

# RISK AND SUSTAINABILITY COMMITTEE REPORT

*In accordance with King III, the group board of directors is accountable and responsible for the governance of risk and sustainability. The board has defined the group's risk appetite and is satisfied that management decisions are in line with the parameters specified. The board is pleased with the progress that has been made on the sustainability journey.*

## COMPOSITION

The group's risk and sustainability committee, established in May 2010, operates in terms of a formal mandate. The committee comprises two non-executive directors and three executive directors and is chaired by Mr NG Payne, an independent non-executive director. The committee charter is published on the group website [www.mrpricegroup.com](http://www.mrpricegroup.com).

## ROLE

The risk and sustainability committee is responsible for providing risk management oversight, as well as monitoring the effectiveness of the risk management

framework and process. The committee reviews key risks and opportunities, assesses risk mitigation plans and reports back to the board of directors. The committee gives due consideration to the legitimate and fair expectations of all key stakeholders, resource constraints, external pressures and the drivers of the group's sustainability. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the group. Management is also accountable for building the competencies and capacity required of a sustainable business.



## 2011 COMMITTEE HIGHLIGHTS

Committee focus area	Actions
Key business risks and opportunities. Risk management framework.	Key business risks and opportunities were identified and discussed during the year, including business growth, product sourcing, insurance and the alignment of information technology to support business processes. The risk management methodology was discussed and approved.
Business sustainability issues and opportunities to enhance sustainability practices.	Current business sustainability initiatives and practices were presented and opportunities to further enhance the business sustainability were identified.

### APPROACH TO RISK MANAGEMENT

The board is committed to increasing shareholder value by operating in a manner that protects it against risks and uncertainties that could threaten the achievement of its strategic objectives, and to understanding the calculated risks taken to optimise opportunities in the achieving these objectives. Risk management is considered to be a key business discipline, designed to balance risk and reward, and give confidence that strategic objectives will be achieved.

#### Enterprise-wide risk management (ERM)

The group has defined its ERM as a process, effected by the board of directors, management and other associates, applied in strategy setting and across the entire enterprise, designed to identify potential events that may affect the organisation. These risks must be managed to be within the group's risk appetite, to provide reasonable assurance regarding the achievement of the group's objectives.

The group embarked on the first steps of the ERM implementation this year, which involved all key risk stakeholders and all divisions. An ERM framework was drafted to provide guidance in implementing a consistent, efficient and economical approach to identify, evaluate and respond to key risks that may impact business objectives. The ERM framework provides a proactive, systematic and integrated approach to risk management.

External risk consultants were engaged to ensure that the framework adopted was based on the principles embodied in the COSO Risk Management Framework, the International Standard on Risk Management (ISO31000) and the King Code on Governance Principles, 2009 (King III).

#### Risk profile changes

The overall risk profile of the group has not changed significantly during this period.

#### Risk appetite

The board has formally defined its appetite for risk, which is reviewed annually. The group view is that not taking measured risks is a risk in itself and that the entrepreneurial behaviour that has made it successful should be encouraged. There have been no material deviations from the group's risk appetite for this period.

### APPROACH TO SUSTAINABILITY

Internal business leaders were engaged during this period to establish a common understanding of what sustainability actually means to the group. "Business sustainability" was defined as the need to ensure that the group continues to prosper within an increasingly pressurised and volatile external environment by developing appropriate competencies and capacity within the system in which it operates.

### KEY RISKS

The group risk profile summarises the risks that have the highest potential to impact on the achievement of the strategic objectives. It is compiled by taking into consideration the:

- likelihood of the occurrence;
- potential impact of the risk occurring;
- effectiveness of the controls or risk mitigation; and
- desired residual risk (risk tolerance).

The group's key business risks and responses are articulated overleaf.

## KEY BUSINESS RISKS AND RESPONSES

Context	Risk description and impact
<b>Value</b>	<p>Fashion-value drives our business model.</p> <p>Our customers' perception of value will only be high if they are satisfied with the level of fashion, the quality and the price of the merchandise. Being a value retailer means lower markups in order to offer 'everyday low prices' and selling high volumes.</p>
<b>Product</b>	<p>Repeated significant and correct merchandise calls builds the brand's reputation and positioning.</p> <p>Consistent misinterpretations of fashion trends could result in inappropriate procurement of merchandise, compromised long-term financial performance and loss of competitive positioning of the brand.</p> <hr/> <p>Appropriate product assortments and correct allocations of merchandise to stores will maximise profitability.</p> <p>The inability of merchandise planners to build appropriate product assortments and allocate appropriate quantities to the right stores will result in lost sales.</p>
<b>Place</b>	<p>Store location and size decisions impact on the productivity of the retail space and business opportunities to increase turnover and profitability.</p> <p>Inadequate market research or poor feasibility processes may result in poor location and inappropriate size of stores, which will negatively impact trading densities and store profitability.</p>
<b>Systems</b>	<p>The proper alignment of information technology (IT) systems which support business processes, resulting in operational efficiencies and ability to meet stakeholder information requirements.</p> <p>The potential misalignment between the business strategy and IT capability could result in the inability to achieve business objectives. The impact could be a lack of accurate or reliable information, poor business decisions, lost sales and reduced profitability.</p>
<b>Business interruption</b>	<p>The ability of the group to adequately deal with significant business interruption would ensure business sustainability.</p> <p>The potential inability of the group to handle a significant disastrous situation as a result of inadequate business continuity management could significantly impact through potential loss of life, data, reputation and profitability.</p>
<b>People</b>	<p>The ability of group leadership to maintain the business model and respond appropriately to new business opportunities will impact significantly on the long-term profitability and sustainability of the business.</p> <p>Other human capital issues include the scarcity of retail-specific skills and the challenge to develop and retain skills.</p>
<b>Financial</b>	<p>The ability of financial leadership to maintain financial control and respond to emerging risks will impact on the group's financial performance.</p>
<b>Legislation</b>	<p>The group's ability to identify, manage and monitor compliance with all relevant legislation will impact on the group's reputation and financial performance.</p>

## Risk response

This requires the group to source its product at the best possible price, which is aided by the large order volumes which are placed with suppliers.

Maintaining low overhead structures is key to delivering acceptable operating margins.

The activities undertaken by the company to mitigate this risk are detailed on page 12.

Product calls are informed by extensive international research of fashion trends, development of sophisticated in-house design capabilities and analysis, market research and testing.

Senior divisional executives are involved in evaluating all major merchandise commitments.

The activities undertaken by the company to mitigate this risk are detailed on page 12.

Improved merchandise and planning processes and well trained merchandise planners have lead to lower product markdowns and improved inventory management.

A rigorous store feasibility process has been introduced to ensure that store placement is optimised.

The business responds quickly to property opportunities and carefully monitors stores that are not achieving the required standards.

A well established systems board, whose meetings are attended by all divisional managing directors and senior group executives, discuss IT business requirements, project priorities, service delivery and capital investment.

The group has a detailed IT disaster recovery plan that is adequately tested and maintained to ensure business continuity.

A formally documented business continuity plan, which will allow critical business processes to continue in the event of a disastrous incident, is in place.

The opportunity to build capacity and relevant competencies into the current business processes was identified as part of the recent business continuity update initiative. The process is still in progress and supports the group's sustainability journey.

The remuneration and nominations committee's terms of reference includes the planning for board succession.

The board of directors conduct peer director reviews and encourages professional development through exposure to best practice presentations.

The group has embarked on a comprehensive succession planning exercise which includes executive development.

The group has, through the Red Cap Academy, focused on the development of retail skills at store and merchandise levels. Refer to the report on our people on pages 116 to 120 for more information.

## Financial

Financial risk management is fully detailed in the annual financial statements on page 166.

## Insurance

Given the group's growth, business practice changes and emerging risks, insurance cover is reviewed annually for appropriateness. The review includes: uninsured and uninsurable risks, deductibles, exclusions, indemnity limits, credit rating, and the stability and sustainability of the underwriter. The insurance renewal process is reviewed annually by the committee which believes that the process is robust and the level of cover is adequate and appropriate. Claims by peril are assessed quarterly for trends.

## Credit

The group provides credit facilities to customers as a payment option for sales made. Credit is granted in a responsible manner and in accordance with risk scorecards and legal affordability requirements, thereby protecting the customer and the company. Debtor performance is well managed according to strict criteria.

Legislative compliance is carefully controlled by the relevant business unit executives and monitored by the group secretary. The group reviews and complies with all relevant legislation.



## ENVIRONMENT

The group recognises environmental and climate change responsibility as a critical component of business sustainability. The environmental policy and framework is governed by the risk and sustainability committee which has been delegated the task of overseeing the group's business sustainability. The chief executive officer is responsible for ensuring that environmental concerns are integrated into the business.

### Risk of non-compliance

The risk of not taking any action goes beyond possible reputational damage and could have a significant affect on the group's bottom line. The strategy is to identify opportunities to do things more efficiently and effectively, ultimately resulting in cost efficiencies. These environmental initiatives will not only mitigate rising costs but also improve the supply chain process, and reduce the group's carbon footprint.

### Carbon footprint

The group completed its first carbon footprint assessment in the past financial year. Processes and procedures were introduced to improve the accuracy and completeness of the information for the 2011 carbon footprint, thereby establishing a more accurate baseline for future target setting.

The 2011 carbon footprint is 147 592 tonnes CO<sub>2</sub>e, with 98% of carbon emissions related to electricity consumption. The scopes reported on are as follows:



Scope	Emission sources	Tonnes CO <sub>2</sub> e
Scope 1	Consumption of fuel of company owned vehicles	2 344
	Consumption of fuel for generators (stationary fuels)	6
	Refrigeration and airconditioning (fugitive emissions)	688
Scope 2	Consumption of purchased electricity	144 554
<b>Total</b>		<b>147 592</b>





### Carbon Disclosure Project

The group participated in the Carbon Disclosure Project (CDP) for the first time in 2010 and again in 2011. It supports the objectives of the CDP and will continue to participate in the project in the future.



### Environmental initiatives

The carbon footprint calculation and CDP participation have helped confirm the importance of a number of relevant initiatives with which the group had already commenced, namely:

Element	Initiative	Details
Energy	Improve the energy efficiency of stores and thereby reduce electricity usage.	An in-store energy efficiency project to reduce the group's carbon footprint and improve cost efficiencies through lower energy bills is in progress. This includes the retrofitting of certain stores with appropriate energy efficient lighting.  All new stores will be fitted with new energy efficient lighting and airconditioning systems.
	Reduce electricity usage at the distribution centre.	The power optimiser installed at the distribution centre in April 2010 has achieved the targeted savings of 8.5% per month. This translates into a saving of approximately 119 149 kWh (equivalent to 121 tonnes CO <sub>2</sub> e).
Fuel	Reduce fuel usage through improved merchandise planning to stores.	There have been many initiatives implemented by the group and its transporter to achieve fuel efficiencies. The dynamic route master implemented in Gauteng in the previous financial year is proving successful and has achieved a 12% saving in fuel consumption.  There is an on-going focus on identifying new opportunities to operate more efficiently. Other examples include: <ul style="list-style-type: none"> <li>• Consolidation of loads using a transport optimising tool;</li> <li>• Operating low-volume route masters to reduce inefficient kilometres in the low-volume periods;</li> <li>• Forecasting and planning in the distribution supply chain to reduce waste and total kilometres travelled; and</li> <li>• A system to monitor fuel consumption against targets in real time.</li> </ul>

Element	Initiative	Details
<b>Green IT</b>	Use technology to reduce environmental impact.	<p>The Financial Services division has been testing the use of e-statements for account customers. This initiative has already been rolled out to approximately 12% of account customers with a target to increase to 35% by the end of the next financial year. In addition to a reduction in environmental impact, the use of electronic statements results in significant savings in stationery, printing and postage costs.</p> <p>All store computers are automatically powered down at the end of the day and support centre computers are automatically put into a “dormant” state when not in use for a prescribed period of time.</p> <p>The server room has been upgraded to include more energy efficient airconditioning, saving power and reducing greenhouse gas emissions.</p> <p>All printer cartridges are recycled and refurbished for future use where possible. Support centre network printers are set to double-sided printing and all associates are encouraged to manage their paper usage and minimise waste as the group strives towards a more paperless work environment.</p> <p>The till slip length per transaction was shortened by approximately 8cm, saving approximately 10km of till slip paper per day.</p>
<b>Waste management</b>	Reduce, reuse and recycle.	<p>The ‘Mr Price Goes Green’ recycling initiative was launched at the Durban support centre complex during the year. This recycling initiative presents an opportunity to reduce costs and work more economically toward minimising waste that currently goes to landfill.</p> <p>Other recycling initiatives include:</p> <ul style="list-style-type: none"> <li>• reuse of fixtures from refurbished or closed stores;</li> <li>• reuse of plastic hangers;</li> <li>• thicker plastic bags that can be reused by customers;</li> <li>• recycled cardboard boxes; and</li> <li>• recycled support centre paper.</li> </ul> <p>A team of passionate associates, called the Green Force Team, was established to drive awareness and to promote the philosophy of reduce, reuse and recycle amongst all associates.</p>

