MATERIAL ISSUES AND RISKS

Material issues have been identified which could significantly impact the Group's ability to deliver its strategy and create and preserve sustainable value for stakeholders.

These material issues are reviewed by the board and executive management annually as part of the Group's strategic planning process, while the key risks are monitored by the board's risk committee. In reviewing the material issues for the 2024 financial year, the directors have included global and local supply chain challenges as a new material issue. The directors believe that the risk posed by Covid-19 has diminished and this is no longer considered a material issue to the Group.

FACTORS INFLUENCING MATERIAL ISSUES

In determining these material issues, the directors consider several internal and external factors, including the following:

- Group's strategic objectives
- Economic and trading environment
- Competitor landscape
- Industry trends and consumer behaviour
- External opportunities and threats
- Key Group risks
- Business threats and weaknesses
- Legislation and regulation
- Needs, expectations and concerns of primary stakeholders

MATERIAL ISSUES AND RISKS CONTINUED

1 Retail trading environment

The macroeconomic environment in South Africa has a significant impact on the Group's operations and the weak trading conditions, which have been compounded by sustained electricity load shedding, impact both sales and collections across the trading brands.

RELATED RISKS

- Constrained consumer spending and weak consumer sentiment as a result of deteriorating economic conditions and socio-political tensions
- Consumer spending declining further due to rising unemployment which particularly impacts the Group's target market
- Load shedding limiting the ability of stores to trade and adversely impacting consumer shopping patterns
- Civil unrest disrupting trading
- Extreme weather events disrupting trading

RISK MITIGATION

- The Group's store-based business model has proven resilient through all economic cycles and other disruptive events, while the current executive team has led the business through several downturns
- The Group's robust balance sheet should provide protection against the mounting economic headwinds
- Payment of certain social relief grants extended to March 2024
- Back-up and alternate power solutions at stores to limit impact of load shedding on trading
- Business continuity across the Group continues to be reviewed and enhanced

2 Global and local supply chain challenges

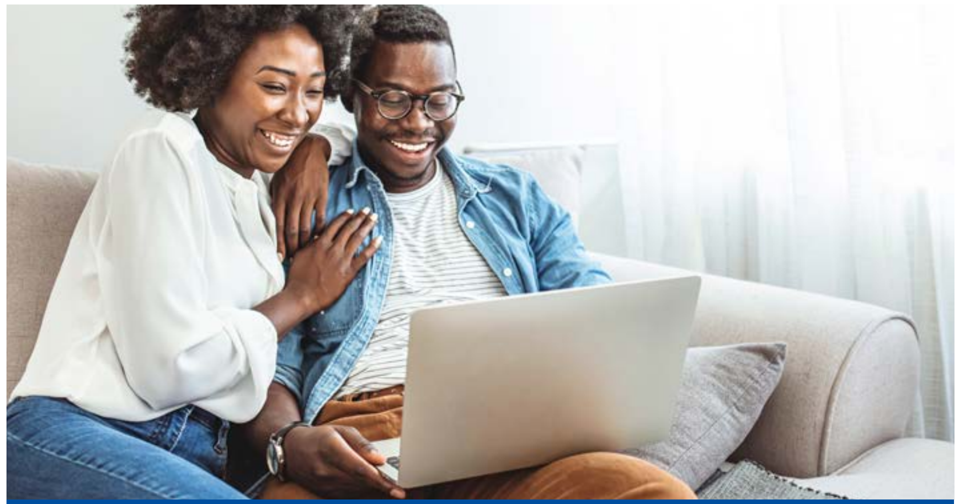
Global and local supply chain challenges are impacting the production and transportation of merchandise and the consistency of supply to stores and customers, while higher supply chain costs are adversely impacting margins.

RELATED RISKS

- Climate change, including the increase in extreme weather events and water scarcity, impacting continuity of supply
- Increased working capital costs to hold higher levels of stock as a buffer against supply chain disruptions
- Load shedding impacting on the ability of suppliers to meet their order obligations
- Lack of availability of raw materials impacting imports and locally produced merchandise
- Significantly increased sea freight costs affecting imports and rail freight costs impacting transport from local ports
- Industrial action or civil unrest affecting the production, warehousing and transportation of merchandise

RISK MITIGATION

- The Group adopted a strategy of holding higher stock levels to counter ongoing challenges in the supply chain and ensure adequate stock to meet customer demand
- Earlier placement of orders to enable timeous delivery of imported and local merchandise
- Broader range of shipping lines and service providers used in the supply chain
- Financial support, in the form of supplier development loans, provided to local suppliers to assist with increased costs of production



3 Credit risk management

Effective credit risk management aims to optimise the quality of the debtors' book by reducing debtor costs through improved collections and lower bad debts.

RELATED RISKS

- Inability to manage credit risk effectively could result in higher bad debts, slower collections, limited new account growth and fewer customers being able to buy on credit
- External factors including high levels of unemployment, industrial action, tough economic conditions in the countries of operation and health pandemics could impact on the Group's ability to maintain the optimal quality of the debtors' book

RISK MITIGATION

- Adjusting credit risk policies and rules to mitigate risks
- Ensuring continued focus on collections productivity and efficiency to increase collection rates and reduce bad debts
- Strategy to convert more customers to the DebiCheck collection platform
- Focus on increasing the number of satisfactory paying customers

MATERIAL ISSUES AND RISKS CONTINUED

4 Capital management

Efficient management of capital, financial risks and liquidity is key to the Group's financial stability and to improving returns to shareholders.

RELATED RISKS

- Inefficient capital management could impact on profitability and returns to shareholders
- Volatility of exchange rate impacting on margin, pricing and merchandise planning

RISK MITIGATION

- Ensure efficient allocation of and access to capital at all times
- Continued investment in organic growth and in the debtors' book
- Return capital to shareholders through dividend payments
- Continue the share buy-back programme
- Manage gearing levels within risk appetite
- Manage currency exposure and risk, and hedge against currency fluctuations

5 Cyber risk

Leading information technology systems are critical to protect the Group against the threat of cyber-crime and limit the risk of breaches of data security and customer privacy, and avoid business interruption due to the unavailability of key operating systems.

RELATED RISKS

- Cyber risk could result in the breach of personal information, identity theft, loss of intellectual property and financial loss
- Legal liability and reputational damage arising from breaches in cyber security
- Business interruption owing to the unavailability of main operating systems and disruption to critical services could impact on revenue and profitability
- Loss of data as a result of the exposure of systems to mobile devices and other interfacing systems
- Unauthorised access to sensitive corporate data and customers' personal information
- Increased security risk from remote working and learning

RISK MITIGATION

- Monitor IT governance processes across the business through the IT steering committee
- Risk committee regularly updated on IT-related risks and mitigation plans
- Continued investment in cyber security
- Maintain and enhance the Group's information security management system
- Policies implemented to address data security risks and cyber security solutions
- Advanced artificial intelligence and machine learning technology implemented to allow for the detection of irregular human and machine behaviour which may indicate a possible security event
- Autonomous response technology implemented that determines the appropriate response to attacks
- Ongoing, proactive penetration testing and vulnerability scanning of both internal and externally facing network security devices and applications
- Ongoing information security awareness campaign for staff to raise awareness of evolving cyber threats
- Adequate cyber insurance cover
- Disaster recovery plans across the Group continue to be reviewed and enhanced

MATERIAL ISSUES AND RISKS CONTINUED

6 People

Attracting, motivating and retaining scarce and skilled retail and financial services talent is key to the sustainability of the Group and the delivery of its strategic objectives.

RELATED RISKS

- Inability to attract, motivate, develop and retain competent people
- Skills shortage in retail and financial services sectors increases employee mobility
- Loss of key people and challenge of attracting and retaining staff in current climate
- Incentive schemes not attractive owing to share price underperformance affecting the value of long-term incentive schemes
- High levels of staff turnover

RISK MITIGATION

- Improve talent management
- Focus on remuneration incentive schemes
- Ensure remuneration packages for key staff are competitive and externally benchmarked
- Improved recruitment and selection practices and appoint internal succession candidates to vacant posts where possible
- Enhance transformation through the development of black employees to further improve diversity at all levels in the Group
- Continued investment in training and development as well as leadership development
- Enhance mentoring and coaching programmes

7 Regulation

Ensuring compliance with relevant legislation and regulation and limit impact of legislative changes on margins and profitability.

RELATED RISKS

- Legal sanctions for regulatory non-compliance could result in material financial loss and reputational damage
- Changes in legislation and regulation could adversely affect margins and profitability
- Inability to respond effectively to ongoing regulatory changes

RISK MITIGATION

- Monitor compliance with regulations and legislation through in-house legal and compliance teams
- Mitigation measures and disciplinary processes implemented to ensure regulatory compliance
- Engage with regulators on proposed legislative changes
- Ensure business is operating efficiently and identify alternate sources of revenue should legislative changes impact margins and profitability
- Focus on complying with licencing and related requirements of the Insurance Act