

Operating context and strategy

Our market place – long term drivers

A large and growing population on the African continent requiring food and staple products

Africa's population is set to DOUBLE to 2.4 billion people by 2050. Large scale and rapid urbanisation, strong population growth and economic growth that is persistently higher than that of developed economies, continue to make Africa an attractive long-term investment opportunity.

As the largest retailer in Africa, with almost 40 years of experience in South Africa and more than 26 years in the rest of Africa, Shoprite is ideally positioned to meaningfully participate in this growth.

Low commodity prices, weak currencies and pervasive drought conditions momentarily slowed our game plan for Africa in 2017, but we remain committed to the long-term opportunities presented by the continent. The 15 markets that Shoprite operates in, have a combined population of 500 million people and a collective gross domestic product (GDP) of R15 trillion.



Significant levels of unemployment and food insecurity in parts of the African continent

Climate change may exacerbate these challenges by potentially disrupting production patterns and increasing production costs. Shoprite continues to diversify its sources and portfolio of suppliers to ensure availability of products on a consistent basis.

We are working tirelessly to provide customers with products that are affordable and accessible. In 2017, we subsidised over 44 million loaves of bread and rolled out our R5 meals project to specifically address these challenges. We also ensure ready availability of a range of staple foods for under R10.

Muted economic growth outlook

Current trading conditions are characterised by limited macro-economic support and low consumer and business confidence. The defensive nature of our brands and our 'best value' proposition become most evident under these trading conditions. Shopping for staples and basic foodstuffs generally remain resilient throughout the economic cycle in the lower income groups. In addition, an increase in value seeking behaviour is benefiting our brands and market share in middle income groups. At the opposite end of the scale, our recent successes in respect of increased penetration of the upper LSM groups is providing robust growth opportunities despite the current economic challenges. Our differentiated portfolio provides us with significantly more competitive levers to weather current conditions.



Operating context and strategy (continued)

Increase in regulation and standards

Growing compliance requirements in every jurisdiction we operate require diligence and strong systems for oversight. Over-regulation is stifling entrepreneurship, and is adding significant complexity and cost to doing business for small suppliers.

At Shoprite, we believe that you get people out of poverty by creating free market conditions and ease of doing business. We provide ongoing support and guidance to small and medium enterprises, as part of our commitment to help overcome the challenges to comply with the required standards.

Online shopping trends

Online shopping is rapidly growing on a global scale. In Africa, the trend is still in its infancy, not least because of limited logistics infrastructure. It is Shoprite's intention to participate in this trend as it matures on the continent.

An eCommerce project is currently being finalised.

Changing trends in customer preferences and consumption behaviours

Consumers are increasingly making healthier food choices, opting for organic, low-fat, or low-carb options, or eliminating ingredients based on food sensitivities, allergies or personal convictions. There is a growing trend towards fresh food, healthy options and convenience. This trend is particularly evident in the more affluent communities who have a wider choice of lifestyles.

Shoprite is strongly participating in this trend with the Checkers brand, with the rollout of a wide range of fresh and ready-made options and investment in the cold chain, quality specifications and quality management. We have also expanded our ranges of healthier alternatives – gluten free, sugar free, banting and carbohydrate substitutes – and launched a range of healthy kids' foods with a "no junk" promise.

In tough economic times, customers tend to compromise on quantity but, to the extent possible, not on quality. They will generally continue to seek the premium quality product but buy a smaller quantity. Customers want a value exchange of great quality and an affordable price but within budget. To accommodate this trend, Shoprite has started selling single serving offerings of premium products, smaller sized options and 'loose served' products at counters, allowing customers to select the quantity they can afford.



Fast pace of change in technology

Where and how retailers interface with customers is changing rapidly and technology and access to big data are key drivers in the changing landscape.

Shoprite is actively using basket data and advanced customer analytics to guide all customer centric decision-making, from product ranges per store, to pricing, timing, products to promote and layout of stores.

Managing business risks

Our principal risks may impede on Shoprite's ability to achieve our objectives. To determine the key risks, our risk universe is assessed from a likelihood as well as an estimated impact perspective and risks are categorised according to its combined score on these two dimensions.










	Key risks	Mitigation
1	<p>Unavailability of key systems Key IT systems may be off-line resulting in disruption to business operations</p>	<ul style="list-style-type: none"> ■ 24 hour monitoring of all key systems ■ Formal Disaster Recovery programme that is tested on a regular basis ■ In the process of migrating systems to the Cloud ■ Identify, diagnose and resolve incidents with support teams ■ Thorough testing of application changes ■ Data protective mechanisms in place (automated data back-ups, IPS installations) ■ Back-up communication channels (3G, satellite)
2	<p>Losses due to fraud</p>	<ul style="list-style-type: none"> ■ Formal approval system embedded for capital and operational expenditure ■ All payments are done via EFT systems with reputable banks ■ Automated system controls with online banking systems ■ The controls around significant EFT systems have been assessed by PwC, the Group's independent external auditor ■ Critical financial systems subjected to regular risk based internal audit ■ Monthly reconciliations of all ledger accounts ■ Monthly review of Income Statements at lowest level entity (Branch) ■ Well-publicised Hotline systems managed by independent external party
3	<p>Non-performance of outsourced service providers</p>	<ul style="list-style-type: none"> ■ Establish multiple suppliers for key services to avoid over-dependency ■ Conduct regular price and service benchmarking ■ Develop in-house capabilities for key services ■ Standard contract terms and conditions ■ Establish process to implement and enforce contracts
4	<p>Foreign exchange losses The Group may be exposed to foreign currency losses as a result of operating in various countries and due to importing significant amounts of merchandise</p>	<ul style="list-style-type: none"> ■ All imports and exports are executed in accordance with the Group's Treasury mandate that was independently reviewed and then approved by the Board ■ Adoption of hedge accounting as part of accounting policies ■ Weekly review of cash balances in the Group by Treasury forum during weekly foreign exchange meetings ■ Investment in US\$ linked Angolan Government bonds ■ Limit exposure by hedging in accordance with Treasury mandate, e.g. using Letters of Credit and Forward Foreign Exchange Contracts ■ Convert surplus cash into hard currency as soon as possible
5	<p>Project and transformation failure Project implementations may be delayed, over budget and not meeting expectations</p>	<ul style="list-style-type: none"> ■ Project payments are structured on a milestone delivery basis ■ Projects overseen by Steering Committees that include various business heads. In major projects the CEO, CFO and/or COO will also be involved. ■ In the SAP implementation, SAP also provides expertise to manage the overall programme. In addition, independent programme assurance forms part of the governance processes of the programme. ■ Manage projects in accordance with project management best practices ■ Track and monitor all projects through Value Management Office ■ All new prospective projects subjected to a rigorous cost-benefit review before being submitted to a Project Approval Committee that consists of senior management members. Where material, the CEO and CFO will attend.
6	<p>Non-compliance with laws and regulations relevant to the business Competition Act Occupational Health and Safety Act Pharmacy Act Medicines and Related Substances Act Companies Act Employment Equity Act Labour Relations Act National Environmental Management Waste Act Income Tax Act B-BBEE Act Consumer Protection Act Protection of Personal Information Act</p>	<ul style="list-style-type: none"> ■ Embedded compliance framework ■ Regular reviews by Internal Audit ■ Utilising software to assist in monthly reporting, compliance management and providing alerts on new/changes in legislation. ■ Appointment of dedicated Compliance Officer
7	<p>Breakdown/interruptions in supply chain Certain macro or internal events may result in supply chain disruptions</p>	<ul style="list-style-type: none"> ■ A comprehensive and formalised Business Continuity and Recovery Programme which is also in the process of being rolled out to all Distribution Centres ■ In process of matching suppliers' capabilities ■ Regular fire and risk reviews with training where required ■ All critical centres have standby generators ■ State of the art security and fire prevention systems, including alarms, access control, closed-circuit television and sprinkler systems

Operating context and strategy (continued)

Strategic focus areas


Shoprite's strategic intent is to continue to strengthen and extend its leadership position as the foremost FMCG retail operation on the African continent. The Company intends to do this by unstintingly focusing on the delivery of low prices and a world-class shopping environment in every region it enters. The Company is confident that the unique aspects of its chosen business model, as well as the strategies implemented to exploit key drivers of growth, will continue to deliver sustainable value creation for all stakeholders for the next 40 years. The growth vectors are spread across various dimensions, ensuring that there are multiple opportunities to be seized.



Strategic objective	Initiatives and progress	Our customers' response	Related risks
<p>Building a customer-first culture</p>	<p>We make the customer our focus</p> <ul style="list-style-type: none"> An organisation-wide understanding of customers' expectations <div style="display: flex; align-items: center;"> <div style="background-color: red; color: white; padding: 10px; text-align: center; width: 200px;"> <p>OUR PROMISE TO OUR CUSTOMERS</p> </div> <div style="margin-left: 20px;"> <ol style="list-style-type: none"> 1. What you want, when you want it 2. First time freshness 3. Low prices you can trust 4. World-class shopping experience (clean and simple to shop) 5. Friendly, helpful staff </div> </div> <ul style="list-style-type: none"> Operational management aligned to the brands Invested two million training hours, mostly around customer service, up 12% Customer science and data capabilities supporting smarter decision-making, with more relevant ranging and pricing and a 2% improvement in on-shelf availability A team that is trained and empowered to do what is necessary – not a single customer leaves the store unhappy. 	<p>New record levels of customer satisfaction</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  SHOPRITE  91% </div> <div style="text-align: center;">  CheckersHyper  87% </div> <div style="text-align: center;">  Checkers  81% </div> </div> <ul style="list-style-type: none"> 2.4% customer growth and 0.45% gain in market share – record high market share at year-end Eight customer awards in the past year 	<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid red; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">1</div> <div style="border: 1px solid yellow; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">2</div> <div style="border: 1px solid red; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">3</div> </div> <div style="text-align: center; margin-top: 20px;"> <div style="border: 1px solid blue; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">7</div> </div> <p style="text-align: right; margin-top: 20px;">  Refer to page 21 for related risks information. </p>
<p>Growing LSM 8-10 share of wallet</p>	<ul style="list-style-type: none"> Checkers has a significant opportunity to further grow share of wallet of high LSM customers. These customers are 4 times more valuable in terms of size of basket, than the average shopper An accelerating trend in this customer base towards fresh, convenient and added-value foods Checkers intends to compete strongly to take advantage of this growing market – we have visited and learned from the best Fresh Food suppliers globally and have implemented much of our learnings Management restructured to provide complete focus per brand We recruited a top team of developers (chefs and food technologists) to support the adoption of premium products, including a wider range of gourmet food offerings. Shoprite's business model is well suited towards an effective delivery in this segment in terms of its supply chain, speed to the market and quality control. Fresh has launched more than 100 new convenience products in the past year and more than 110 new products are currently in development. Products in Checkers' Ready to Cook range have received the seal of approval from the South African Chefs Association. The product offering is being supported by an award-winning store design, providing an attractive and high-quality shopping experience. 	<div style="display: flex; flex-direction: column; align-items: center;">   </div> <ul style="list-style-type: none"> Checkers has seen the largest gain in LSM 8-10 shoppers since 2011 and was the fastest growing supermarket chain in this target segment in the last year. The introduction of a Fresh Foods category was met with great success. Fresh convenience foods sales have doubled this year Kids ready-to-eat category has doubled since launch 	<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid blue; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">1</div> <div style="border: 1px solid red; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">3</div> <div style="border: 1px solid blue; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">5</div> </div> <div style="text-align: center; margin-top: 20px;"> <div style="border: 1px solid blue; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">6</div> <div style="border: 1px solid blue; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">7</div> </div> <p style="text-align: right; margin-top: 20px;">  Refer to page 21 for related risks information. </p>

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<p>Developing private label</p>	<ul style="list-style-type: none"> Promoting private label is a win-win for both Shoprite and our customers – providing choice at better value for customers and better margin for the Company. It also provides the opportunity to deleverage power from multi-national suppliers 341 new products have been launched since January 2017. There is further room to increase Shoprite's private label participation. The Food and Grocery categories currently have a 14.7% participation in South Africa in an industry worth R29.9 billion, relative to the industry participation of 18.5%, according to Nielsen (2017). The Non-RSA opportunity remains totally untapped. 	<ul style="list-style-type: none"> Shoprite has already had great success with difficult categories, with its Zip Cola and Lovies Nappies often outselling the original brands Private label participation improved by 1% in South Africa and 1.2% in Non-RSA this year Private label gross margin was up 2.3 percentage points year-on-year 	 <p>Refer to page 21 for related risks information.</p>
<p>A stronger franchise offer</p>	 <ul style="list-style-type: none"> A part of the business that has received strong focus this year. We have refined our model and we are doing express format stores, as well as forecourt stores Strong opportunities for growth through private label, general merchandise, Money Market services and our turn-key system solution. We have redone the private labels and introduced general merchandise that the stores never had before The franchise business is getting more and more products from our distribution centres and getting the pricing benefit. Rebranded stores are growing at twice the pace of other stores Adding another 75 fuel station forecourt stores 	<ul style="list-style-type: none"> Franchise business is doing well, at 10.1% like-for-like sales growth. Increased appeal, with a net 29 new members Gained market share Money market service counters have experienced substantial turnover growth 29% more products distributed from Shoprite DCs, improving retailer margins by 0.5% Trading profit growth ahead of turnover growth 	 <p>Refer to page 21 for related risks information.</p>
<p>Leverage African advantage</p>	<ul style="list-style-type: none"> Shoprite has operated in Africa for more than 26 years. Our wealth of experience and track record is unsurpassed and a significant competitive advantage Shoprite operates 437 stores outside South Africa. We have sufficient scale to open distribution centres in these countries, which will further assist to entrench our position as market leader African population is set to double to 2.4 billion people by 2050. The growing middle class is forecast to reach 1.1 billion people by 2060. Rapid urbanisation trends – 24 million people are moving to cities each year until 2045, which implies that Africa's top 18 cities will have combined spending power of \$1.3 trillion by 2030 – Shoprite is well positioned to capitalise on this opportunity. The long-term forecast growth for each region we have entered outside South Africa is higher than that of the domestic economy, providing significant diversification benefits and growth prospects to the Company. Current economic challenges and a slowdown in the number of properties being developed have reduced the pace of our store rollouts into Africa. In the long term, we remain confident of the investment proposition of the continent. 	<ul style="list-style-type: none"> Shoprite has a well-established record in 15 African countries and is well-regarded. Governments, regulators and customers are generally very favourably disposed to the establishment of stores from the Shoprite Group in their countries and communities. 55 new stores opened, 43 planned for 2018, significant further opportunities available. <p>Africa is a long game with many cycles</p>	 <p>Refer to page 21 for related risks information.</p>

Strategic objective	Initiatives and progress	Our customers' response	Related risks
Strategic footprint expansion	<p>New stores</p> <ul style="list-style-type: none"> 72 new supermarkets opened this year 82 new supermarkets to open in 2018 <p>Store formats optimised</p> <ul style="list-style-type: none"> Flexible formats are being introduced to better serve each market <p>Capitalise on bricks-and-mortar</p> <ul style="list-style-type: none"> Bricks-and-mortar an advantage for Omni Channel offerings – ability to get items to any city at a low cost Continue to extend our lead in Africa <p>Own the supply chain</p> <ul style="list-style-type: none"> Shoprite maintains a sizeable head start in centralised distribution, with 24 years' experience and an investment of more than R40 billion 123 000m² Cape Town Cilmor DC – opening in September 2017 Transplanting expertise into Non-RSA regions, including two new Distribution Centres in Angola and the purchase of a Distribution Centre in Nigeria International sourcing from 43 countries, supplying 15 countries <p>Expanding borders</p> <ul style="list-style-type: none"> Shoprite will not confine its growth to existing African countries New Non-RSA countries are being explored Other emerging markets are being investigated as a catalyst for our growth ambition, but expansion will be done cautiously <p>Implementing the right technology for 2020</p> <ul style="list-style-type: none"> We are on a drive to further modernise our technology landscape for rapid deployment and scalability SAP COR3 – the biggest technology project ever undertaken by Shoprite. 4 years in the making – delivered on time and under budget Enables Omni Channel and e-commerce Access to data lake of 100 terrabytes Can run 20 million lines at point of purchase Cost reductions i.t.o. managing interface speed Introduction of Google's G Suite and Cloud-based solutions leads to enhanced collaboration and efficiencies 	<ul style="list-style-type: none"> Customers welcome our low prices, wide range of products, job opportunities and community involvement. Optimised store size improve ROI Centralised distribution offers effective inventory management and a positive cash cycle, supporting the low cost promise. 	 <p>Refer to page 21 for related risks information.</p> 