

Enterprise Risk Management



Philosophy, Approach and Structure

The group embraces the philosophy that effective risk management contributes to achieving its goals and objectives by managing threats and taking advantage of opportunities.

Enterprise risk management (ERM) frameworks and processes are embedded in all decisions throughout the organisation. These processes are designed with the intention to promote risk taking in a responsible manner so that organisational goals can be achieved with higher degrees of confidence.

Key risks facing the group are continually identified through a dynamic risk assessment that not only identifies risks in terms of impact and likelihood, but further emphasises the connectedness and aggregated impact of each key risk. Movements of each risk, aggregated impacts and the identification of emerging events are reported and assessed on a quarterly basis by executive management and the Risk and IT Committee.

The board is ultimately accountable for effective risk management, agreeing the key risks, including emerging risks facing the group and ensuring 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.

In tandem with the annual strategy process, each division also performs annual risk assessments which consider materiality, risk controls and specific local risks relevant to the segments in which they operate.

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

KEY AREAS OF FOCUS

Risk Strategy

In building the group's ERM capabilities, much time and effort has gone into developing required, fit for purpose, simplified processes and supporting frameworks. The desired levels of risk maturity and improved capabilities have been achieved, but with the group's growth aspirations comes risk commensurate with the desired level of growth. To this extent, a medium- to long-term ERM strategy was finalised during the year. The strategy sets out to achieve the following key objectives:

- Increased consistency in applying the framework across the group
- Reduced time between identifying risks and management response
- Increased number of complex risks analysed and resolved by treatment plans
- Increased use of formal risk management techniques prior to major decision making
- Reduced number of issues over time



Divisional Risk Assessments

Risk assessments were formally carried out for all divisions with aggregated results on the movement of the risks reported through the divisional risk committees.

These assessments were performed through an interactive process with each divisional leadership team. The assessments were strengthened through an understanding of each division's risk profile and insights, which were facilitated by the group risk director.



Business Resilience

The group continues to appreciate that while it cannot predict the next crisis, it can improve preparedness. Enhancing resilience plans and conducting simulation tests in response to black swan events in the last year has undoubtedly improved the overall resilience of the group.

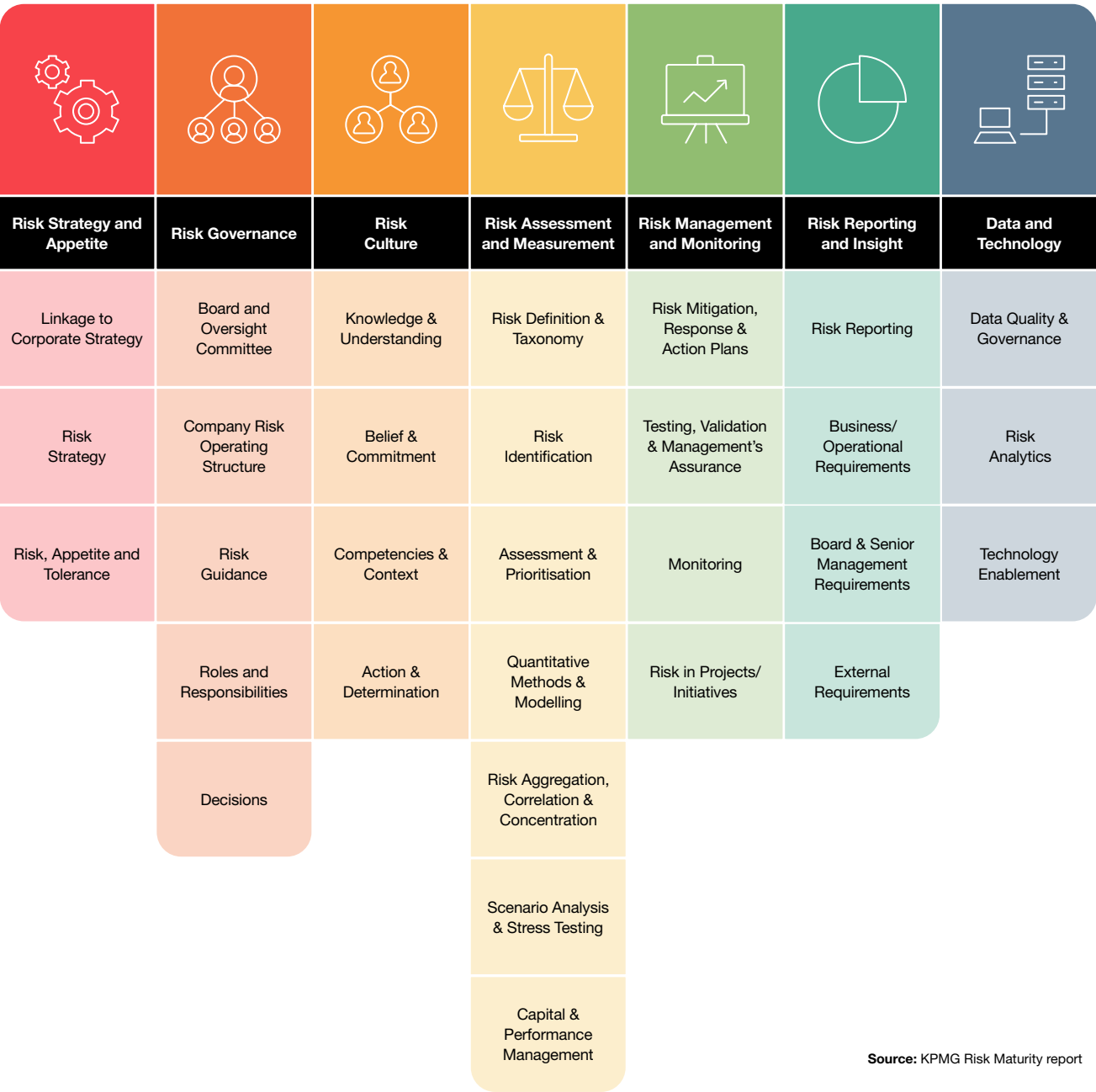
The group's resilience and preparedness continue to improve with every potential threat of social unrest across its operations. A crisis response and recovery plan to prepare for extended stages of loadshedding and a possible collapse of the national or provincial energy grid has also recently been completed.

ERM Maturity

Significant effort has been made over the last three years to adopt robust processes and to continuously improve risk management capabilities. As previously reported, the journey towards achieving this imperative began in July 2020 when a risk maturity assessment was performed.

This aimed to improve understanding of the group's current risk maturity level through a scoring mechanism and actions required to achieve the desired state. All committed actions required to achieve the desired level of maturity have been completed and independently assured, except for the technology enablement of the process, as the group evaluates its wider prioritised investments in IT.

The results of the group's maturity journey are plotted against the KPMG risk maturity framework. This considers seven key ERM life-cycle elements with sub-elements as illustrated below:

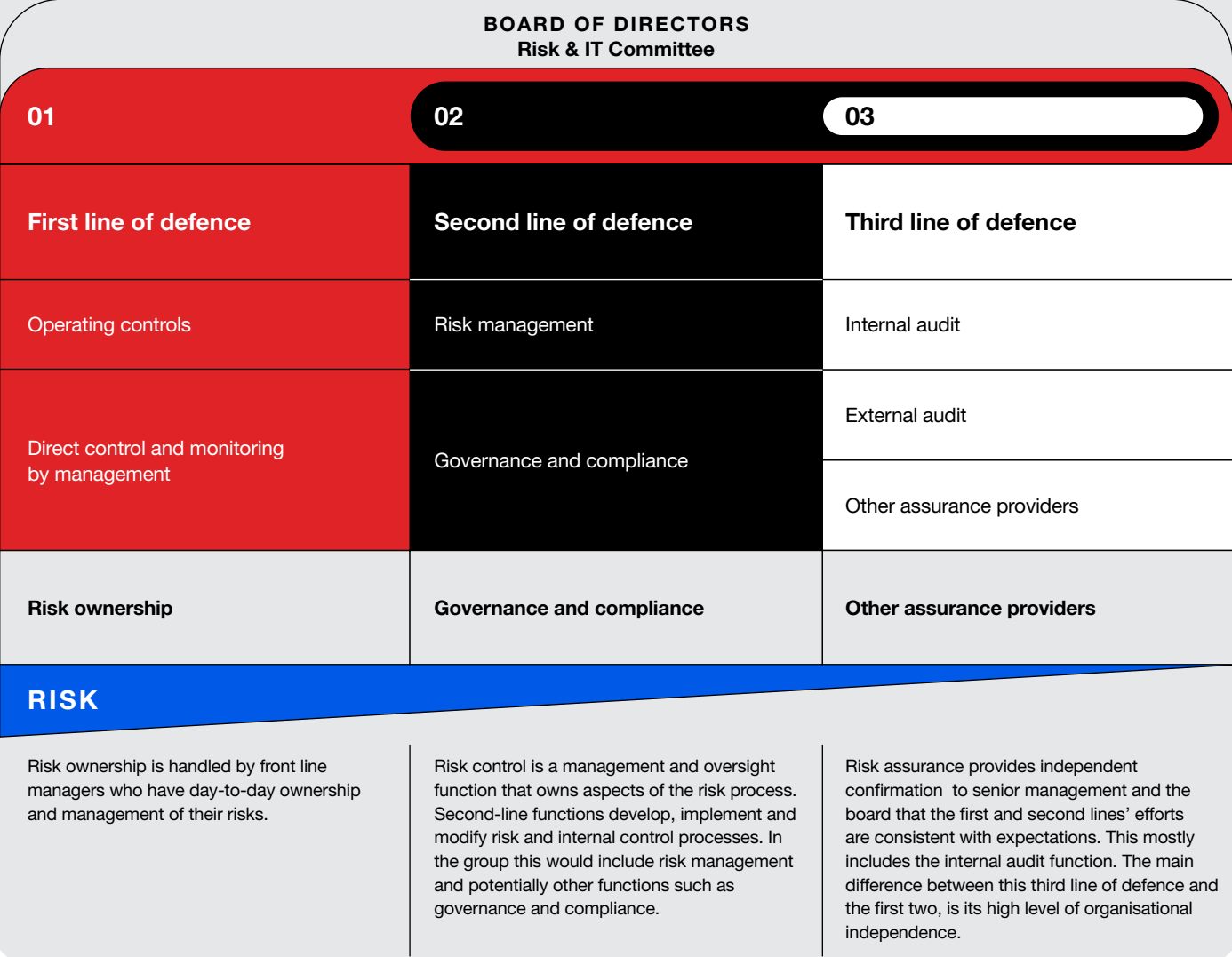


Source: KPMG Risk Maturity report

Integrated Assurance

The group's integrated assurance model, as illustrated below, has simultaneously matured as part of the group's ERM strategy. The three lines of defence approach clarifies roles and accountabilities, enhancing the understanding of risk management and control.

The model highlights the levels of risk management oversight needed in the group. Ultimately, when these three lines have been properly structured, the business has an increased probability of being effectively managed.



Insurance Recoveries

Insurance is viewed as a risk transfer tool that falls directly within the scope of ERM. A significant amount of focus was placed in the last financial year on renewal processes to ensure adequate cover on various risk classes, based on a globally changing risk profile and the cover that was available in the insurance market.

In addition, significant effort was spent in finalising the business interruption claim arising from the July 2021 civil unrest. The claim could only be assessed in its entirety at the end of the 12-month period of cover (June 2022).

Material Matters

FOCUS AREAS AND MITIGATION

While the group is able to absorb stress and thrive in adverse circumstances, it has and will undoubtedly continue to face risks in its quest for growth.

Risks do not materialise in isolation and this has been especially evident over the last year. When risks materialise, they trigger other risks (contagion impacts) thereby elevating the network of key risks impacting the group's objectives. The group operated in an environment that presented multiple risks, both internally and externally.

These challenges and interconnected impacts are sometimes beyond the group's risk appetite and tolerance levels. They are therefore deemed to be material matters that require careful consideration in all key decisions.

These material matters, risks, other contagion impacts (some of which have been previously highlighted) and the group's responses are summarised on the next page and onwards.



South African Trading Environment

South African economy

The state of South Africa's economy and resultant direct and indirect impacts have exacerbated over the reporting period. Discretionary consumer spend, especially in the apparel and homeware categories has been impacted by the adverse trading environment, a weakening currency against the dollar, increasing fuel prices, interest rate hikes and record high inflation levels.

Further, the cost of doing business in South Africa continues to escalate with increased investments in alternate power, security, insurance, transport and regulatory compliance, all of which impacts the value positioning of the group.

Energy crisis

Loadshedding in the last year, particularly during the peak trading period of December 2022 and January 2023, reduced trading times and impacted shopping behaviour during power outages. This has negatively impacted the group's performance, with an estimated loss of 318 000 trading hours and R965m in lost sales.

A national collapse of the energy grid was once classified as a potential black swan event, but now features as a possibility on the group's risk radar. The group, through its crisis management planning, has taken the necessary precautions in preparation for such an eventuality, but also acknowledges that no amount of risk mitigation can surmount the impact of a national energy grid collapse.

STRATEGIC PILLAR



Brand Promise

GROUP STRATEGIC RISK THEME

The risk that adverse political action, poor state owned entity performance, social unrest, declining economic conditions and onerous legislative requirements impacts growth imperatives

Interconnected potential risks/impacts

- Concentration of risk due to focus and size of South African operations
- Constrained consumer spending
- Volatility of ZAR potentially impacting the value model
- Credit collection due to low disposable income
- Increased competition due to discounting by competitors
- Discontinuation of government COVID-19 social relief grant

Response

- Enhanced business resilience through the group's:
 - o Robust business model
 - o Market positioning
 - o Brand loyalty
 - o Primarily fashion value differentiation
 - o Every Day Low Pricing
 - o Progress towards diversification of customer segments through acquisitions and category extensions or reductions
 - o Cash-based and less reliant on credit
- Government engagement
- Treasury policy
- Alternate power plans
- Continually assess markets, customer segments and product categories

Talent Attraction and Retention

The group understands that the achievement of its goals is highly dependent on a disciplined and experienced team with retail acumen, technology and leadership skills that promotes entrepreneurship.

The enticing of skills from global retailers has elevated this risk of losing key skills. The civil unrest experienced in KwaZulu-Natal, the epicentre of the group's head office and distribution centre operations, has increased the risk of emigration and semi-emigration. Post the unrest, the group has seen an increased interest or desire by associates to leave KwaZulu-Natal.

The shortage and resultant cost of local, retail-specific skills, fuelled by a local and international war of talent and skills, poses a risk to all South African retailers. This is heightened by the location of the group's support centres in KwaZulu-Natal and is hence deemed a continued material matter.

STRATEGIC PILLAR

GROUP STRATEGIC RISK THEME



People

The risk that the inability to attract and retain key skills impacts the group's capacity to execute its strategy

Interconnected potential risks/impacts

- Skills shortage
- Competition to attract and retain specific skills
- Inability to respond to the new retail landscape
- Low growth environment impacting structure and limiting career progression
- Loss of homegrown talent
- Impact on leadership succession
- Appropriateness of retention mechanisms in a new retail landscape
- Remote talent management
- Cost of required skills impacting the value model
- Overworked associates impacting mental health, more especially key decision makers

Response

- New long-term incentive and short-term incentive schemes in third year of operation
- Wellness programmes
- Flexible working arrangements
- Attractive business with stability and large growth opportunities
- Infusion of new talent with new acquisitions
- Identification and nurturing of high potential associates

Competitor Landscape and Changing Shopping Behaviour

The group has experienced market share headwinds due to several factors such as the shift by competitors into the value segment through aggressive store rollouts and higher markdowns.

The rapid change in consumer fashion, driven by the availability of online global real-time trends on both local and international platforms, requires agility ahead of competitors in understanding and responding to customer demands. Rapid store rollouts by competitors has increased demand for quality retail space and further elevating the competitor landscape risks.

The accelerated ongoing change, more particularly the impact on the retail value segment relative to previous years, has accentuated this material matter.

STRATEGIC PILLAR

GROUP STRATEGIC RISK THEME



Growth

The risk that actions of competitors or new entrants to the market threaten the group's competitive advantage

Interconnected potential risks/impacts

- Crowded value segment
- Inability to respond to "freshness" offered by global competitors
- Inability to maintain leading metrics
- Leadership agility
- Inability to innovate
- Loss of group's entrepreneurial strength

Response

- Growth strategy executed organically and acquisitively
- Financial resilience and differentiation with strength of balance sheet
- Diversified targeted customer segment
- The strength and value of the brand
- Strong retail skills in the value retailing segment

Brand Reputation

The group accepts that every associate directly or indirectly carries the reputation of the group's brand and it is not always possible to control every interaction of an associate. This being either in their personal capacity or while representing the group's business, and thereby posing an ongoing risk of brand damage.

The group aspires towards the prevention of an incident at all costs. It accepts that there are scenarios that are beyond its control as all partners carry the group's reputation in their interactions, thereby rendering the risk of brand disrepute as a material matter.

STRATEGIC PILLAR

GROUP STRATEGIC RISK THEME



Stakeholder Engagement



Brand Promise

The risk that associates, or parties with whom the company transacts, conduct themselves in a manner that damages the reputation its image

Interconnected potential risks/impacts

- Enhanced consumer and social awareness
- Speed of information transfer via social media

Response

- Group code of conduct
- Faircall whistleblowing facility available to all associates and partners
- Ethics awareness and training
- Social media screening
- Social media policies
- Escalation guidelines
- Group communication function

Supply Chain

Logistics

The group has previously experienced severe supply chain disruptions due to prior pandemic effects (both locally and globally), port disruptions, container and shipping constraints. As previously reported, the N3 corridor is a key distribution route for the group in South Africa and is at constant risk of disruption and threat. Good progress has been made in the last year to manage concentration risks associated with the group's largest distribution centre (DC) in Hammarsdale.

The large degree of uncertainty in the external environment elevates the risk of future disruption to the movement of the group's merchandise, both globally and locally. This renders logistics to be a material matter.

STRATEGIC PILLAR

GROUP STRATEGIC RISK THEME



Sustainability

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

Sourcing

The increased cost of doing business in all aspects of the value chain continues to escalate and is at unprecedented levels. Increased costs associated with product manufacturing, shipping and delivery, raw materials, security, compliance, insurance and skills threaten the group's ability to offer affordable merchandise to customers.

STRATEGIC PILLAR

GROUP STRATEGIC RISK THEME



Growth

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

Interconnected potential risks/impacts

- Impact of increased input costs on price value offering
- Failure of key suppliers to meet order obligations
- Stock availability
- Disruptions in movement of stock from source to store
- Port service levels and reliability

Response

- Alternative DC facilities
- Enhanced security mechanisms at key strategic and concentrated locations
- Resourcing strategy in the fourth year of execution, thereby reducing over-reliance on territories or key suppliers
- Responsible sourcing incorporated into the resourcing strategy
- Partnerships and collaboration with suppliers
- Increased lead times to allow for response strategies
- Quick response strategies
- Strategic supplier partnerships/building feedback loops/collaboration
- Supplier performance measurement and visibility of production cycles
- Procurement of locally manufactured products to increase agility and flexibility

Systems and Technology

The group's technology risk profile continues to improve. The group has made excellent progress in IT disaster recovery resilience and is on an ongoing and accelerated path of improving its cyber security maturity.

The year saw the culmination in the implementation of Oracle, the group's enterprise resource planning (ERP) system. This plays a significant role in addressing the systems risk capability required to deliver future growth aspirations. Significant, unanticipated challenges were encountered during the implementation and the group has recognised the impacts to be beyond originally anticipated levels.

As previously reported, the group further recognises that systems are constantly at risk of damage and interruption relating to the increase in power outages, related telecommunication failures and ongoing elevated cyber security risks. Any form of sustained interruption to the information systems will have an adverse impact on the group.

The group's reliance on systems to ensure business continuity and enable future growth will therefore always be deemed a material matter.

STRATEGIC PILLAR

GROUP STRATEGIC RISK THEME



Technology
& Innovation

The risk that technology systems lack capability and capacity to support operations and future growth

Interconnected potential risks/impacts

- Information security
- Reliance on information generated to base key decisions
- Compliance (data privacy, POPIA)
- Business interruption
- National or provincial electricity grid failure
- Failure to keep pace with technological advances that will enhance business value model

Response

- Execution of the group's information security roadmap and cyber insurance
- Continue to replace legacy solutions with simplified modern platforms
- Data governance principles
- Improved and robust IT disaster recovery, including cloud-based solutions and off-site storage as well as a diverse geographical store network
- Digital transformation by leveraging data and digital asset investment as well as automation



Risk Adjusted Approach to the Group's Strategy

The changing external environment and customer behaviours continue to challenge the group's strategic response at the right time. While the group is proud of its growth strategy, it also accepts the need for ongoing adjustments based on a rapidly changing trading landscape. The extent of volatility and uncertainty fuelled by competitor entrances to the value segment (especially over the last year) challenges the group's strategic responses and choices, rendering it a material matter to the group.

STRATEGIC PILLAR



Growth

GROUP STRATEGIC RISK THEME

The risk that the lack of a clearly articulated or poorly executed strategy will result in the group's inability to achieved desired growth

Interconnected potential risks/impacts

- Overreaction/Underreaction to changes in the strategic landscape
- Inability to identify forces of change
- Diversionary efforts
- Incorrect decision making
- Investment in non-value adding activities

Response

- Alignment of group's strategic priorities clearly disseminated into the trading divisions and Centres of Excellence
- Key performance indicators (KPIs) ensure execution with absolute clarity driven by individual targets
- Quarterly assessments of KPI progress for all divisions and timely responses

Leadership and Organisational Agility

Leadership, organisational agility and competencies required to enable growth are perceived as a risk. This risk is constantly being reduced through various behavioural changes and more deliberate interventions such as the definition of the group's leadership DNA. The speed of change and the world of VUCA (volatility, uncertainty, complexity and ambiguity) in which the group operates, requires capabilities of leaders that extend far beyond historical expectations. The shortage of skills (material matter no.3) amplifies this expectation and is therefore recognised as a material matter facing the group.

STRATEGIC PILLAR



People

GROUP STRATEGIC RISK THEME

The risk that leadership behaviour and resultant impact on the organisational health, impacts the group's ability to achieve its goals

Interconnected potential risks/impacts

- Resistance to change
- Entrenched thinking and inability to adapt to evolving needs
- Inappropriate organisational design

Response

- Infusion of new leadership thinking through acquisitions and external appointments
- Revised organisational design
- Lateral transfers of leadership teams
- Various leadership and mentorship programmes

Transformation and Diversity

The group acknowledges that the slow rate of transformation and diversity, in line with the local and national demographics of South Africa, poses a significant risk to employment equity (EE) targets. The group continues to make strides to address this risk and there have been positive shifts in African, Coloured and Indian (ACI) appointments. A unified transformation strategy supported by structures that drive the achievement of the transformation targets, has been finalised over the last year.

STRATEGIC PILLAR



People

GROUP STRATEGIC RISK THEME

The risk that slow pace of transformation will result in adverse reputational and commercial damage and hinder the group's DEI strategy

Interconnected potential risks/impacts

- Slow rate of EE and gender transformation at senior and professional qualified levels

Response

- The group's EE plan
- Transformation strategy
- Transformation committee
- Transformation targets
- KPI measurables
- Transformation manager

Culture and Values

The group takes pride in its culture and the values lived by all associates, in the execution of its objectives. The overall health of the organisation is critical to success. This health is supported by a strong culture that engenders the correct behaviours. The group's culture and the potential impact of its success is therefore viewed as a material matter.

STRATEGIC PILLAR



People

GROUP STRATEGIC RISK THEME

The risk that culture and behaviours do not engender the right values and behaviours to protect the group's organisational health

Interconnected potential risks/impacts

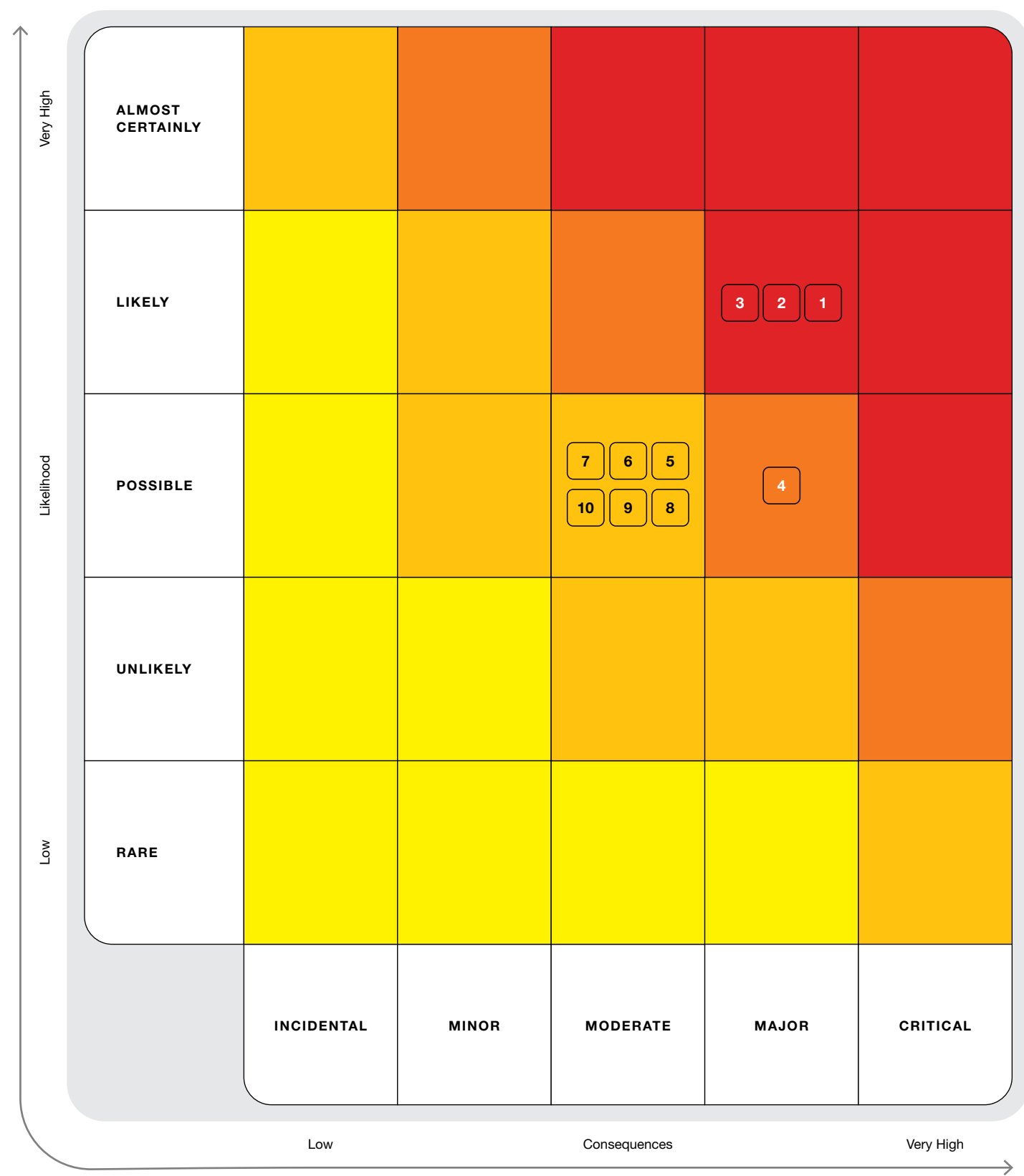
- Loss of entrepreneurial mindset
- Dilution of culture
- Reputation risks
- Agility

Response

- Organisational health assessments
- Adaptability/Constant improvement of values
- DNA project activation and implementation
- New group vision, purpose and strategy
- Mandatory induction programmes for associates

Risk Profile

The group’s risk profile is illustrated on the following risk matrix that assesses the risks on a residual basis (after risk mitigation and consequences both from a qualitative and quantitative basis). The matrix is utilised as a mechanism to assess risks that impact the group’s ability to achieve its strategic objectives. Detailed descriptions exist for each rating to enable consistent application throughout the organisation.



Material Matters/ Risk Themes		Risk Identified	Risk Movement Since Prior Year
01	South African trading environment	The risk that adverse political actions, social unrest, deterioration of economic conditions and onerous legislative requirements impacts the group’s growth imperatives.	Elevated
02	Talent attraction and retention	The risk that the group’s inability to attract and retain key skills impacts its ability to execute its strategy.	Unchanged
03	Competitor landscape and changing shopping behaviour	The risk that actions of competitors or new entrants to the market threaten the group’s competitive advantage.	Elevated
04	Brand reputation	The risk that the group’s associates, or parties with whom it transacts, conduct themselves in a manner that damages the reputation of the group’s image.	Reduced
05	Supply chain	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.	Unchanged
06	Systems and technology	The risk that the group’s IT systems lack capability and capacity to support operations and future growth.	Reduced
07	Risk adjusted approach to the group’s strategy	The risk that the lack of a clearly articulated growth strategy will result in the group’s inability to achieve desired growth.	Unchanged
08	Transformation and diversity	The risk that the group’s slow pace of transformation will result in adverse reputational and commercial damage.	Unchanged
09	Leadership and organisational agility	The risk that leadership behaviour and resultant impact on the organisational health, impacts the group’s ability to achieve its goals.	Unchanged
10	Culture and values	The risk that the group’s culture and behaviours do not engender the right values and organisational health.	Unchanged