



# Enterprise Risk Management

## Approach and Philosophy

The group appreciates that the delivery of its strategic objectives requires varying levels of risk-taking that must occur through robust enterprise risk management (ERM) frameworks and processes that are embedded in all decision-making throughout the organisation.

The board is ultimately accountable for effective risk management, agreeing the key risks, including emerging risks facing the group and ensuring that these are successfully managed. The group's philosophy of autonomy and freedom empowers leaders to identify, evaluate and manage the risks faced on an ongoing basis.

Key risks facing the group have been identified through a dynamic risk assessment that not only identified risks in terms of impact and likelihood, but further emphasised the connectedness and aggregation impact of each key risk. Movements of each risk are identified using key risk indicators, aggregated impacts and the identification of emerging events reported through a robust quarterly assessment.

Each division also performs annual risk assessments which consider materiality, risk controls and specific local risks relevant to the segments in which they operate. Executive management monitors the group's exposure to risks as part of their performance reviews conducted at each quarterly divisional board meeting.

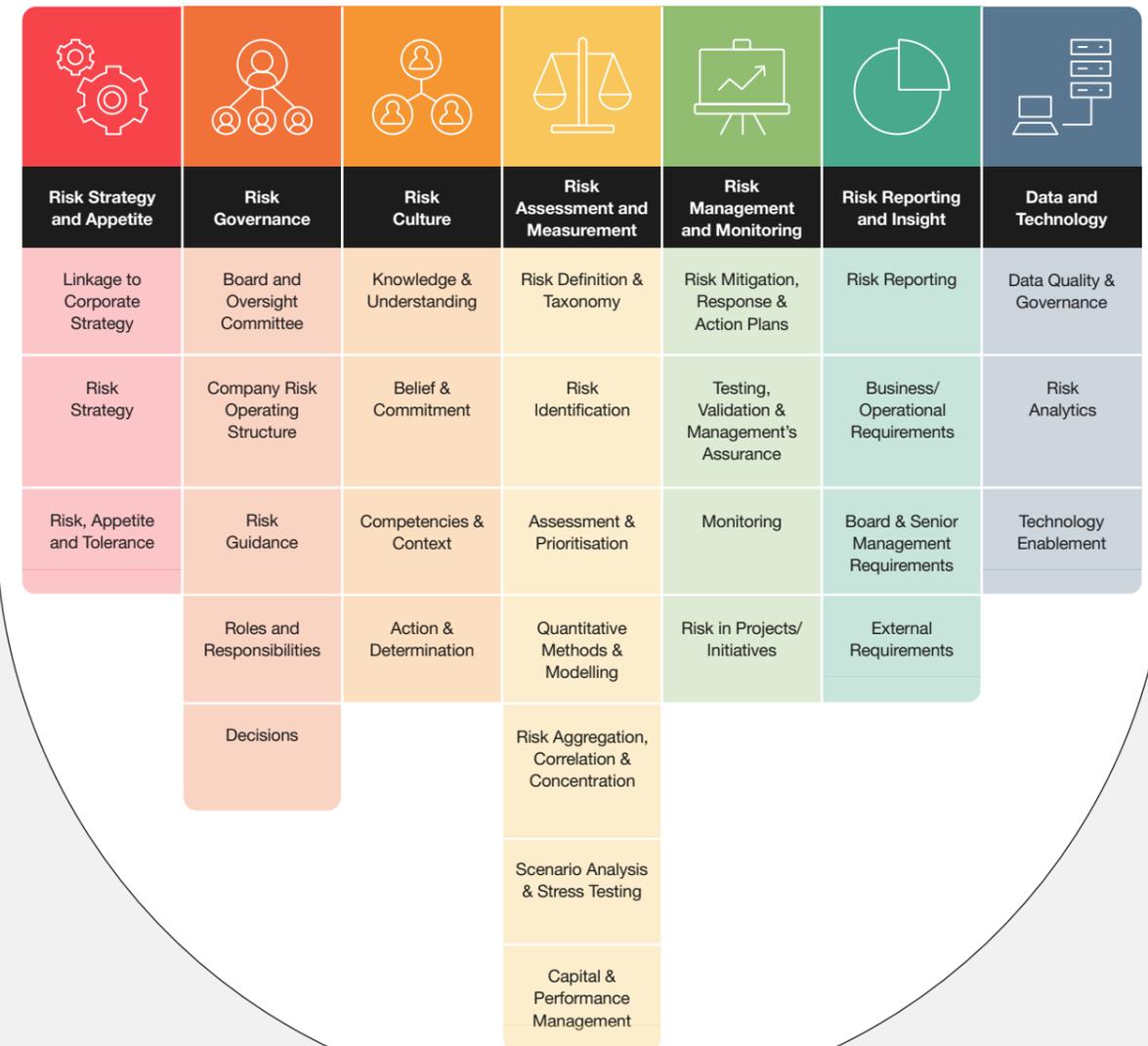
ERM processes and outcomes are guided, overseen and reported on by the group risk director.

## Key areas of focus

### 1. ERM Methodology Enhancements

While management focuses their efforts on the real risks and opportunities facing the group, attention is equally placed on continuously improving risk management capabilities through the adoption of robust processes. The journey towards achieving this imperative commenced on 1 July 2020, where a risk maturity assessment was performed. This was to assist in understanding the group's current level of risk maturity and the desired state through a scoring mechanism and actions that are required to achieve the desired state. Emanating commitments and actions are reported to the risk committee on a quarterly basis, resulting in the achievement of the desired maturity score by 31 March 2022. All committed actions have been completed and independently assured, with the technology enablement of the process requiring more time, as the group evaluates its wider prioritised IT investment.

The group's maturity journey is plotted against the KPMG risk maturity framework that considers seven key ERM life-cycle elements with sub-elements as illustrated below:



Source: KPMG Risk Maturity report

### 2. Integrated Assurance

Recognising that the advancement of a reliable integrated assurance model is a journey, efforts in the year have been focused on specific deliverables in understanding and confirming assurance processes and respective assurance providers that are in place to assure the management of key risks identified. Further detail on this imperative can be found on page 8 of the Audit and Compliance Committee report in the [Annual Financial Statements](#).

### 3. Risk Appetite and Tolerances

The group aspires towards higher and sustainable growth opportunities, and in doing so accepts that it will face increased levels of risk exposure due to the changing external

environment and volatility. To this end, the group's risk appetite and tolerances have been re-assessed to serve as a guide on strategic and tactical decisions and escalation processes that will allow leaders to make decisions within acceptable boundaries of risk.

### 4. Resilience and Crisis Management

The group continues to focus efforts on improving resilience and the ability to manage crisis events. With the civil unrest experienced in July 2021, COVID-19, increased cyber-attacks and disruptive supply chains, the group's actions were focused on appropriate responses while strengthening risk mitigations and constantly improving the overall resilience of the group.

# Material Matters

## Focus Areas and Mitigation

The group's Enterprise Risk Management (ERM) approach seeks to integrate risks identified on a dynamic, aggregated and interconnected basis with strategy and material matters facing the organisation. Risks that are beyond the group's risk appetite and not fully controllable, culminate into a material matter that threatens its ability to achieve its strategy. These matters are identified as a result of careful analysis of the ecosystem and external environment in which the group operates.



## Risk Adjusted Approach to the Group's Strategy

Post the comprehensive reassessment and relaunch of the group's strategy in May 2021 and the resultant level of clarity, every decision taken aligns to the strategic intent of the organisation resulting in the positive movement of the strategy risk theme previously identified. The group accepts that changes to the external operating environment requires ongoing strategic calibration to achieve its vision. A risk adjusted approach to the group's strategy is therefore essential and driven by movements of threats and opportunities facing the group. While the group's strategic response to these forces occurs on a structured basis within approved risk appetites and tolerances, the volatility and uncertainty over the last two years has required responses that have been unprecedented. The changing external environment continues to challenge the group's strategic response at the right time, rendering it a material matter to the group.

STRATEGIC PILLAR	GROUP STRATEGIC RISK THEME
Brand Promise                      Growth                      People                      Stakeholder Engagement	<p><b>The risk that the lack of a clearly articulated strategy will result in the group's inability to achieve desired growth.</b></p>
<p><b>Interconnected Potential Risks/Impacts</b></p> <ul style="list-style-type: none"> <li>• Overreaction/Underreaction to changes in strategic landscape</li> <li>• Inability to identify forces of change</li> <li>• Diversionary efforts</li> <li>• Incorrect decision-making</li> <li>• Investment in non-value adding activities</li> </ul>	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>• Alignment of group strategic priorities clearly disseminated into each of the trading divisions and Centres of Excellence (COE)</li> <li>• Key Performance Indicators (KPI) to ensure execution with absolute clarity driven by individual targets</li> <li>• Quarterly assessments of KPI progress for all divisions and timely responses</li> </ul>

## South African Trading Environment

The fragility of the South African (SA) economy and directly connected social impacts continue to intensify the trading environment in which the group operates. High levels of fiscal debt, increased deficit and unemployment levels compounded by energy shortages, ongoing pandemic effects and the July 2021 civil unrest has brought about aggravated and unique levels of risks to the achievement of the group's goals. These adverse trading conditions directly impact discretionary consumer spend, especially in the homeware and apparel categories in which the group operates.

STRATEGIC PILLAR	GROUP STRATEGIC RISK THEME
Growth	<p><b>The risk that adverse political actions, social unrest, declining economic conditions and onerous legislative requirements impacts growth imperatives.</b></p>
<p><b>Interconnected Potential Risks/Impacts</b></p> <ul style="list-style-type: none"> <li>• Concentration of risk due to focus and size of SA operations</li> <li>• Constrained consumer spending</li> <li>• Volatility of ZAR potentially impacting the value model</li> <li>• Credit collection due to low disposable income</li> <li>• Increased competition due to retail consolidation and discounting by competitors</li> <li>• Potential discontinuation of COVID-19 social relief grant</li> </ul>	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>• Enhanced business resilience through the group's:                         <ul style="list-style-type: none"> <li>o Robust business model</li> <li>o Market positioning</li> <li>o Brand loyalty</li> <li>o Fashion value differentiation</li> <li>o Every Day Low Pricing</li> <li>o Progress towards diversification of customer segments through acquisitions and category extensions or reductions</li> <li>o Cash-based and less reliant on credit</li> </ul> </li> <li>• Government engagement</li> <li>• Treasury policy</li> </ul>

## Leadership and Organisational Agility

The rapid pace of change and uncertainty in the external environment requires leaders to adopt a transformational mindset and embedded processes supporting everything the organisation does. Innovative and unprecedented decision making is required to successfully differentiate and transform the organisation. Awareness of the need to avoid historical bias places the business in a position of strength and advantage. The group's inability to adapt during uncertain times does pose a material matter to the future success of the organisation.

STRATEGIC PILLAR	GROUP STRATEGIC RISK THEME
People	<p><b>The risk that leadership behaviour and resultant impact on the organisational health, impacts the group's ability to achieve its goals.</b></p>
<p><b>Interconnected Potential Risks/Impacts</b></p> <ul style="list-style-type: none"> <li>• Resistance to change</li> <li>• Bureaucratic and cumbersome processes that impact business agility</li> <li>• Lack of a structured change management process</li> <li>• Entrenched thinking and inability to adapt to a new way</li> <li>• Inappropriate organisational design</li> </ul>	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>• Infusion of new leadership thinking through acquisitions and external appointments</li> <li>• Review of organisational design</li> <li>• Lateral transfers of leadership teams</li> <li>• Various leadership and mentorship programmes</li> </ul>

## Supply Chain

### Logistics

As the group continuously seeks to optimise the supply chain and diversify the supplier base, subsequent pandemic effects (both locally and globally) continue to have a material impact on the group. The last year has been impacted by COVID-19 disruptions, civil unrest, port congestion, container shortages, increased demand and strained capacity which brought about record-breaking spot and long-term shipping contract rates. Furthermore, the N3 corridor that is a key distribution route for the group in South Africa is at constant risk of disruption and threat. Other factors such as load shedding and container capacity constraints due to pent up demand, have driven supply chain risks to be a material matter.

### Sourcing

The group's purpose is to be "Your Value Champion", and it is essential that prices offered to the customers are at the lowest cost while delivering the targeted returns to shareholders. The increased cost of doing business in all aspects of the value chain are at unprecedented levels. Increased costs associated with product manufacturing, raw materials, shipping and delivery, security, compliance, insurance and skills are threatening the group's ability to offer affordable merchandise to customers. Proportional increases in customer spending is not occurring, exasperated by elevated fuel and energy prices and overall cost of living. This scenario threatens a key lever being price value of the group.

<p>STRATEGIC PILLARS</p>   <p>Sustainability Growth</p>	<p>GROUP STRATEGIC RISK THEME</p> <p><b>The risk of an inefficient, ineffective and unreliable supply chain that will result in poor inventory management that will impact the group's competitive advantage.</b></p>
<p><b>Interconnected Potential Risks/Impacts</b></p> <ul style="list-style-type: none"> <li>Increased input costs impact on price value offering</li> <li>Failure of key suppliers to meet their order obligations</li> <li>Stock availability</li> <li>Disruptions in movement of stock from source to store</li> </ul>	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>Alternative distribution centre (DC) facilities</li> <li>Enhanced security mechanisms at key strategic and concentrated locations</li> <li>Resourcing strategy in the third year of execution, thereby reducing over-reliance on territories or key suppliers</li> <li>Responsible sourcing incorporated into the resourcing strategy</li> <li>Partnerships and collaboration with suppliers</li> <li>Increased lead times to allow for response strategies</li> <li>Quick response strategies</li> <li>Strategic supplier partnerships/building feedback loops/collaboration</li> <li>Supplier performance measurement and visibility of production cycles</li> <li>Procurement of locally manufactured products to increase agility and flexibility</li> </ul>

## Transformation and Diversity

The group embraces the value in diversity and the need to represent the local and national demographics of SA at all levels and remains committed to employing and developing partners in line with employment equity (EE) targets. The succession pipeline is key to addressing transformation imperatives.

<p>STRATEGIC PILLAR</p>  <p>People</p>	<p>GROUP STRATEGIC RISK THEME</p> <p><b>The risk that slow pace of transformation will result in adverse reputational and commercial damage.</b></p>
<p><b>Interconnected Potential Risks/Impacts</b></p> <ul style="list-style-type: none"> <li>Slow rate of EE and gender transformation at senior and professional qualified levels</li> </ul>	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>The group EE plan</li> <li>Transformation strategy</li> <li>Transformation targets</li> <li>KPI measurables</li> </ul>

## Talent Attraction and Retention

The group is cognisant of the fact that its success is highly dependent on a disciplined and experienced team with retail, technology and leadership skills that carries an entrepreneurial mindset. A shortage of local retail specific skills, fuelled by a local and international demand for talent, poses risk to all SA retailers and is hence deemed a material matter. The group's human capital is sought after locally. New hybrid and remote working models are increasing the ease for talent to operate more flexibly and explore global opportunities.

<p>STRATEGIC PILLAR</p>  <p>People</p>	<p>GROUP STRATEGIC RISK THEME</p> <p><b>The risk that the inability to attract and retain key skills impacts the group's capacity to execute its strategy.</b></p>
<p><b>Interconnected Potential Risks/Impacts</b></p> <ul style="list-style-type: none"> <li>Skills shortage</li> <li>Competition to attract and retain specific skills</li> <li>Inability to respond to the new retail landscape</li> <li>Low growth environment impacting structure and limiting career progression</li> <li>Loss of homegrown talent</li> <li>Impact on leadership succession</li> <li>Appropriateness of retention mechanisms in a new retail landscape</li> <li>Remote talent management</li> <li>Cost of required skills impacting the value model</li> <li>Overworked associates impacting mental health, more especially key decision makers</li> </ul>	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>New long-term incentive (LTI) and short-term incentive (STI) schemes in second year of operation</li> <li>Wellness programmes</li> <li>Flexible working arrangements</li> <li>Attractive business with stability and large growth opportunities</li> <li>Infusion of new talent with new acquisitions</li> <li>Identification and nurturing of high potential associates</li> </ul>

## Brand Reputation

The group's brand is well entrenched among the customers it proudly serves. Every attempt and decision made considers and capitalises on the opportunity to further strengthen this strategic asset. The scale of the business and constant interactions between partners and varying stakeholders does however pose ongoing risk of brand damage or disrepute. Risk to the group's reputation and the ability to respond are elevated due to the span of information or misinformation transfer with social media. Although there is progress in risk mitigation steps through ethics awareness, crisis response, social compliance processes and quality control standards attested by the group's growth in market share in many categories over the year, it does accept that there are scenarios that are beyond its control, thereby rendering the risk of brand disrepute as a material matter.

<p>STRATEGIC PILLAR</p>  <p>Brand Promise</p>	<p>GROUP STRATEGIC RISK THEME</p> <p><b>The risk that associates, or parties with whom the company transacts, conduct themselves in a manner that damages the reputation of its image.</b></p>
<p><b>Interconnected Potential Risks/Impacts</b></p> <ul style="list-style-type: none"> <li>Enhanced consumer and social awareness</li> <li>Speed of information transfer via social media</li> </ul>	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>Group code of conduct</li> <li>Ethics awareness and training</li> <li>Social media screening</li> <li>Social media policies</li> <li>Escalation guidelines</li> <li>Group communication function</li> </ul>

## Culture and Values

As the group faces times of uncertainty, volatility and ambiguity and the corresponding need to respond with agility, empowerment of all its partners drives correct decision making. Right values and behaviours will engender the group's organisational health that supports and influences these decisions by all its partners. The 'Mr Price' way of doing things and interacting with each other is unique and a differentiator that must be preserved in its growth trajectory. The group culture and the potential impact of its success is viewed as a material matter that is fluid, requires ongoing attention and most importantly displays leadership by example.

STRATEGIC PILLAR	GROUP STRATEGIC RISK THEME
 People	<b>The risk that culture and behaviours do not engender the right values, behaviours to engender organisational health.</b>
<b>Interconnected Potential Risks/Impacts</b> <ul style="list-style-type: none"> <li>• Loss of entrepreneurial mindset</li> <li>• Dilution of culture</li> <li>• Reputation risks</li> <li>• Agility</li> </ul>	<b>Response</b> <ul style="list-style-type: none"> <li>• Organisational health assessments</li> <li>• Adaptability/Constant improvement of values</li> <li>• DNA project activation and implementation</li> <li>• New group vision, purpose and strategy</li> </ul>

## Competitor Landscape and Changing Shopping Behaviours

The group's performance attests to the success of its model and associated ongoing and entrenched risk management capabilities. However, increased discounting, promotional activities and aggressive store rollouts by competitors (especially in the apparel and homeware offerings and in particular the value segment) have become more prevalent. Increased acquisitive activity in the competitor landscape has also been prevalent. Beside the force of local competition, competition with accelerated offerings of global retailers to SA consumers is now being observed. The accelerated ongoing change of retail relative to previous decades accentuates this material matter. The post-pandemic world is being shaped by convenience shopping and preferences experienced, offered and appreciated during the pandemic. The gap between customer expectations and retail offerings continually widens from a price, product, interaction and convenience perspective. The availability of real time product information such as prices and range of assortment offerings, both on local and international platforms, is a material matter in the group's ability to remain relevant in the new retail playing fields. These forces place customers in a position of choice of product, access to fashion trends and the ability to substitute products that are limited locally. The group is hyperaware of competitor activities, consumer behaviours and competitor responses. It views these changes and actions as a threat to its goals and hence as an ongoing material matter.

STRATEGIC PILLAR	GROUP STRATEGIC RISK THEME
 Growth	<b>The risk that actions of competitors or new entrants to the market threaten the organisation's competitive advantage</b>
<b>Interconnected Potential Risks/Impacts</b> <ul style="list-style-type: none"> <li>• Crowded value segment</li> <li>• Inability to respond to "freshness" offered by global competitors</li> <li>• Inability to maintain leading metrics</li> <li>• Leadership agility</li> <li>• Inability to innovate</li> <li>• Loss of group's entrepreneurial strength</li> </ul>	<b>Response</b> <ul style="list-style-type: none"> <li>• Growth strategy executed organically and acquisitively</li> <li>• Financial resilience and differentiation with strength of balance sheet</li> <li>• Diversified targeted customer segment</li> <li>• The strength and value of the brand</li> <li>• Strong retail skills in the value retailing segment</li> </ul>

## Systems and Technology

The transactional nature of the business operations and reliance on systems poses a risk of business continuity. Systems are constantly at risk of damage and interruption, especially with the increase in power outages, telecommunication failures and elevated cyber security risks that continue to escalate. Any form of sustained interruption to the information systems will have an adverse impact on the group.

The group recognises that effective future-fit systems, processes and common IT platforms are critical to mitigating risks, reducing costs, increasing flexibility and driving efficiency and productivity. The rapidly changing digital landscape is accentuating the need for a digital capability including data analytics, e-commerce, omni-channel and automation to drive value, and poses broader challenges in terms of speed of delivery relative to changing customer shopping expectations and efficiencies sought.

STRATEGIC PILLAR	GROUP STRATEGIC RISK THEME
  Growth Technology	<b>The risk that IT systems lack capability and capacity to support operations and future growth.</b>
<b>Interconnected Potential Risks/Impacts</b> <ul style="list-style-type: none"> <li>• Information security</li> <li>• Reliance on information generated to base key decisions</li> <li>• Business interruption</li> <li>• Failure to keep pace with technological advances that will enhance business value model</li> </ul>	<b>Response</b> <ul style="list-style-type: none"> <li>• Robust information security roadmap with agility in response</li> <li>• Digital transformation by leveraging data and digital asset investment</li> <li>• Improved robust cloud-based IT disaster recovery strategies</li> <li>• Informed IT leadership and an innovative mindset, as well as a robust technology modernisation roadmap</li> </ul>

## Integration of New Acquisitions

As the group integrates newly acquired businesses, it anticipates integration-specific risks that need to be carefully managed. The potential risk of a lack of capacity and distraction to leaders and support staff will need to be carefully managed through structured and well thought out integration plans. There is a need to ensure appropriate organisational design to support existing and newly acquired businesses for the preservation of strengths and differentiators and the value proposition of acquisitions to ensure that anticipated opportunities are exploited and return on investments is achieved. The cost and effort to ensure compliance to the group and listing standards will be prioritised while ensuring that the value expected from these acquisitions is eroded.

STRATEGIC PILLAR	GROUP STRATEGIC RISK THEME
 Growth	<b>The risk that newly-acquired businesses do not deliver the desired return on investment.</b>
<b>Interconnected Potential Risks/Impacts</b> <ul style="list-style-type: none"> <li>• Loss of entrepreneurial mindset</li> <li>• Dilution of culture</li> <li>• Reputation risks</li> <li>• Cost of compliance</li> </ul>	<b>Response</b> <ul style="list-style-type: none"> <li>• Structured integration plan</li> <li>• Organisational design review</li> <li>• Executive oversight</li> <li>• Retention mechanisms</li> <li>• Group Code of Conduct</li> </ul>