Ram Harisunker	—	—	—	—

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## Total remuneration earned by executive directors

Executive directors (R'000)	Pieter Engelbrecht		% change	Anton de Bruyn		% change	Ram Harisunker		% change
	2019	2018		2019	2018		2019	2018	
Salary	16 130	15 007	7.5	3 123	2 445	27.7	3 794	3 553	6.8
Benefits	214	330	(35.2)	207	173	19.7	—	—	—
Short-term incentive	4 436	4 524	(1.9)	1 161	1 023	13.5	1 402	1 615	(13.2)
Long-term incentive*	—	—	—	1 960	1 249	56.9	—	—	—
Other	491	503	(2.4)	287	255	12.5	528	790	(33.2)
<b>Total</b>	<b>21 271</b>	<b>20 364</b>	<b>4.5</b>	<b>6 738</b>	<b>5 145</b>	<b>31.0</b>	<b>5 724</b>	<b>5 958</b>	<b>(3.9)</b>

\* Long-term incentive amounts that were earned during the current year (on the way in) and which will vest over the next 3-5 years.

## Other remuneration, including unvested awards

Long-term incentives granted and accepted during the year, their indicative value at year-end and the cash value of awards settled during the year.

Date of grant	Number of instruments awarded	Price on grant (if shares) R	Total face value on grant R	Total fair value on grant R	Settlement method	Final vesting date	Number of instruments vested	Number of instruments settled in year	Cash value of instruments settled in year <sup>1</sup> R	Closing number of unvested instruments	Indicative fair value of unvested instruments R
<b>Pieter Engelbrecht</b>											
24 Oct 2017	50 873	208.08	10 585 654	10 305 740	Shares	30 Sept 2020	16 958	16 958	3 222 020	33 915	3 035 853
<b>Anton de Bruyn</b>											
24 Oct 2017	6 983	208.08	1 453 023	1 403 209	Shares	30 Sept 2020	2 328	2 328	442 320	4 655	411 934
1 Nov 2018	6 871	181.76	1 248 873	1 077 508	Shares	30 Sept 2023	—	—	—	6 871	383 389

<sup>1</sup> Awards were settled on 21 September 2018 at a share price of R190.00.

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## Part 3: Implementation (continued)

### Non-executive director remuneration and composition

The table below sets out the fees paid to non-executive directors, excluding VAT, for the period from 1 November 2017 to 30 October 2018.

#### Non-executive director fees

Name	Independent	Membership/role	Fees paid R
Christo Wiese	No	Board Chairperson	598 000
		Chair, Nominations Committee	78 500
		Member, Remuneration Committee	47 000
		<b>Total</b>	<b>723 500</b>
Shirley Zinn	Yes	Director	35 333
		<b>Total</b>	<b>35 333</b>
Johan Basson	Yes	Director	424 000
		Chair, Audit and Risk Committee	301 000
		<b>Total</b>	<b>725 000</b>
Anna Mokgokong	Yes	Director	424 000
		Chair, Social and Ethics Committee	47 000
		Member, Nominations Committee	47 000
		<b>Total</b>	<b>518 000</b>
Joseph Rock	Yes	Director	424 000
		Member, Audit and Risk Committee	152 000
		<b>Total</b>	<b>576 000</b>
Edward Kieswetter	N/A	Lead Independent Director	466 000
		Member, Nominations Committee	47 000
		Member, Remuneration Committee	65 367
		<b>Total</b>	<b>578 367</b>
Nols Louw	N/A	Director	424 000
		Member, Audit and Risk Committee	152 000
		Member, Nominations Committee	47 000
		Chair, Remuneration Committee	60 127
		Chair, Social and Ethics Committee	102 500
		<b>Total</b>	<b>785 127</b>
Jimmy Fouché	N/A	Director	424 000
		Member, Audit and Risk Committee	152 000
		<b>Total</b>	<b>576 000</b>

This 2019 remuneration report was approved by the Remuneration Committee of Shoprite Holdings Limited on 19 August 2019.



## Our Chief Financial Officer's review

### Financial review

#### Sale of merchandise

For the 12 months ending 30 June 2019, the Group's turnover grew by 3.6% to R150.4 billion.

Emerging from a transformational year in 2018, which resulted in only marginal sales growth in the first half to December, the Group managed to report improved growth in the second half of the financial year. This performance was driven mainly by our Supermarkets RSA operation growing sales by 7.4% in the six months to June 2019 and 9.4% in the final quarter. The market share gains reflected in the most recent quarter testify to our core South African business being back to full operational strength.

Trading conditions in the rest of Africa remain relentless, as the results attest, but given our optimism for the long-term food retail opportunity on the continent, we remain resolute in our purpose: to be Africa's most affordable and accessible retailer.

#### Sales of merchandise per segment

	% change	52 weeks 2019 Rm	52 weeks 2018 Rm
Supermarkets RSA	4.9	112 655	107 344
Supermarkets Non-RSA	(7.7)	21 324	23 106
Furniture	4.0	6 206	5 967
Other operating segments	10.0	10 409	9 464
Total operating segments	3.2	150 594	145 881
Hyperinflation effect	(74.4)	(199)	(777)
Consolidated	3.6	150 395	145 104

#### Summary statement of comprehensive income

	% change	52 weeks 2019 Rm	Restated* 52 weeks 2018 Rm
Sale of merchandise	3.6	150 395	145 104
Cost of sales	4.2	(115 074)	(110 415)
<b>Gross profit</b>	1.8	35 321	34 689
Other operating income	10.0	3 218	2 926
Depreciation and amortisation	4.3	(2 640)	(2 530)
Operating leases	8.7	(4 643)	(4 272)
Employee benefits	10.6	(11 997)	(10 851)
Other operating expenses	5.7	(13 303)	(12 591)
Net monetary gain	40.9	920	653
<b>Trading profit</b>	(14.3)	6 876	8 024
Exchange rate gains/(losses)		115	(251)
Items of a capital nature		(80)	(246)
<b>Operating profit</b>	(8.2)	6 911	7 527
Interest received from bank account balances	27.0	273	215
Finance costs	100.2	(845)	(422)
Share of profit of equity accounted investments		—	27
<b>Profit before income tax</b>	(13.7)	6 339	7 347
Income tax expense	(2.6)	(2 068)	(2 124)
<b>Profit for the year</b>	(18.2)	4 271	5 223
Basic earnings per share (cents)	(17.9)	768.2	936.0
Diluted earnings per share (cents)	(18.0)	767.3	935.2
Basic headline earnings per share (cents)	(19.6)	780.8	971.4
Diluted headline earnings per share (cents)	(19.6)	779.9	970.5

\* Restated for the changes in accounting policy.



**Anton de Bruyn**  
Chief Financial Officer

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### Supermarkets RSA

The Group's core business, Supermarkets RSA, trades through 1 580 stores and represents 74.9% of Group sales. Over the reporting period, its sales grew by 4.9% to R112.7 billion.

Like-for-like growth measured 1.9%, with internal selling price inflation of 1.2%, up from only 0.3% last year. This full-year performance should be viewed in the context of a disappointing first half in which sales grew by only 2.6%, impacted by the completion of our multi-year enterprise resource planning IT system re-platforming, as well as the aftermath of the May and June 2018 industrial action at our largest distribution centre in Gauteng. However, a much-improved second half period in which sales increased by 7.4% on the back of better customer and volume growth, as well as an improvement in on-shelf availability and promotional effectiveness, leaves us confident in the restored strength of this division and its formats.

Our Checkers supermarket chain, although also constrained by the same availability issues that plagued the Group, was the better performer of our major food retail brands in South Africa. Turnover growth, inclusive of its 37 larger-format hypers, measured 4.6% for 2019. Its strategy of growing its share of the mid-to-upper segment of the market by focusing on improving its fresh offer (among other improvements such as private label and ready-to-eat convenience foods) has continued to gain traction. The chain now operates 21 FreshX concept stores, up from 13 at this time last year. Through a combination of refurbishments and some new stores, we expect to grow the number of these formats by a further 21 next year, with the medium-term target of 80 stores in this new format unchanged. After opening a net six new stores, Checkers (excluding hypers) ended the year with 219 stores in South Africa. Excluding the hypers, a number of which were undergoing renovation during the year, Checkers grew overall market share, especially in its focus categories of fresh, convenience and prepared meals.

Both Shoprite and Usave customers, who rely on many food categories still in deflation, remain vulnerable, as seen in the more subdued sales growth reported by these two chains. After reporting sales growth of 1.2% for the first six months of the year, Shoprite grew sales for the year by 3.5%. It opened a net 17 new locations to end the year with a base of 488 South African stores. As our mainstay low-price champion, Shoprite stayed true to its price

leadership positioning as evidenced by reported market share gains in the most recent quarter.

Given Usave's significant Gauteng footprint and smaller ranges, it was most exposed to inventory shortages during and after the third-party industrial action in our distribution centre. This, together with price deflation and a very constrained customer base, resulted in Usave reporting sales growth for the year of 0.8%. This low-cost, limited assortment discount chain has stayed focused on its customer segment, opening a net 32 stores to end the year with 367 locations throughout South Africa.

LiquorShop, which spans both the Checkers and Shoprite brands, reported 25.1% sales growth. It opened a net 44 new stores in South Africa this year.

### Supermarkets Non-RSA

Supermarkets Non-RSA reported constant currency turnover growth of 0.9%, inclusive of a 12.2% decline in constant-currency turnover in our Angolan operation. Rampant inflation in recent years has reduced spending power and therefore reduced our ability to maintain gross margins, while foreign currency shortages and an increasingly onerous regulatory environment around the importation of products have hampered availability. Despite this, we have maintained operational excellence and opened a net eight new stores for the year. During the financial year, the currencies of Zambia and Nigeria – also large countries in which we trade – declined sharply against the US dollar (by 29.4% and 17.9% respectively). This, too, negatively affected turnover growth. Across the 14 countries outside South Africa in which we operate, we estimate that internal food inflation averaged 3.3% for the current year. Turnover in Supermarkets Non-RSA declined by 7.7% to R21.3 billion, inclusive of a decline in Angolan supermarkets of 38.4%. Supermarkets Non-RSA like-for-like sales declined by 11.9%.

### Furniture

Despite challenging trading conditions, the Furniture division, including its Non-RSA business, increased turnover by 4.0% to R6.2 billion. As a result of the continued impact of the introduction of affordability assessments, credit participation declined further to 12.7% of sales. In South Africa, OK Furniture closed a net 13 stores after accounting for four openings, and House & Home closed six stores. On a net basis, the division added no stores outside of South Africa.

### Other operating segments

Other operating segments, which include OK Franchise, MediRite Pharmacy and Checkers Food Services, achieved pleasing growth of 10.0%, with our franchise division's growth benefiting from our strategic focus on building this offer. Our rebranded OK Franchise opened a net 36 stores this year, with the base now totalling 398 stores throughout South Africa. Outside South Africa, OK Franchise added a net six new stores, with a base of 62 at year-end. Our total footprint includes 38 forecourt stores, which are performing well.

### Gross profit

Gross profit growth of 1.8% year-on-year to R35.3 billion resulted in a gross margin of 23.5%.

The South African businesses' gross profit margin increased over the year, which is a considerable achievement in exceptionally difficult circumstances. Once again, shrinkage remained well controlled.

The reported decline of 40 basis points, compared to last year's 23.9%, is mainly due to:

- The inability to pass on the higher cost of imported goods to our customers in countries where we have experienced significant currency devaluation.
- The cost of distribution increased as a result of increased fuel costs.
- The change in accounting for inventory from the retail method to the moving average cost method. This is a result of our completed enterprise-wide IT system rollout across all supermarkets. This once-off adjustment amounted to R95.2 million for the year.
- A R47 million adjustment due to the application of hyperinflation accounting.

### Gross margin

	%
June 2019	23.5
June 2018	23.9
Decrease in gross margin	(0.4)

### Decrease attributable to:

Operational improvements in the rest of the business	0.3
Slowdown in Supermarkets Non-RSA segment	(0.3)
Once-off IFRS adjustments and supply chain costs	(0.4)
Decrease in gross margin	(0.4)



## Other operating income

Other operating income increased by 10.0% to R3.2 billion, mainly due to an increase in franchise fees received, commission received and investment income. In line with the aforementioned lower credit sales participation in our Furniture division, net premiums earned and finance income from instalment sale receivables declined by 18.3% and 9.9% respectively.

Investment income increased as a result of our R3.0 billion investment in AOA, USD index-linked Angola Government Bonds, Angola Treasury Bills and AOA, Angola Government Bonds. These financial instruments hedge against currency devaluations.

## Expenses

The competitive nature of food retail requires vigilance when it comes to managing costs, an area that remains a top priority for the Group. This year's total expense growth was 7.7%.

- Depreciation and amortisation expenses grew by 4.3% as the Group continued its investment in IT and logistics infrastructure during the year. We also continue to open new stores while refurbishing our existing store base on a seven to eight year cycle. This year we added a total of 139 new corporate outlets and closed 55. Included in depreciation for the year is the charge of R88 million relating to the hyperinflation adjustment to assets.
- Operating lease expenses grew by 8.7% as a result of the combined effect of annual lease escalations, corporate store growth and the negative impact of currency devaluations on lease costs in various other African countries where we hold US dollar lease agreements.
- Employee benefit expenses increased by 10.6% because of costs associated with implementing the new minimum wage legislation effective from January this year, the increase in employee development costs including the YES programme, and the cost of additional staff for new stores.
- Growth in other operating expenses of 5.7% includes expenses such as electricity and water, repairs and maintenance, security and credit card commissions paid. The growth in other expenses was mainly due to the increases in water and electricity of 9.3% due to electricity tariff increases being set by the National Energy Regulator of South Africa. In an effort to reduce our long-term operating cost, the Group has introduced various energy-saving initiatives.

## Net monetary gain

Currency devaluation in Angola and high levels of consumer inflation over the past three years have necessitated that our results be prepared in accordance with IAS 29: Financial Reporting in Hyperinflationary Economies. IAS 29 takes into account the effect of hyperinflation on all non-monetary assets and liabilities in the region. As a result, we report a net monetary gain of R920 million, up from last year's R653 million.

## Trading profit

Supermarkets RSA's 5.5% second-half trading margin demonstrates the inherent strength of our core business. It is a significant improvement from the 5.1% trading margin reported for the first half of the financial year and resulting in a full-year trading margin of 5.3%.

Conversely, Supermarkets Non-RSA experienced tougher conditions in the second half of the year, resulting in a R265 million trading loss for 2019. This reflects a materially lower second-half margin.

The Group's trading margin, before hyperinflation, declined to 4.0%.

## Trading profit per segment

	% change	52 weeks 2019 Rm	Trading margin 2019 %	52 weeks 2018 Rm	Trading margin 2018 %
Supermarkets RSA	(9.1)	5 952	5.3	6 551	6.1
Supermarkets Non-RSA	(140.8)	(265)	(1.2)	650	2.8
Furniture	(40.6)	152	2.4	256	4.3
Other operating segments	(32.7)	169	1.6	251	2.7
Total operating segments	(22.1)	6 008	4.0	7 708	5.3
Hyperinflation effect	174.7	868		316	
Consolidated	(14.3)	6 876	4.6	8 024	5.5

## Foreign exchange differences

As per our accounting policies, the assets and liabilities of foreign subsidiaries are converted to rands at closing rates. These translation differences are recognised in equity in the foreign currency translation reserve. In essence, most foreign exchange differences in the statement of comprehensive income are due to US dollar denominated short-term loans of operations outside South Africa and balances in US dollars held in offshore accounts.

During the year, the rand weakened against the US dollar, and both the Angolan kwanza and the Zambian kwacha experienced devaluation, which affected the short-term loans. The hedging strategy applied resulted in exchange rate gains of R115 million, compared to a loss of R251 million in the previous financial year.

The table below gives the approximate rand cost of a unit of the following major currencies at year-end.

## Currency movements and costs

	% change	2019	2018	2017
US dollar	3.4	14.174	13.710	13.038
Euro	0.8	16.106	15.972	14.916
Zambian kwacha	(20.1)	1.095	1.370	1.416
Angolan kwanza	(25.5)	0.041	0.055	0.078
Mozambiquan metical	(1.3)	0.226	0.229	0.217
Nigerian naira	(13.3)	0.039	0.045	0.043

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## Our Chief Financial Officer's review (continued)

### Net finance costs

Net finance costs increased by 176.3% to R572 million during the financial year, as a result of the increased long-term borrowings to fund the capital requirements of the Group this year.

#### Net finance cost

	Rm
Net finance cost – June 2019	572
Net finance cost – June 2018	207
Increase in net finance cost	365

#### Increase attributable to:

Increase in RSA borrowings	132
Increase in Non-RSA borrowings	168
Lower interest charges on call accounts and bank balances	(35)
Lower capitalisation of borrowing cost	104
Other elements	(4)
Increase in net finance cost	365

The year ahead will see the completion of a number of strategically important and necessary projects that have been on the Group's radar for many years. These include our digital transformation programme, the conversion of our Sandton City Checkers to our FreshX format, the long-awaited development of a new Checkers in Constantia (Cape Town), the extension of our Home Office in Brackenfell (including an upgrade of the adjacent Brackenfell Checkers Hyper), and the completion of two new stores in Kenya, given our recent entry into that market. We are critically assessing capital spend to pursue growth that generates cash, accrues returns and is strategically beneficial.

### Income tax expense

The effective income tax rate is higher than the nominal income tax rate, due to the write-back of deferred tax assets given income tax losses in Non-RSA in the current year. In a few Non-RSA countries, a minimum tax is applicable, contributing to the higher overall tax rate.

### Headline earnings per share

Basic headline earnings per share decreased by 19.6%, from 971.4 cents to 780.8 cents, and diluted headline earnings per share decreased by 19.6%, from 970.5 cents to 779.9 cents.

### Statement of financial position

#### Non-current assets

#### Property, plant and equipment and intangible assets

The Group spent R5.3 billion on property, plant and equipment and software. Of this, we spent R1.0 billion on leasehold improvements and vacant land for retail development, which we do in special circumstances where no developers can be found; R1.2 billion on store refurbishments and store maintenance; R1.3 billion on new stores (excluding land and buildings); and R681 million on IT. The remainder was spent on supply chain projects.

As stated, the Group has embarked on a programme to dispose of non-strategic real estate to unlock value from the balance sheet. To date we are in the process of selling real estate to the value of R940 million. These sale-and-leaseback agreements can secure the long-term strategic use of these purpose-built assets without tying up our capital in owning them.

Property, plant and equipment includes a cumulative hyperinflation adjustment of R2.2 billion resulting from the application of IAS 29.

Intangible assets consist mainly of goodwill paid for acquisitions, trademarks acquired and software. Goodwill represents the premium paid for certain businesses and is tested for impairment annually based on the higher of the fair value less cost to sell or the value-in-use of these businesses, calculated using cash flow projections.

Software represents the Group's investment in certain computer software that is used in its daily operations. Software is amortised over its useful life of three to 10 years.

Trademarks mainly represent the purchased Computicket, Transpharm and Seven Eleven/Friendly Grocer trademarks, which are amortised over 20, 16 and 20 years respectively.

### Deferred income tax assets

Deferred income tax is reported using the liability method for calculated income tax losses and temporary differences between the income tax bases of assets and liabilities, and their carrying values for financial reporting purposes. This asset developed primarily from provisions created for various purposes as well as the fixed escalation operating lease accrual.

Deferred income tax assets are evaluated on an annual basis to ensure recoverability.

### Government bonds and bills

Government bonds and treasury bills held at the reporting date in Angola amounted to R3.0 billion compared to R3.7 billion in 2018. Local currency cash and short-term deposits in Angola are subject to onerous local exchange control regulations. The Group is using this cash for its local trade and has invested surplus cash in AOA, USD-linked Angola government bonds as well as Angola Treasury bills and AOA, Angola government bonds, as part of its hedging strategy.

	2019 Rm	2018 Rm
AOA, USD-linked Angola government bonds	2 567	3 008
AOA Angola government bonds	433	—
Angola Treasury bills	16	682
Total government bonds and bills	3 016	3 690



## Current assets

### Inventories

Inventories amounted to R20.9 billion, an increase of 16.3% from the previous year. The marked 25.4% increase in Supermarkets RSA inventories is a result of our efforts to restore on-shelf availability post out-of-stock issues during the first half of the year. While this decision succeeded in increasing sales during the second half of the year, we have set targets to reduce stockholding during 2020.

#### Inventories per segment

	% change	2019 Rm	2018 Rm
Supermarkets RSA	25.3	15 471	12 345
Supermarkets Non-RSA	(3.9)	3 490	3 632
Furniture	5.0	1 493	1 422
Other segments	(19.6)	402	500
Total operating segments	16.5	20 856	17 899
Hyperinflation effect	(45.0)	33	60
Consolidated	16.3	20 889	17 959

The inventory turn, based on the cost of merchandise sold, was 5.9 times (2018: 6.7 times).

### Trade and other receivables

Trade and other receivables mainly represent instalment sale debtors, franchise debtors, receivables from medical aid schemes, buy-aid societies and rental debtors. Adequate allowance is made for potential bad debts and the outstanding debtors' book is reviewed regularly.

#### Trade and other receivables

	2019 Rm	2018 Rm
Trade receivables from contracts with customers	2 169	2 112
Instalment sale receivables from contracts with customers	1 028	1 228
Other receivables	666	1 043
Prepayments and indirect taxes receivable	1 130	1 332
Fixed escalation operating lease accruals	55	51
Amounts receivable from joint ventures	31	25
Total trade and other receivables	5 079	5 791

The Group adopted IFRS 9: Financial Instruments with effect from 2 July 2018, resulting in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group elected not to restate its comparative information. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to opening retained earnings on 2 July 2018. The total impact on the Group's retained earnings was a reduction of R381 million.

The allowance for impairment relating to instalment sale debtors amounted to 35.8%, compared with 20.0% in the previous year. The allowance for impairment is provided in line with a model developed by independent actuarial specialists specifically for the furniture business.

### Cash and cash equivalents and bank overdrafts

Net cash and cash equivalents (after deducting overdrafts) amounted to R3.6 billion compared with R3.5 billion in 2018, mainly due to a favourable month-end accounts payable cut-off.

#### Cash, cash equivalents and bank overdrafts

	2019 Rm	2018 Rm
Cash and cash equivalents	7 707	7 465
Bank overdrafts	(4 124)	(3 995)
Net cash and cash equivalents	3 583	3 470

### Non-current liabilities

#### Borrowings

Total borrowings increased by R4.7 billion to R11.7 billion as a result of securing medium-term funding of R4.1 billion in South Africa. The funding will be used to reduce reliance on offshore funding and short-term overnight facilities.

#### Borrowings

	2019 Rm	2018 Rm
Non-current	9 044	1 371
Current	2 662	5 606
Total borrowings	11 706	6 977

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## Our Chief Financial Officer's review (continued)

### Current liabilities

#### Provisions

We have provided adequately for post-retirement medical benefits, reinstatements, onerous lease contracts, long-term employee benefits and all outstanding insurance claims. The Group has settled a major portion of its post-retirement medical liability in the past. The remaining liability relates mainly to pensioners and will be settled during the next financial years.

#### Provisions

	2019 Rm	2018 Rm
Non-current	289	264
Current	119	95
Total provisions	408	359

#### Hire purchase sales

The Group continued to supply credit facilities as part of its furniture business. The management and administration of this debtor's book is done in-house as the granting of credit is deemed an integral part of selling furniture.

#### Shoprite Insurance

The Group operates its own short-term insurance company as part of the furniture business and as an insurance vehicle for its own assets. During the year under review net third-party premiums earned amounted to R267 million, compared with R327 million in 2018. Net premiums for credit protection amounted to R148 million, compared with R210 million in 2018. As in the past, the Group accounts for premiums earned and extended guarantee fees over the life of the policy. In South Africa, insurance premiums are invoiced and earned on a monthly basis. This is in line with the National Credit Act.

At year-end, the insurance company had a solvency capital requirement as per the Insurance Act of R394 million (2018: R382 million), with actual own funds/equity available to meet a requirement of R694 million. This means we had a solvency capital requirement cover of 1.8 times (2018: 2.3 times) before the declaration of dividends to the holding company. Dividends during the year amounted to R350 million (2018: R100 million).

### Looking ahead

#### IFRS 16 Leases

IFRS 16 applies to the Group for the first time for the accounting period commencing 1 July 2019. The Group will adopt the new financial reporting standard retrospectively, with comparatives restated from a transition date of 2 July 2018.

IFRS 16 has a significant impact on the reported assets, liabilities and statement of comprehensive income of the Group, as well as the classification of cash flows relating to lease contracts and multiple performance measures used by the Group. The implementation is nearing completion and the Group estimates that, had IFRS 16 been applied in the 52 weeks ending 1 July 2018, the impact on the consolidated statement of financial position as at 1 July 2018 would have been:

- Recognition of a right-of-use asset ranging between R15.8 billion and R16.8 billion.
- Reclassification of R0.8 billion from non-current trade and other receivables to a right-of-use asset.
- Recognition of a lease liability ranging between R20.7 billion and R21.7 billion.
- Derecognition of fixed escalation operating lease accruals and onerous lease provisions of about R1.4 billion.
- Recognition of deferred income tax asset ranging between R0.8 billion and R1.0 billion.

Under IFRS 16, the straight line operating lease rental expense is replaced by depreciation of the right-of-use asset and interest on the lease liability. Profit after tax for the 52 weeks ending 30 June 2019 is expected to decrease by between R530 million and R830 million. This includes exchange rate losses ranging from R460 million to R520 million where lease liabilities subject the Group to foreign currency exposure. Management intends to apply net investment hedge accounting to reduce this exposure.

IFRS 16 has no impact on total cash flow for the year or cash and cash equivalents at the end of the year. It is expected that cash generated from operations will increase as operating lease rental expenses are no longer recognised as operating cash outflows. Cash outflows will instead be split between interest paid (included in operating activities) and repayments of obligations under leases (included in financing activities).

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## Outlook

With respect to Non-RSA, persistently challenging trading conditions in the year ahead are likely to constrain our ability to return to profitability. Angola is expected to be removed from the list of hyperinflationary countries in the year ahead and, therefore, we expect that we will not be required to report in accordance with IAS 29 in the 2020 financial year.

Following the end of the 2019 financial year, we have maintained our Supermarkets RSA sales momentum, with Usave in particular reaping the benefits of our restored in-stock position. We have seen a slow increase in recent months in selling-price inflation for Supermarkets RSA, to 2.5% currently.

We've entered 2020 bolstered by our success over the past six months. We will combine our continued operational focus with continuing to consolidate our financial position by reducing inventories, critically assessing capital expenditure and, where appropriate, selling selected assets to redirect capital towards future growth projects.

We are confident that, following our system replacement, the Group is future-fit and we look forward to achieving returns from a smarter Shoprite Group. Over the next few months, we will also operationalise key innovation projects that will unlock additional revenue streams and enhance our digital presence in the new race for reach.

The table below sets out our financial targets for the next three years, which will be linked to executive and senior management remuneration incentives from 2020.

### Long-term financial targets

Long-term targets	Results for 2019	Targets for 2020 – 2022
Return on invested capital by 2022	11.0%	14.5% – 16.5%
Growth in diluted headline earnings per share (average)	(19.6%)	5% – 7%

As our operating context remains difficult, we are focused on optimising the factors within our control. Our long-term targets show our commitment to sustainable returns for our investors as we preserve our investment in Africa.

**Anton de Bruyn**  
Chief Financial Officer

19 August 2019

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# Shareholder analysis

Shoprite Holdings Ltd as at 30 June 2019

Shareholder spread	No of		No of Shares	
	Shareholdings	%		%
1 – 1 000 shares	32 275	83.29	8 267 638	1.40
1 001 – 10 000 shares	5 126	13.23	13 985 879	2.36
10 001 – 100 000 shares	964	2.49	32 635 684	5.52
100 001 – 1 000 000 shares	304	0.78	90 595 502	15.32
Over 1 000 000 shares	80	0.21	445 853 799	75.40
<b>Totals</b>	<b>38 749</b>	<b>100.00</b>	<b>591 338 502</b>	<b>100.00</b>
Distribution of shareholders	No of		No of Shares	
	Shareholdings	%		%
Banks/Brokers	339	0.88	274 071 321	46.35
Close Corporations	263	0.68	997 668	0.17
Endowment Funds	233	0.60	1 960 024	0.33
Individuals	30 605	78.98	21 530 952	3.64
Insurance Companies	89	0.23	19 022 936	3.22
Investment Companies	12	0.03	938 352	0.16
Medical Schemes	35	0.09	425 904	0.07
Mutual Funds	501	1.29	45 895 674	7.76
Other Corporations	206	0.53	186 575	0.03
Private Companies	939	2.42	62 147 746	10.51
Public Companies	14	0.04	229 610	0.04
Retirement Funds	473	1.22	104 903 663	17.74
Treasury Shares	3	0.01	35 436 572	5.99
Trusts	5 037	13.00	23 591 505	3.99
<b>Totals</b>	<b>38 749</b>	<b>100.00</b>	<b>591 338 502</b>	<b>100.00</b>
Public/non-public shareholders	No of		No of Shares	
	Shareholdings	%		%
Non-public shareholders	36	0.09	101 096 048	17.10
Directors of the Company	32	0.08	64 315 390	10.88
Shares held for benefit of participants to equity settled share-based payments arrangements*	1	0.00	1 344 086	0.23
Treasury shares	3	0.01	35 436 572	5.99
<b>Public shareholders</b>	<b>38 713</b>	<b>99.91</b>	<b>490 242 454</b>	<b>82.90</b>
<b>Totals</b>	<b>38 749</b>	<b>100.00</b>	<b>591 338 502</b>	<b>100.00</b>

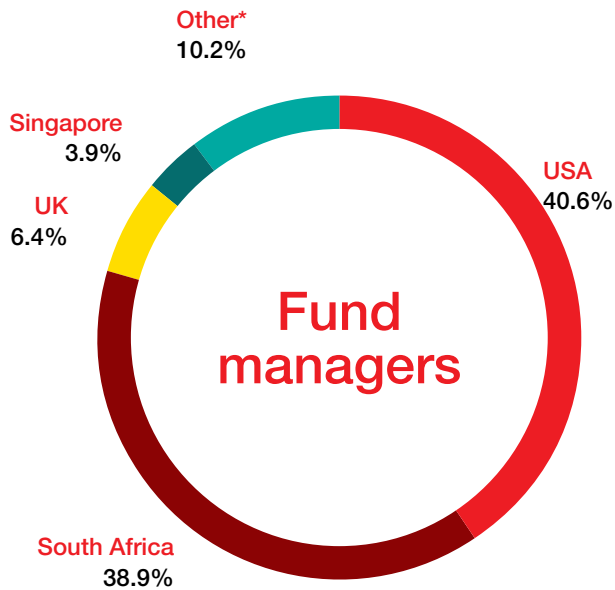
\* Excludes shares held by directors in Shoprite Holdings Ltd Executive Share Plan.

Beneficial shareholders holding 1% or more	No of Shares	%
Government Employees Pension Fund	70 051 109	11.85
Wiese, CH	63 247 189	10.70
Shoprite Checkers (Pty) Ltd	35 436 572	5.99
OppenheimerFunds	27 031 152	4.57
T. Rowe Price	22 758 534	3.85
Capital Group	17 230 505	2.91
Vanguard	17 200 273	2.91
GIC Private Limited	16 539 510	2.80
Lazard	14 172 101	2.40
Coronation Fund Managers	13 282 469	2.25
BlackRock	11 493 578	1.94
Le Roux, JF	8 861 281	1.50
Government Pension Fund – Norway	8 678 166	1.47
JPMorgan	8 405 136	1.42
Old Mutual	7 229 450	1.22
Sanlam	7 163 658	1.21
<b>Totals</b>	<b>348 780 683</b>	<b>58.99</b>

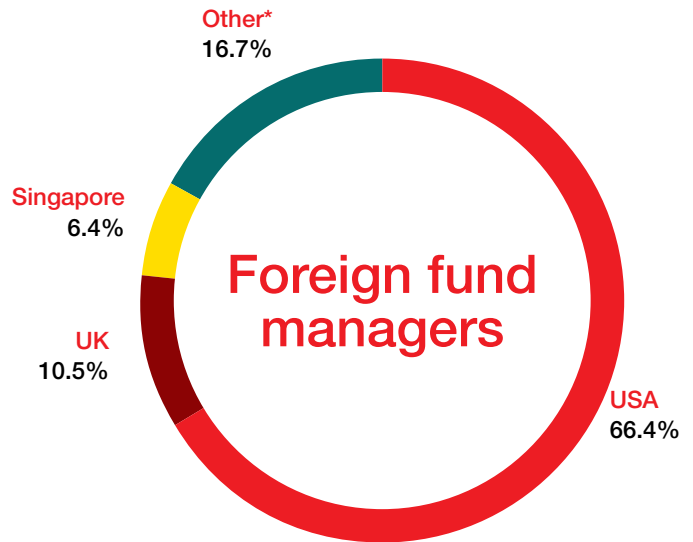


# Shareholders

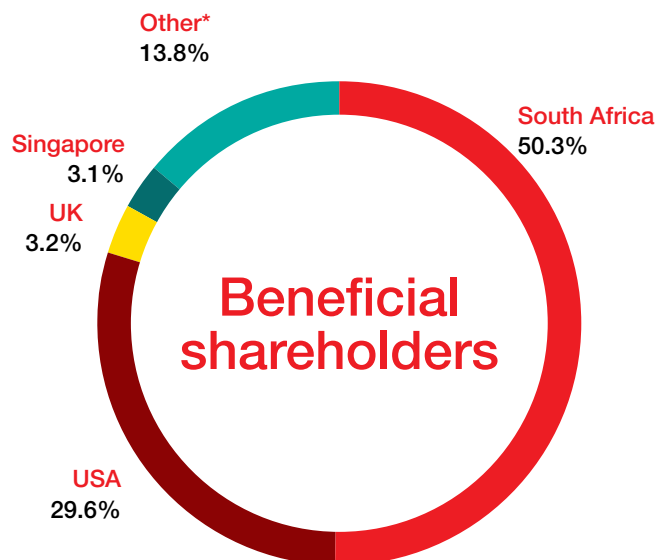
## Country classification



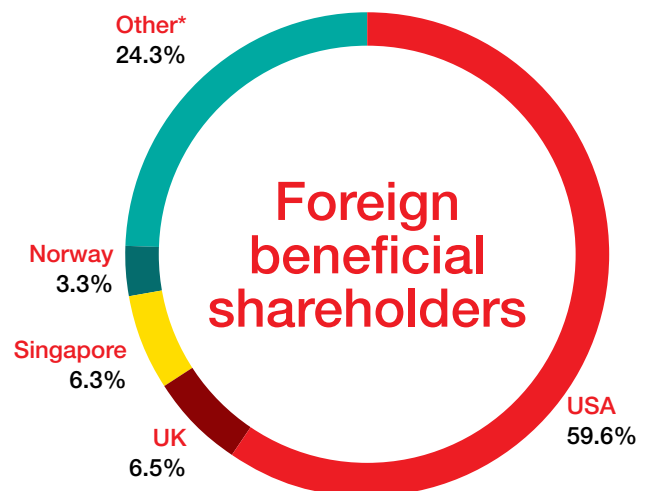
\*Other: Japan, Luxembourg, Namibia, Australia, China, Canada, Denmark, Germany, France, UAE, Switzerland, Norway, Sweden, Netherlands, Ireland, Malta, Belgium, South Korea, Italy, Austria, Kuwait, Slovenia, Cayman Islands, Hong Kong, Chile



\*Other: Japan, Luxembourg, Namibia, Australia, China, Canada, Denmark, Germany, France, UAE, Switzerland, Norway, Sweden, Netherlands, Ireland, Malta, Belgium, South Korea, Italy, Austria, Kuwait, Slovenia, Cayman Islands, Hong Kong, Chile, Saudi Arabia



\*Other: Norway, Namibia, Japan, Luxembourg, Ireland, Canada, Unidentified, China, Australia, Denmark, Germany, Switzerland, South Korea, France, Netherlands, UAE, Sweden, Saudi Arabia, Zambia, Swaziland, Belgium, Malta, Kuwait, Cayman Islands, Italy



\*Other: Namibia, Japan, Luxembourg, Ireland, Canada, Unidentified, China, Australia, Denmark, Germany, Switzerland, South Korea, France, Netherlands, UAE, Sweden, Saudi Arabia, Zambia, Swaziland, Belgium, Malta, Kuwait, Cayman Islands, Italy, Austria

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# Notice to Shoprite Holdings shareholders: Annual General Meeting (“AGM”)

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Shoprite Holdings Limited  
(Incorporated in the Republic of South Africa)  
(Registration number 1936/007721/06)  
JSE share code: SHP  
NSX share code: SRH  
LUSE share code: SHOPRITE  
ISIN: ZAE000012084  
("Shoprite Holdings" or "the Company")

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## 1. Notice of meeting

Notice is hereby given that the AGM of Shoprite Holdings will be held at the Company's registered office, corner William Dabbs Street and Old Paarl Road, Brackenfell, South Africa on Monday, 4 November 2019 at 09:15 (South African time).

## 2. Definitions

In the Notice, unless otherwise stated or the context otherwise indicates, the words in the first column below shall have the meaning stated opposite them, respectively, in the second column below, reference to the singular shall include the plural and vice versa, words denoting one gender shall include the other gender, and an expression denoting natural persons shall include juristic persons and associations of persons:

"Board" or "Directors"	the Directors of Shoprite Holdings;
"Business Day"	a day other than a Saturday, Sunday or official public holiday in South Africa;
"Certificated Share(s)"	Shoprite Holdings Share(s) represented by a Share certificate(s) or other physical Document(s) of Title, which have not been surrendered for dematerialisation in terms of the requirements of Strate;
"Companies Act"	the Companies Act, 71 of 2008, as amended;
"Companies Regulations"	the Companies Regulations, 2011 in terms of the Companies Act, to regulate matters relating to companies;
"CSDP"	a participant as defined in section 1 of the Financial Markets Act, No 19 of 2012, as amended from time to time, authorised by a licenced central securities depository as a participant in that central securities depository in terms of the depository rules as contemplated in section 31 of the Financial Markets Act;
"Deferred Share"	a Deferred Share as defined in the MOI;
"Dematerialised Shareholder(s)"	Shoprite Holdings Shareholder(s) that have dematerialised their Shoprite Holdings Share(s) through a CSDP and have instructed the CSDP to hold their Shoprite Holdings Share(s) on the sub-register maintained by the CSDP and forming part of the Shoprite Holdings Share register;
"Dematerialised Share(s)"	Shoprite Holdings Share(s) that have been dematerialised through a CSDP or broker and are held on the sub-register of Shareholders administered by CSDPs in electronic form;
"Dematerialised Ordinary Shares"	Ordinary Share(s) that have been dematerialised through a CSDP or broker and are held on the sub-register of Shareholders administered by CSDPs in electronic form;
"Annual General Meeting of Shoprite Holdings Shareholders" or "AGM"	the annual general meeting of Shoprite Holdings Shareholders to be held at the Company's registered office, corner William Dabbs Street and Old Paarl Road, Brackenfell, South Africa on Monday, 4 November 2019 at 09:15 (South African time), to consider and, if deemed appropriate, approve the ordinary and special resolutions as set out in the Notice of AGM;
"JSE"	JSE Limited (Registration number 2005/022939/06), a public company registered and incorporated in South Africa and licensed under the Financial Markets Act, 19 of 2012, as amended, to operate as an exchange;
"MOI" or "Memorandum of Incorporation"	the memorandum of incorporation of Shoprite Holdings;

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<b>“Notice of Annual General Meeting of Shoprite Holdings Shareholders” or “Notice of AGM”</b>	the notice convening the Annual General Meeting of Shoprite Holdings Shareholders;
<b>“Ordinary Shares”</b>	ordinary shares having no par value issued by the Company;
<b>“Ordinary Shareholders”</b>	the holders of Ordinary Shares;
<b>“Shareholder(s)” or “Shoprite Holdings Shareholder(s)”</b>	registered holder(s) of Shoprite Holdings Shares;
<b>“Shoprite Holdings Shares”</b>	issued Ordinary Shares and Deferred Shares;
<b>“Special Resolution(s)”</b>	a Special Resolution as defined in the Companies Act;
<b>“Strate”</b>	Strate (Proprietary) Limited (Registration number 1998/022242/06), a private company registered and incorporated in South Africa, and the electronic settlement system for transactions that take place on the JSE and off-market transactions; and
<b>“Transfer Secretaries” or “Computershare”</b>	Computershare Investor Services (Proprietary) Limited (Registration number 2004/003647/07), a private company registered and incorporated in South Africa and the Transfer Secretaries of Shoprite Holdings.

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### 3. Who may attend and vote?

- 3.1 If you hold Dematerialised Shares which are registered in your name or if you are the registered holder of Certificated Shares:
- you may attend the AGM in person;
  - alternatively, you may appoint a proxy to represent you at the AGM and to attend, participate in, and speak and vote at the AGM in your place by completing the **attached form of proxy** in accordance with the instructions it contains. It is recommended that the form of proxy is returned to the Company secretary or Transfer Secretaries at their addresses set out below to be received not later than 9:15 (South African time) on Friday, 1 November 2019. However, Shareholders are entitled to deliver voting proxies to the chairperson of the AGM at any time prior to the vote. A proxy need not be a Shareholder of the Company.
- 3.2 Forms of proxy to be delivered to one of these addresses:
- The Company Secretary**  
Cnr William Dabbs Street and Old Paarl Road  
P O Box 215, Brackenfell, 7560 South Africa  
e-mail address: cosec@shoprite.co.za; or
- South African Transfer Secretaries**  
Computershare Investor Services (Pty) Ltd  
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196  
PO Box 61051, Marshalltown, 2107  
Facsimile: +27 (0) 11 688 5238
- 3.3 If you are a beneficial Shareholder, but not a registered Shareholder as at the record date and:
- wish to attend the AGM, you must obtain the necessary letter of representation from your CSDP or broker to represent the registered Shareholder; or
  - do not wish to attend the AGM, but would like your vote to be recorded at the AGM, you should contact your CSDP or broker and furnish them with your voting instructions;
  - you must not complete the attached form of proxy.
- 3.4 The record date for purposes of determining which Shareholders are entitled to receive this Notice is determined in terms of section 59(1)(a) of the Companies Act being Friday, 20 September 2019.
- 3.5 The date on which Shareholders must be recorded as such in the register maintained by the Transfer Secretaries of the Company for purposes of being entitled to attend and vote at this AGM is determined in terms of section 59(1)(b) of the Companies Act being Friday, 25 October 2019 (“Voting Record Date”).
- 3.6 In terms of section 63(1) of the Companies Act, any person attending or participating in the AGM must present reasonably satisfactory identification and the chairperson of the AGM must be reasonably satisfied that the right of any person to participate and vote has been reasonably verified. Suitable forms of identification will include a valid identification document, driver's license or passport.

# Notice to Shoprite Holdings shareholders: Annual General Meeting (“AGM”) (continued)

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3.7 Should any Shareholder, or a representative or proxy of a Shareholder, wish to participate in the AGM by way of electronic participation, that Shareholder should make an application in writing (including details on how the Shareholder or its representative or proxy wish to participate) to the Transfer Secretaries or Company secretary at their addresses listed on the previous page, to be received by them at least seven (7) Business Days before the AGM, to enable the Transfer Secretaries to arrange for the Shareholder or its representative or proxy, to provide reasonably satisfactory identification to the Transfer Secretaries for purposes of section 63(1) of the Companies Act and to enable the Transfer Secretaries to provide details on how to access the AGM by way of electronic participation. Please note that Shareholders who wish to participate in the AGM by way of electronic participation must appoint a proxy to exercise his voting rights in terms of paragraph 3.1 on the previous page or furnish his CSDP or broker with voting instructions in terms of paragraph 3.3 on the previous page.

3.8 Votes at the AGM on all resolutions will be conducted by way of a poll. Every Shareholder present in person or represented by proxy shall have one (1) vote for every Shoprite Holdings Share held in the Company.

3.9 If you are in any doubt as to what action you should take arising from the following resolutions, please consult your stockbroker, banker, attorney, accountant or other professional adviser immediately.

## 4. Integrated Annual Report

A copy of the Company's Integrated Annual Report for the year ended 30 June 2019 and the reports of the Directors and independent auditors are delivered herewith.

## 5. Purpose of the AGM

The purpose of the AGM is to:

- present the audited financial statements for the year ended 30 June 2019, the report of the Directors and the report of the independent registered auditors thereon;
- present the reports of the Audit and Risk as well as the Social and Ethics committees;
- consider any matters raised by Shareholders; and
- consider and, if deemed fit, to pass, with or without modification, the resolutions set out below.

## 6. The following resolutions will be considered at the AGM, and, if deemed fit, passed with or without modification:

### 6.1 Ordinary resolution number 1: Annual Financial Statements

“Resolved that the summarised annual financial statements of the Company and the Group for the year ended 30 June 2019, including the reports of the Directors and independent auditors be and are hereby approved.”

For ordinary resolution number 1 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

### 6.2 Ordinary resolution number 2: Re-appointment of auditors

“Resolved that PricewaterhouseCoopers Inc. (PwC) be re-elected as the independent registered auditors of the Company for the period until the next annual general meeting of the Company (noting that Mr MC Hamman is the individual registered auditor of PwC who will undertake the audit in respect of the financial year ending 30 June 2019) as recommended by the Company's Audit and Risk Committee.”

For ordinary resolution number 2 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

### 6.3 Ordinary resolution number 3: Re-election of Dr CH Wiese

“Resolved that Dr CH Wiese, who is required to retire as a director of the Company at this AGM and who is eligible and available for re-election, is hereby reappointed as director with immediate effect.”

Age:77

First Appointed: 1991

Educational qualifications: BA LLB SCom (hc)

Directorship: Brait SE Ltd, Gemfield Group Ltd, Invicta Holdings Ltd and Tradehold Ltd

For ordinary resolution number 3 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.



#### 6.4 Ordinary resolution number 4: Re-election of Ms AM Le Roux

“Resolved that Ms AM Le Roux, who is required to retire as a director of the Company at this AGM and who is eligible and available for re-election, is hereby reappointed as director with immediate effect.”

Age: 45

First Appointed to the board: 2019

Educational qualifications: B Compt Hons CA(SA)

Other Directorships: Alice Le Roux Inc

For ordinary resolution number 4 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

#### 6.5 Ordinary resolution number 5: Appointment of Mr JF Basson as Chairperson and member of the Shoprite Holdings Audit and Risk Committee

“It is resolved that Mr JF Basson be elected as Chairperson and member of the Shoprite Holdings Audit and Risk Committee with immediate effect in terms of section 94(2) of the Companies Act.”

Age: 67

First appointed to Audit and Risk Committee: 2014

Educational qualifications: B Com CTA CA (SA)

Other Directorships: Member of the board of various unlisted companies

For ordinary resolution number 5 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

#### 6.6 Ordinary resolution number 6: Appointment of Ms AM Le Roux as member of the Shoprite Holdings Audit and Risk Committee

“Subject to her re-election as director, it is resolved that Ms AM Le Roux be elected as member of the Shoprite Holdings Audit and Risk Committee with immediate effect in terms of section 94(2) of the Companies Act.”

Age: 45

First Appointed to Audit and Risk Committee: 2019

Educational qualifications: B Compt Hons CA(SA)

Other Directorships: Alice Le Roux Inc

For ordinary resolution number 6 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

#### 6.7 Ordinary resolution number 7: Appointment of Mr JA Rock as member of the Shoprite Holdings Audit and Risk Committee

“It is resolved that Mr JA Rock be elected as member of the Shoprite Holdings Audit and Risk Committee with immediate effect in terms of section 94(2) of the Companies Act.”

Age: 49

First Appointed to Audit and Risk Committee: 2014

Educational qualifications: BA Hons MA ACA AMP (Insead)

Other Directorships: None

For ordinary resolution number 7 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

#### 6.8 Ordinary resolution number 8: General authority over unissued ordinary shares

“Resolved that 30 million (approximately 5% of the issued Ordinary Shares that includes treasury shares) of the authorised but unissued Ordinary Shares in the capital of the Company be and are hereby placed under the control and authority of the Directors of the Company until the next annual general meeting and that the Directors of the Company be and are hereby authorised and empowered to, without first offering those shares to Shareholders pro rata to their shareholding, allot, issue and otherwise dispose of such Ordinary Shares or Ordinary Shares having no par value to a person or persons on such terms and conditions and at such times as the Directors of the Company may from time to time and in their discretion deem fit, subject to the provisions and requirements of the Companies Act, the MOI of the Company and JSE Listings Requirements, when applicable, and any other exchange on which the Ordinary Shares of the Company may be quoted or listed from time to time, when applicable.”

For ordinary resolution number 8 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

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## 6.9 Ordinary resolution number 9: General authority to issue ordinary shares for cash

“Resolved that the Directors of the Company be and are hereby authorised by way of a general authority, to issue all or any of the authorised, but unissued Ordinary Shares in the capital of the Company, for cash, as and when they in their discretion deem fit, subject to the provisions and requirements of the Companies Act, the MOI of the Company, the JSE Listings Requirements and any other exchange on which the Shares of the Company may be quoted from time to time, when applicable, subject to the following limitations, namely that:

- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- any such issue will only be made to “public Shareholders” as defined in the JSE Listings Requirements and not related parties, unless the JSE otherwise agrees, but may be made to such “public Shareholders” and in such quantities that the Directors in their discretion may deem fit;
- the number of Ordinary Shares issued for cash shall not in the aggregate in any one (1) financial year, exceed 5% (five percent) of the Company’s issued Ordinary Shares, being 27 733 942 Ordinary Shares, (excluding 36 659 642 treasury shares). The number of Ordinary Shares which may be issued shall be based on the number of Ordinary Shares in issue at the date of this notice of AGM, less any Ordinary Shares issued in terms of this authority by the Company during the current financial year;
- in the event of a sub-division or consolidation of issued Ordinary Shares, during the period of this authority, the authority will be adjusted accordingly to represent the same allocation ratio;
- this authority be valid until the Company’s next annual general meeting, provided that it shall not extend beyond fifteen (15) months from the date that this authority is given;
- a paid press announcement will be published giving full details, at the time of any issue representing on a cumulative basis within one (1) financial year, 5% (five percent) or more of the number of Ordinary Shares in issue prior to the issue in terms of this authority;
- in determining the price at which an issue of Ordinary Shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those Ordinary Shares measured over the thirty (30) business days prior to the date that the price of the issue is determined or agreed by the Directors of the Company.”

For ordinary resolution number 9 to be approved by Shareholders it must in terms of the JSE Listings Requirements be supported by more than 75% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

## 6.10 Ordinary resolution number 10: General authority to Directors and/or Company Secretary

“Resolved that any one of the Directors of Shoprite Holdings or the Company Secretary be and is hereby authorised to do all things, perform all acts and to sign and execute all documentation necessary to implement the ordinary and Special Resolutions adopted at the AGM.”

For ordinary resolution number 10 to be approved by Shareholders it must be supported by more than 50% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

## 6.11 Resolution number 11: Non-binding advisory vote on the remuneration policy of Shoprite Holdings and the implementation of the remuneration policy

“Resolved that, through separate non-binding advisory votes, the Company’s:

- 6.11.1 remuneration policy (excluding the remuneration of the non-executive Directors and members of board committees for their services as Directors) as set out in the remuneration report in the Integrated Annual Report from pages 68 to 78 is approved”; and
- 6.11.2 implementation report as set out in the remuneration report in the Integrated Annual Report from pages 68 to 78 is approved.”

If the remuneration policy or the implementation report of the Company is voted against by 25% or more of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting, the Company will in its voting results announcement pursuant to paragraph 3.91 of the JSE Listings Requirements extend an invitation to dissenting Shareholders to engage with the Company to discuss their reasons for their dissenting votes; and the manner and timing of such engagement will be specified in the SENS announcement following the AGM.

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## 6.12 Special resolution number 1: Remuneration payable to Non-Executive Directors

“Resolved by separate Special Resolutions in terms of section 66(9) of the Companies Act, that the annual remuneration of the non-executive Directors for the twelve months from 1 November 2018 – 31 October 2019 be approved as follows:

### Shoprite Holdings board and committee fees

	2019	2018
<b>Board</b>		
Chairperson of the Board	R1 209 000	R598 000
Lead Independent Director	R641 000	R466 000
Non-Executive Director	R445 000	R424 000
<b>Audit and Risk Committee</b>		
Chairperson	R316 000	R301 000
Member	R160 000	R152 000
<b>Remuneration Committee</b>		
Chairperson	R193 000	R78 500
Member	R92 000	R47 000
<b>Nomination Committee</b>		
Chairperson	R193 000	R78 500
Member	R92 000	47 000
<b>Social and Ethics Committee</b>		
Chairperson	R193 000	R102 000
Member	R92 000	R47 000
<b>Additional fee</b>		
Per meeting	R25 000	—
Per hour	R2 500	—

For Special resolution number 1 to be approved by Shareholders it must be supported by at least 75% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

### Reason for and effect of Special resolution number 1

The reason for and effect of Special resolution number 1 is to grant the Company the authority to pay remuneration to its non-executive Directors for their services as Directors for the period ending on 31 October 2019.

## 6.13 Special resolution number 2: Financial assistance to subsidiaries, related and inter-related entities

Resolved as a Special resolution in terms of section 45(3)(a)(ii) of the Companies Act, subject to compliance with the requirements of the Company's MOI and the JSE Listings Requirements as presently constituted and amended from time to time as a general approval, that the Board be authorised during a period of two (2) years from the date of this Special Resolution to authorise the Company to provide direct or indirect financial assistance to a director or prescribed officer of the Company or of any related or inter-related company, or to any related or inter-related company or corporation (“any related or inter-related company or corporation” has herein the same meaning as in section 45 of the Companies Act and which meaning includes all the subsidiaries of the Company), to the Company or to a member of such a related or inter-related corporation, or to a person related to any such company, corporation, director, prescribed officer or member, in any form, including one or more of the following forms:

- loan to,
- the provision of credit to the deferment of any payment due by,
- guarantee of any obligation of,
- suretyship in respect any obligation of,
- indemnity undertakings in respect of obligations of,
- the securing (in any form) of any debt or obligations of, or
- payments to or for the benefit of,

such a person or company or corporation, director, prescribed officer or member which the Board may deem fit on the terms and conditions and for amounts that the Board may determine.

For Special Resolution number 2 to be approved by Shareholders it must be supported by at least 75% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

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## Reason for and effect of Special resolution number 2

This Special resolution will grant the Company's Directors the authority to authorise financial assistance in any form to a director or prescribed officer of the Company (to be utilised as part of an incentive scheme, where applicable) or of a related or inter-related company, or to a related or inter-related company or corporation, (“any related or inter-related company or corporation” has herein the same meaning as in section 45 of the Companies Act and which meaning includes all the subsidiaries of the Company) to the Company or to a member of such a related or inter-related corporation, or to a person related to any such company, corporation, director, prescribed officer or member as contemplated in section 45 of the Companies Act.

**Notice to the Shareholders of the Company in terms of section 45(5) of the Companies Act, of a resolution adopted by the Board authorising the Company to provide such direct or indirect financial assistance:**

- By the time that this notice of AGM is delivered to Shareholders, the Board would have adopted a written board resolution (“the Section 45 Board Resolution”) authorising the Company to provide at any time during the period of two (2) years from the date the above Special Resolution number 2 is adopted, any direct or indirect financial assistance as contemplated in section 45 of the Companies Act to any one or more related or inter-related companies or corporations of the Company;
- The Section 45 Board Resolution will only be subject to and only effective to the extent that Special Resolution number 2 is adopted by Shareholders and the provision of any such direct or indirect financial assistance by the Company, pursuant to such resolution, will always be subject to the Board being satisfied that immediately after providing such financial assistance, the Company will satisfy the solvency and liquidity test as referred to in section 45(3)(b)(i) of the Companies Act and that the terms under which the financial assistance will be given are fair and reasonable to the Company as required in section 45(3)(b)(ii) of the Companies Act; and
- The Company hereby provides notice of the Section 45 Board Resolution to Shareholders of the Company.

## 6.14 Special resolution number 3: General authority to repurchase shares

“Resolved as a Special resolution that the Company and/or any subsidiary of the Company be and are hereby authorised by way of a general authority to acquire the issued Ordinary Shares of the Company upon such terms and conditions and in such amounts as the Directors of the Company may from time to time determine, but subject to the MOI of the Company, the provisions of the Companies Act, the JSE Listings Requirements and any other exchange on which the shares of the Company may be quoted or listed from time to time, where applicable, and provided that:

- the repurchase of securities will be effected through the main order book operated by the JSE trading system without any prior understanding or arrangement between the Company and the counterparty, or other manner approved by the JSE;
- this general authority shall be valid until the Company's next annual general meeting, provided that it shall not extend beyond fifteen (15) months from the date of passing of this Special Resolution;
- in determining the price at which the Company's Ordinary Shares are acquired by the Company or its subsidiaries in terms of this general authority, the maximum premium at which such Ordinary Shares may be acquired will be 10% (ten percent) of the weighted average of the market price at which such Ordinary Shares are traded on the JSE, as determined over the five (5) trading days immediately preceding the date of the repurchase of such Ordinary Shares by the Company;
- the number of Ordinary Shares acquired in the aggregate in any one (1) financial year do not exceed 5% (five percent) of the number of the Company's issued Ordinary Shares on the date that this Special Resolution is adopted;
- prior to entering the market to repurchase the Company's securities, a Board resolution to authorise the repurchase will have been passed in accordance with the requirements of section 46 of the Companies Act, and stating that the Board has acknowledged that it has applied the solvency and liquidity test as set out in section 4 of the Companies Act and has reasonably concluded that the Company will satisfy the solvency and liquidity test immediately after completing the proposed repurchase;
- the Company or its subsidiaries will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless there is a repurchase programme in place where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed to the JSE prior to the commencement of the prohibited period;
- when the Company has cumulatively repurchased 3% (three percent) of the initial number of the relevant class of securities, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, an announcement will be made; and
- the Company only appoints one agent to effect any repurchase(s) on its behalf.”

For Special resolution number 3 to be approved by Shareholders it must be supported by at least 75% of the voting rights exercised on the resolution by Shareholders present or represented by proxy at this meeting.

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### Statement by the Board

The Directors have no specific intention to effect the resolution, but will continually review the Company's position, having regard to prevailing circumstances and market conditions, in considering whether to repurchase its own Shares.

After having considered the effect of the repurchase of Ordinary Shares pursuant to this general authority, the Directors in terms of the relevant provisions of the Companies Act and the JSE Listings Requirements confirm that they will not undertake such purchase unless:

- the Company and the Group are in a position to repay their debt in the ordinary course of business for the twelve (12) month period after the date of the Notice of the AGM;
- the assets of the Company and the Group, being fairly valued in accordance with the accounting policies used in the latest annual financial statements are, after the repurchase, in excess of the liabilities of the Company and the Group for the 12 (twelve) month period after the date of the Notice of the AGM;
- the ordinary capital and reserves of the Company and the Group are adequate for the 12 (twelve) month period after the date of the Notice of the AGM;
- the available working capital is adequate to continue the operations of the Company and the Group for a period of 12 (twelve) months after the date of the Notice of the AGM.

### Reason for and effect of Special resolution number 3

Paragraphs 5.72(c) and 5.76 of the JSE Listing Requirements require that the Company or any subsidiary of the Company may only repurchase or purchase securities issued by the Company if approved by its Shareholders by way of a Special resolution. The existing general authority granted by the Shareholders of the Company at the previous AGM on 29 October 2018, is due to expire, unless renewed.

The Directors are of the opinion that it would be in the best interest of the Company to extend such general authority.

The proposed general authority would enable the Company or any subsidiary of the Company to repurchase up to a maximum of 29 566 925 (twenty nine million five hundred and sixty six thousand nine hundred and twenty five) Ordinary Shares of the Company, representing 5% (five percent) of the issued Ordinary Share capital of Company as at 1 July 2019.

The reason for the passing of Special resolution number 4 is to authorise the Company and/or its subsidiaries by way of a general authority from Shareholders to repurchase Ordinary Shares issued by the Company.

Once adopted, this Special Resolution will permit the Company or any of its subsidiaries to repurchase such Ordinary Shares in terms of the Companies Act, its MOI and the JSE Listings Requirements.

### Disclosures in terms of paragraph 11.26 Of the JSE listings requirements

The JSE Listings Requirements require the following disclosures in respect of Special resolution number 3, some of which are disclosed in the Integrated Annual Report of which this Notice forms part:

- Major Shareholders of the Company – Page 86
- Share capital of Company – Annual Financial Statements



### Material Change



Other than the facts and developments as referred to in the Annual Financial Statements, there have been no material changes in the affairs or financial position of the Company and its subsidiaries since the date of signature of the audit report and the date of this notice.

### Directors' Responsibility Statement

The Directors, whose names are given on pages 58 of the Integrated Annual Report, collectively and individually accept full responsibility for the accuracy of the information and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made.

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## 6.15 Special resolution number 4: Approval of amendment to clause 1 of the Memorandum of Incorporation of the Company

“Resolved as a Special resolution in accordance with section 16(1) (c) of the Companies Act, that the Memorandum of Incorporation of the Company be and is hereby amended as follows:

That clauses 1.2.18 and 1.2.19 of the Memorandum of Incorporation be amended to read as follows:

1.1.18 **“Ordinary Share”** - an ordinary share in the capital of the Company having no par value and having the preferences, rights, limitations and other terms contemplated in clause 9.1 of the MOI;

1.1.19 **“Ordinary Shareholder”** a Shareholder who holds an Ordinary Share;”

and

That the clause number “1.2.19 wherever it appears in clause 9.2.2 of the Memorandum of Incorporation, be amended to read “1.2.18”.

For Special resolution number 4 to be approved by shareholders, it must be supported by at least 75% of the voting rights exercised on the Special resolution.

The proposed amendments have been approved by the JSE.

### Reason for and effect of Special resolution number 4

During the amendment of the MOI in 2017 the definition of Ordinary Shares was amended. The Special resolution however erroneously referred to clause 1.2.19 as the clause that was amended. The Special resolution should have referred to clause 1.2.18. This also resulted in the erroneous reference to clause 1.2.19 in clause 9.2.2. This error must accordingly be rectified. The effect of the adoption of this Special resolution will be to rectify that error.

## 7. Documents available for inspection

The Memorandum of Incorporation will be available for inspection during normal business hours at the registered address of Shoprite Holdings from the date of this notice of AGM up to and including 4 November 2019.

## 8. Transaction of other business

For Shoprite Holdings Limited



**PG Du Preez**  
Company Secretary

4 October 2019

### The Company Secretary

Cnr William Dabbs Street and Old Paarl Road  
P O Box 215, Brackenfell, 7560 South Africa  
Facsimile: +27 (0) 86 410 8653  
E-mail Address: cosec@shoprite.co.za

### South African Transfer Secretaries

Computershare Investor Services (Pty) Ltd  
15 Biermann Avenue, Rosebank, 2196  
PO Box 61051, Marshalltown, 2107  
Facsimile: +27 (0) 11 688 5238

# Administration

Shoprite Holdings Ltd

## Registration number

1936/007721/06

## Registered office

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PO Box 215, Brackenfell, 7561, South Africa  
Telephone: +27 (0)21 980 4000  
Facsimile: +27 (0)21 980 4050  
Website: [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za)

## Company Secretary

Mr PG du Preez  
Physical address: Cnr William Dabbs Street and Old Paarl Road  
Brackenfell, 7560, South Africa  
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Facsimile: +27 (0)21 980 4468  
Email: [cosec@shoprite.co.za](mailto:cosec@shoprite.co.za)

## Transfer Secretaries

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### Namibia

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### Zambia

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Telephone: +260 (0)211 374 791 – 374 794  
Facsimile: +260 (0)211 374 781  
Email: [sharetrack@scs.co.zm](mailto:sharetrack@scs.co.zm)  
Website: [www.sharetrackzambia.com](http://www.sharetrackzambia.com)

## Sponsors

### South Africa

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Telephone: +27 (0)11 295 8525  
Facsimile: +27 (0)11 294 8525  
Email: [doristh@nedbank.co.za](mailto:doristh@nedbank.co.za)  
Website: [www.nedbank.co.za](http://www.nedbank.co.za)

### Namibia

Old Mutual Investment Services (Namibia) (Pty) Ltd  
PO Box 25549, Windhoek, Namibia  
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Facsimile: +264 (0)61 299 3500  
Email: [NAM-OMInvestmentServices@oldmutual.com](mailto:NAM-OMInvestmentServices@oldmutual.com)

### Zambia

Pangaea Securities Ltd  
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Telephone: +260 (0)211 220 707 / 238 709/10  
Facsimile: +260 (0)211 220 925  
Email: [info@pangaea.co.zm](mailto:info@pangaea.co.zm),  
Website: [www.pangaea.co.zm](http://www.pangaea.co.zm)

## Auditors

PricewaterhouseCoopers Incorporated  
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Telephone: +27 (0)21 529 2000  
Facsimile: +27 (0)21 529 3300  
Website: [www.pwc.com/za](http://www.pwc.com/za)

## Bankers

ABSA Bank Ltd  
Citibank N.A.  
First National Bank Ltd  
Investec Bank Ltd  
Nedbank Ltd  
The Standard Bank of South Africa Ltd  
Standard Chartered Bank PLC  
JP Morgan Chase Bank, N.A.

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## September

Publishing of  
Integrated  
Annual Report  
  
Payment of final  
ordinary dividend

## October

Annual General  
Meeting

## December

End of financial  
half-year

## February

Interim results

## March

Payment of  
interim ordinary  
dividend

Please consult our website [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za) for the latest published diary dates.



