

# GRI III Questions and Answers

## Strategy and Analysis

\* indicates updated information for 2013

### 1.1 \* What is the relevance of sustainability to Massmart? List some key events, achievements and failures during the period and what are considered to be Massmart's main targets over the next few years?

Massmart's corporate accountability proposition is to achieve commercial success by adopting a mass distribution business model that pro-actively incorporates the input of our stakeholders to effectively integrate commerciality and accountability.

Massmart continues to implement a comprehensive Corporate Accountability programme and we were proud once again, to be identified as one of only ten best performers in the Johannesburg Stock Exchange Socially Responsible Investment (SRI) Index. Our accountability initiatives demonstrate how we give practical effect to this proposition, from our first engagement with stakeholders through to the implementation that respond to opportunities to: champion social equality initiatives, enable sustainable supply and consumerism and minimize our group environmental footprint.

Our accountability initiatives are wide ranging and extend from integrating smallholder farmers into our supply chain, rationalizing private label product packaging and improving store energy efficiency to championing black economic empowerment and increasing employee access to affordable private healthcare benefits.

We believe that, as a retailer, Massmart can play a pivotal role by advocating responsible business practice to our suppliers and responsible consumerism to our customers, recognising that a prerequisite for doing this credibly requires that we embrace the principles of responsible corporate citizenship. The Massmart Board places the advancement of the company's sustainability agenda among its most important obligations.

Our sustainability agenda over the short to medium term focuses on the achievement of sustainability objectives that fall under three main sustainability themes; these are:

#### **Enabling sustainable supply and consumerism**

- To support and integrate emerging farmers into Massmart's new fresh produce supply chain
- To partner with private label, direct import and non-branded merchandise suppliers to ensure adherence to Walmart Supplier Standards
- To partner with willing suppliers to identify and implement opportunities to rationalise private label product packaging primary packaging
- To share knowledge with willing local suppliers to facilitate voluntary achievement of higher environmental and human rights standards in the retail supply chain
- To implement post-consumer e-waste recycling schemes in major metropolitan
- To promote adoption by suppliers of independently verified eco-labels, such as the Marine Stewardship Council (MSC)
- To empower consumers to make responsible consumer choice more frequently through better labelling standards

#### **Reducing the Group environmental footprint**

- To improve energy efficiency in line with format-specific energy intensity benchmark
- To recycle secondary packaging (specifically paper, board and plastic waste) that is generated in stores and distribution centres

- To harvest rainwater to supplement nurseries (at Builders Warehouse) and landscaping irrigation requirements

### **Championing social equality initiatives**

- To achieve and maintain a level 4 B-BBEE contributor status
- To invest a minimum of 1% profit after tax (PAT) in education-focused social development initiatives that benefit the poorest of the poor
- To increase economic opportunities for women by improving employment, education and business opportunities
- To increase permanent employees' access to affordable subsidised private medical benefits
- To combat the rate of infection amongst employees and to provide all employees and their spouses with free access to pre-highly active anti-retroviral therapy and programmes

### **Achievements and areas focused on over the last year include the following:**

The continued success of the Direct Farm programme that aims to provide emerging farmers with market access by integrating them into Massmart's fresh produce supply chain. To date the programme has 164 small holder farmers operating in five provinces in South Africa.

### **Packaging Rationalisation**

In 2012 we embarked, under Walmart's guidance, on an initiative to identify opportunities to rationalise and improve private label packaging. As a first step, in June 2012 we committed to develop and conduct packaging rationalisation workshops with our private label buyers, in 2013 we conducted two workshops. To date 64 private label buyers have received training in techniques to reduce packaging resources and optimise packaging recyclability and safety. Early wins have included improving the recyclability of the Makro M brand range of detergents, and the introduction of child-safety lids on our range of 1ℓ and 5ℓ solvent containers. We plan, in 2014, to conduct private label packaging audits in order to identify further packaging improvement opportunities.

### **Supplier Advocacy**

Massmart runs an active supplier advocacy process with the objective of encouraging responsible supplier conduct in our supply chain. Over 900 suppliers have participated in the process since it was launched in 2009. Our 2013 supplier advocacy agenda covered 320 suppliers and focused on understanding palm oil procurement practices of private label suppliers, marine harvesting practices of seafood suppliers, timber sourcing practices of timber suppliers, energy efficiency labelling of large appliance suppliers and the integrated environmental planning commitment of strategic suppliers.

### **Consumer Empowerment**

Makro's e-waste partnership with Samsung enables consumers to responsibly dispose of e-waste. We currently operate e-waste collection facilities at ten Makro stores however we are looking at expanding our e-waste footprint to all Makro stores in 2014. We estimate that, 464 tons of e-waste have been collected since inception of the project, 130 tons of which was collected during the year ending December 2013.

Empowering customers to make better informed purchasing decisions while in our stores remains an area of interest. One area where we have made modest progress involves the incorporation of an eco-wise consumer information panel on all private label products introduced by Builders Warehouse since January 2013. The panel provides information about environmental product and packaging attributes, relating to factors such as water efficiency, energy efficiency and recyclability. We also continue to offer a range of environmentally friendly products that include solar geysers, Light Emitting Diode (LED) and solar lighting, and, low Volatile Organic Compound (VOC) paints. Consumer-demand driven highlights in 2013 include 222% growth in sales of Solar Flare garden lights and the expansion of our solar geysers range to include 150l and 200l units

### **Operational Energy Efficiency**

Makro's newest stores, are between 30-42% more energy efficient than their legacy stores. Similarly,

Game's Foodco stores incorporate solutions such as advanced energy efficient refrigeration units to reduce electricity consumption.

In order to accurately measure the volume of operational waste and ensure we manage it responsibly, Massmart developed an online store waste self-assessment survey. In 2013, we received input from 248 stores (72% participation rate) and estimate that up to 55% of our operational waste was recycled and, consequently, diverted from landfills. In addition, we've diverted an estimated 130 tons of e-waste via, in Makro's e-waste take-back scheme in 2013.

### **Rainwater Harvesting**

We harvest water at approximately 72 standalone store sites. This includes harvesting rainwater at 62 Builders Warehouse and Builders Express stores and condensate harvesting at 10 Makro stores. We estimate that in the 2013 calendar year, 7450 kilolitres of water were harvested through these initiatives.

### **BBBEE**

Currently (as at April 2014) Massmart is a level 4 BBBEE contributor with a score of 65.76 and we are committed to maintaining this score through to February 2015.

### **CSI**

Massmart invested R41.7 million, equating to 3.1% NPAT, in Corporate Social Investment (CSI) initiatives during the 2013 financial year, exceeding the minimum investment guideline by 2.0%. Based on external review of the Group's CSI investment policy, Massmart continues to encourage the divisions to adopt central guidelines that will see a minimum of 80% of CSI support being allocated to: nutrition (container kitchens); school infrastructure and maintenance; and early childhood development.

### **Women's Economic Empowerment**

In line with Walmart's focus on the empowerment of women in our workplace, local communities and supply chain, we have established the Massmart Chief Executive Officer's Council of Women Leaders which fosters and promotes the progression of women. Initial achievements have included identifying existing women suppliers in the Massmart supply chain, prioritising women farmers in our direct farm programme and increasing the representation of women on the Massmart graduate trainee programme. A key focus going further will be optimizing supply opportunities for existing women suppliers in our supply chain. .

### **Employee Healthcare and HIV/AIDS Benefits**

We estimate that 53.6% of permanent employees have access to private medical benefits, representing an improvement of 5.2% over last year, but still short of the target of 60% that we set in 2008. To achieve this target we have, since 2008, implemented a choice of four additional affordable private health benefit packages.

Our flagship employee wellness programme, Impilo, a fully-funded wellness programme for employees with no medical cover, continues to offer a 24-hour medical advisory and support service to permanent employees and their spouses, including: a fully funded HIV programme inclusive of medication; and testing for and early diagnosis of chronic diseases such as high blood pressure, raised cholesterol, diabetes and asthma. Since July 2010 more than 17 000 tests have been conducted, resulting in health counselling for staff who were found to be at risk.

Total HIV prevalence decreased by 1.1% to 5.5% in 2013. To date, 59583 voluntary HIV tests have been conducted since inception of the programme, with 15860 voluntary tests conducted in 2013. Currently, approximately 53% of HIV-positive staff and their spouses are receiving support and treatment, including antiretroviral and nutritional supplements, from the Massmart Impilo Employee Wellness programme`

**NOTE:** Data gathering and consolidation accuracy can prove challenging in areas such as water consumption and greenhouse gas emissions, so it is important to disclose that there could be up to a 15% margin for error in the figures presented in this report.

## **1.2 \* Provide a description of key impacts, risks and opportunities**

The Group has implemented transparent stakeholder interactions with special interest groups, which inform our view on stakeholder expectations and the management thereof. There is ongoing identification, monitoring and adoption of relevant principles and standards of sustainability that are consistent with Massmart's core values and industry norms. The Board considers risk management to be a key business

discipline designed to balance risk and reward, and to protect the Group against risks and uncertainties that could threaten the achievement of our business objectives. The Audit and Risk Committee is responsible to the Board for overseeing the Group's risk management programme.

### Group Risk Landscape

Non-adherence to business model or poor strategic execution

- Through poor design, implementation, execution or prioritisation of our business model or strategy, the Group's longer-term financial performance and competitive positioning could be severely compromised. The resultant financial performance may be suboptimal on either an absolute or relative basis.

Volatility of key economic variables

- Unpredictable or dramatic changes in economic factors (inflation, interest rates, exchange rates).
- Margin decline from product deflation.
- Effect on consumer confidence and spending from interest rate and/or inflation rate volatility.
- Impact on imported stock valuation.
- Impact on foreign operations' results and net assets reported in SA currency, with possible material translation gains/losses.

Talent retention and succession

- Scarcity of retail-specific skills.
- Developing and retaining sufficient business, leadership and senior management skills to ensure long term competitiveness.
- Over dependence on key leaders in the Group.
- The need for an actively managed leadership succession pipeline.

Ineffective cost control

- It is strategically important to maintain a low cost base and essential that the Group implements sustainably low and efficient operational and overhead cost structures.

Insufficient progress with Transformation

- In the broader national context, inadequate transformation at all levels by Massmart and other South African businesses will curb the country's longer-term growth potential. Adverse reputational exposure due to under delivering in respect of B-BBEE requirements.
- This issue includes insufficient Black representation at Executive level at the Group and Divisions.

Our focus on opportunities remains fixed on a reduction in energy consumption, with the resultant gains in lower operating costs and emissions, a supplier advocacy project focused on packaging reduction and increased recycling and the expansion of our Eco-wise label, promoting environmentally responsible merchandise to our customers.

## Organizational Profile

\* indicates updated information for 2013

**2.1 – 2.8 \* Massmart Holdings Limited is a managed portfolio of four divisions, each focused on high-volume, low-margin, low-cost distribution of mainly branded consumer goods for cash, through 366 stores in South Africa and 11 other countries in sub-Saharan Africa. The Group operates stores in the following countries:**

Botswana  
Ghana  
Lesotho  
Malawi  
Mozambique  
Namibia  
Nigeria

Tanzania  
Swaziland  
Uganda  
Zambia

Massmart's headquarters are based in Johannesburg, South Africa and the Group achieved sales of R72, 512.9 m with headline earnings of R1,334m after forex. The Group operates stores under the brands of Game, DionWired, Makro, Builders Warehouse, Builders Express, Builders Trade Depot, CBW, Jumbo, Shield, Fruitspot and Cambridge Food, servicing customers in the Living Standards Measure (LSM) of between 2 and 10. Product categories include general merchandise, food and liquor. Massmart employs over 36 000 people across its operations, 36.0% of whom are unionised with total market capitalisation as of 31 December 2013 of R36.4 billion, up from R28.3 billion last year. In total, Massmart has 5414shareholders in South Africa and abroad ranging from major institutions to individuals.

	2010	2011	2012	2013
<b>Market Capitalisation (bn)</b>	24.6	28.3	36.4	<b>29.4</b>
<b>Headline Earnings (Rm)</b>	1,138.6	1,252.7	1,216.7	<b>1,334.5</b>

Massmart's Company registration number: 1940/014066/06 (incorporated in South Africa)  
JSE share code: MSM  
ISIN code: ZAE000029534

**2.9 \* List the significant changes during the reporting period regarding size, structure or ownership.**

**Acquisitions**

With effect from 25 January 2013, Massmart acquired control of seven Makro stores that had previously been lease-held. The cash consideration paid for control amounted to R577.2m and was funded by long-term interest-bearing debt. This transaction was aligned to the Group's strategy of investing for the future. In the 52 weeks to December 2012, the Group acquired the trading assets of five small businesses, all in the Masscash division. The net cash purchase price of R56.9 million gave rise to goodwill of R38.4 million. No contingent payments were provided for any of these acquisitions. During this same period, the Group acquired two businesses, being Fruitspot and the Rhino Group. Both of these acquisitions were aligned to the Group's strategy of rolling out Food Retail. Makro acquired Fruitspot with effect from 2 January 2012 and Cambridge acquired the Rhino Group with effect from 1 March 2012. Together these acquisitions amounted to a net cash purchase price of R326.7 million and gave rise to goodwill of R485.2 million. Liabilities were raised on the business acquisitions of R182.3 million, dependent on these businesses achieving certain profit hurdles in the two years following the deal. Both businesses have met these profit hurdles and the business acquisition liabilities have been paid except for R24.1 million that is being carried at December 2013 in the Group's statement of financial position as a short term provision for the Rhino Group and is due to be paid within the next 12 months.

**2.10 \* What awards were received in the reporting period?**

Makro SA received a prestigious eta award for its energy efficient new generation stores at Eskom's 24<sup>th</sup> eta awards ceremony. The purpose of the awards is to acknowledge exceptional effort in more efficient use of energy by individuals, students, companies or other institutions. In addition Massmart was recognised for best practice in the environmental performance category as part of the JSE's Socially Responsible Investment (SRI) Index – a key benchmark for broad-based environmental, social, governance and climate change practices among listed companies.

# Report Parameters

\* indicates updated information for 2013

## Report Profile

### 3.1 – 3.22 \*What is Massmart's reporting period and date of the most recent previous report?

This is Massmart's 10<sup>th</sup> report covering sustainability performance for the financial year ending 31 December 2013. The content of our sustainability report is supplemented by on-going communication via stakeholder workshops, press releases, results presentations, Massmart's website and our internal news publication, Massmart News.

### 3.3 – 3.4 \*What is the reporting cycle and contact point for questions regarding the report and its contents?

Our corporate accountability report is published annually, timed to coincide with the Group's annual financial reporting cycle (1 January - 31 December), the last of which was published for the financial year ending 30 June 2012. The report was compiled in consultation with divisional management by the Group Corporate Affairs Executive, a member of the Massmart Executive Committee, who is the contact person for questions regarding the report and its content.

## Report Scope and Boundary

### 3.5 \*What process is followed to define the report's content, including the determination of materiality, prioritization of topics and identifying those stakeholders most likely to use the report?

We attempt to select information that is perceived to be socially material to our key stakeholder groups, placing particular emphasis on government, employees, customers, suppliers, the communities within which we operate and civil society. The information reported is based on input provided during stakeholder meetings, outcome of Massmart's internal risk management process, advice of independent subject matter experts, local and global industry trends, content of public discourse and standards defined by initiatives such as the JSE Ltd. Socially Responsible Investment (SRI) Index and Global Reporting Initiative (GRI).

In order to obtain maximum value from our interactions with stakeholders, we have implemented a structured and rigorous stakeholder engagement process. The information we report is based on feedback from our stakeholders and covers material social and environmental performance indicators

### 3.6 **Boundary of reporting.**

Information reported encompasses all divisions and operations over which Massmart has a direct control.

### 3.7 **What are the limitations on the scope or boundary of the report?**

Electricity consumption figures for our African operations are limited to data from the Group's Masscash division. .

We do not currently measure or report on all elements of entities upstream and downstream of our supply chain.

### 3.8 **Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations.**

Not applicable to Massmart.

### 3.9 **Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report.**

## **Human Capital Data Measurements and Assumptions**

Human capital data is based on Group and divisional payroll data. HIV prevalence data is based on Right to Care VCT testing figures. Due to the large number and geographical positioning of stores, testing is not conducted at all stores every year. HIV prevalence is based on staff tested in a particular year. Data is internally audited prior to publication.

## **B-BBEE Data Measurements and Assumptions**

Massmart's B-BBEE figures are calculated externally by Empowerdex Economic Empowerment Rating Agency. These figures are based on actual staff numbers (not estimates) and are believed to be 100% accurate at the time they are published. B-BBEE scores are calculated retrospectively, therefore the data reported is based on the scorecard compiled in February 2010 for the period ended February 2014. .

## **Africa Operations Data Measurements and Assumptions**

Africa Operations information includes data from the Group's Massdiscounters, Massbuild and Masscash divisions with the exception of electricity consumption and local procurement, for which Massbuild and Masscash data respectively was unavailable. Data is internally audited prior to publication.

## **Climate Change Data Measurements and Assumptions**

Scope 1 and 2 emissions figures are calculated externally by Global Carbon Exchange consultants. Scope 1 emissions relate to direct emissions resulting from co-owned vehicle and generator use and business- related refrigerant gas emissions. Massmart trend data is not available for Scope 1 2008/2009 emissions since this information has historically been reported by calendar rather than financial year.

No significant deviations from the GRI indicator protocols were used.

### **3.10 Explain the effect of any re-statements of information provided in earlier reports and the reasons for such re-statement.**

No information has been reinstated. We have, however, removed our African operations indicator on electricity consumption due to concerns of inaccuracy. We will reintroduce this indicator once we have improved our data accuracy.

### **3.11 \* Were there any significant changes from the previous reporting periods in the scope, boundary, or measurement methods applied in the report?**

In terms of energy intensity figures, we discontinued our Africa electricity consumption, due to inaccuracy of figures. We will resume reporting on this figure once we have improved accuracy.

The African operations data included, this year, is data from Masscash.

A Consumer Protection Act performance indicator scorecard was added which covered issues of product recalls and customer complaints.

Additional CSI indicators included total investment in school maintenance and early childhood development.

### **3.13 Assurance**

**What is Massmart's policy and practice with regard to seeking external assurance for the report? Explain the scope of the external assurance provided and the relationship between Massmart and the assurance provider.**

Massmart's Internal Audit Department was again responsible for the verification of the statistical scorecard information contained in our Sustainability Report due to their intimate knowledge of the Group and our information systems and given their independence. The objective of the review was to provide an opinion, based on the AA1000 Assurance Standard principles of completeness, materiality and responsiveness on the:

Accuracy, adequacy and relevance of data presented in the scorecards  
Processes and mechanisms in place for the preparation and delivery of the corporate accountability scorecards  
Compliance of the scorecards with the Global Reporting Initiative III (GRI) Sustainability Reporting Guidelines  
Massmart's corporate accountability reporting is aligned with the guidelines given by the King III report on corporate governance

**Internal Audit Opinion:**

The Massmart Internal Audit department (MIAS) conducted a review of the data reported in the preliminary and final Sustainability Scorecards. The review was conducted in terms of assurance standards and entailed the verification of the authenticity of data presented against internal and external sources. All significant reported internal audit findings have been satisfactorily addressed prior to publication. On this basis we are satisfied to report that the data presented in the reported Scorecards fairly represents the position of Massmart's Sustainability performance for the financial year ending 31 December 2013.

King III requires an external verification on the accuracy of sustainability information. Massmart has been ahead of this requirement. Sustainability information has been independently assured by MIAS for the past six years and disclosure has been integrated with the company's financial reporting. Management is of the view that the quality of the verification performed by MIAS will supersede an external verification. Management is satisfied that this deviation from King III can be acceptably explained.

## Governance, Commitments, and Engagement

\* indicates updated information for 2013

### 4.1 Explain the structure of the organization, including committees under the highest governance body responsible for strategy and organizational oversight.

The Board of Massmart comprises three Executive Directors, four Independent non-executive Directors and three non-executive Directors. It is responsible for directing the Group towards the achievement of the Massmart vision and mission. The Board is therefore accountable for the development and execution of the Group's strategy, operating performance and financial results, as well as being the custodian of the Group's corporate governance. The Board appreciates that strategy, risk, performance and sustainability are inseparable.

The Board is responsible for its own composition, the appointment of the Chairman and the Chief Executive Officer, and the constitution and composition of its Committees. The Board has a charter setting out its policies, roles and responsibilities in the execution of its mandate described above. Each Board Committee also has a charter, or terms of reference, that is formally signed off by the Board. Annually the Committees and Board review, and amend if necessary, the respective charters to ensure their relevance.

Further information regarding the Board and its composition can be found in the [Board Committees](#)

#### **Executive Committee**

The Massmart Executive Committee is the most senior executive decision-making body in the Group. The Committee is chaired by the Chief Executive Officer. The Committee deliberates, takes decisions or makes recommendations on all matters of strategy and operations. Within the parameters described by the Board-approved Governance Authorities, the decisions or recommendations are sometimes referred to the Board or its relevant Committee for final approval, while in other cases the power to take decisions is delegated to Divisional Boards or Executive Committees. The Executive Committee deliberates and takes decisions or makes recommendations on all matters affecting Group strategy and operations, including risk management, and executive and senior management succession.

#### **Social and Ethics Committee**

The Social and Ethics Committee assists the Group with its responsibility towards sustainability with respect to practices that are consistent with good corporate citizenship. The Committee also assesses the Company's standing in terms of the United Nations Global Compact Principles. In addition the committee considers the company's standing with regards to the OECD recommendations concerning corruption, the contribution to development within our communities, labour and employment, and the environment and health and public safety.

### **Audit Committee**

The audit committee meets three times a year and has the following responsibilities.

- Overseeing the effectiveness of the Group's internal control systems.
- Reviewing the scope and effectiveness of the external and internal audit functions.
- Ensuring that adequate accounting records have been maintained.
- Ensuring the appropriate accounting policies have been adopted and consistently applied.
- Overseeing the quality and integrity of the annual financial statements

### **Risk Committee**

The Committee is responsible to the Board for overseeing the Group's risk management programme. The day-to-day responsibility for risk management, including maintaining an appropriate loss prevention and internal control framework, remains with the executives of the Group and of each Division.

The Committee's primary role is one of oversight and therefore it reviews and assesses the dynamic interventions, within the Group's available resources and skills, required in response to business-specific, industry-wide and general risks. The Committee tables a Group risk register, aggregated from those prepared by the Divisions and the Group Executive Committee, to the Board annually in February

#### **4.2 \* Is the Chair of the Board also an executive officer of Massmart?**

The Chairman, Kuseni Dlamini, appointed as such on 10 April 2014, is not an executive officer of Massmart. Chris Seabrooke, the non-executive Deputy Chairman, is the Group's Lead Independent Director and as recommended by King III, the chairmanship of each of the six Board Committees is held by independent directors

#### **4.3 \* What mechanisms are in place to enable shareholders and employees to provide recommendations or direction to the Board?**

Massmart reports formally to shareholders twice a year (in February and August) when its full-year and half-year results, together with a thorough Executive overview, are announced and issued to shareholders and the media. On both occasions the CEO, COO, FD and certain Group Executives give presentations to institutional investors, analysts and the media. During the year, apart from closed periods, the CEO, COO and FD together meet regularly with institutional shareholders and, in addition, are available for meetings or conference calls with analysts and any existing or prospective Massmart shareholder.

Once a month, the Company holds a forum known as Massmart News LIVE. This monthly meeting is an opportunity for leaders in the business to share business updates, strategic focuses and a way to continuously promote our culture and enhance business performance. This meeting is open to all Massmart employees

#### **4.4 What is the linkage between compensation for members of the Board, senior managers, and executives and the organisation's performance?**

The Massmart remuneration policy strives for the guaranteed package to align with the median of the market; and the upper quartile of the market for all three components of remuneration combined.

With regard to short-term incentives, Massmart places particular emphasis on generous annual incentives for high performance for both executive directors and executive management. This policy, communicated to and understood by the Group's executives, codifies a range of performance incentives linked to the approved annual Operating Income targets for both Group and Divisions. Executives can earn an increasing multiple of their monthly basic salary depending upon achievement against these agreed targets. The Committee also has the discretion to reward superior individual performance.

The long-term equity incentive plan ensures alignment of executive reward with shareholders' interests, in

particular the sustained creation of shareholder value. Shareholders approved a new plan in May 2013 which provides for a mix of Performance share awards and grants of Restricted shares. The Performance Share Awards are linked to approved annual revenue and ROI targets over three separate years. The targets have ranges so that the final amount awarded is based on a sliding scale. If achieved, the awards are share-settled at the end of the third year. Restricted Share Grants are made for retention purposes and vest on a time basis, one third each at the end of years 3, 4 and 5. The Awards and Grants are made annually in amounts calculated together on a 70/30 split, based on 25% – 100% of guaranteed packages for eligible employees, at each approved grade level. No consideration is imputed for the issue of Awards or Grants and for the calculation of subsequent gains.

#### **4.5 What processes are in place for the Board to ensure that conflicts of interest are avoided?**

The Nomination Committee prepares and circulates a questionnaire aimed at gauging the independent status of each non-executive director. This is completed by each non-executive director and returned to the Committee, which then considers each director's independence using the following aspects to assess a non-executive director's independence:

If the director had been employed in an executive capacity in the Group within the last three years;  
If the director had served on the Board for longer than nine years. In this case, the Committee considers whether that director's independence, judgement and contribution to the Board's deliberation could be compromised, or may appear to be compromised, by this length of service;  
If the director was a representative of a major shareholder;  
If the proportion of that director's shareholding in Massmart (if any) or director's fees represented a material part (10% or more) of their wealth or income; and  
If the director is independent in character and judgement and whether there are circumstances which are likely to affect, or could appear to affect, the director's judgement.

#### **4.6 What practice is in place for determining the qualifications and expertise of the members of the Board for guiding the organisation's strategy on economic, environmental and social topics?**

All executive and non-executive directors have extensive experience in the retail industry both outside and within the organisation. Biographical details of each of our executive and non-executive directors and Executive Committee members can be found [here](#).

#### **4.7 What is Massmart's mission, codes of conduct and principles and explain how these are applied across the organisation in different regions and departments?**

Massmart is a South African-based, globally competitive, regional management group, invested in a portfolio of differentiated, complementary, and focused wholesale and retail formats, each reliant on high volumes and operational excellence as the foundation of price leadership, in the distribution of mainly branded consumer goods for cash. The Group actively seeks the continual improvement of performance in the portfolio and its parts, through strategic and structural clarity, high market shares, excellent management, principle-driven ethical leadership, cost-effective technology and the sharing or agglomeration of capabilities, knowledge, resources, influence and information.

To this end, thought leadership, individual and collective performance, and collaboration throughout the Group are appropriately rewarded, with executive management incentivised predominantly on Group performance.

Massmart has evolved a business model that empowers its Divisions to take trading decisions suited to their individual operating needs but within a strategic operating and financial framework set by the Group. Further information on how our mission is applied is more fully described in [our business model](#).

#### **4.8 What procedures are followed by the Board to oversee the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles? How frequently is sustainability performance assessed?**

The role of the Social and Ethics Committee broadly is to assist the Group with its responsibility towards sustainability with respect to practices that are consistent with good corporate citizenship. The Companies Act includes specific responsibilities including: the company's standing in terms of the United Nations Global Compact Principles, the OECD recommendations concerning corruption, the contribution to development within our communities, labour and employment, and the environment and health and public safety. The Committee met twice during the financial year with the objective of reviewing Massmart's Socially Responsible Investment Index. Broad-based black economic performance in each of these areas

is measured with reference to the Johannesburg Stock Exchange's (JSE) Socially Responsible Investment Index criteria, the Department of Trade and Industry's (DTI) Broad-based Black Economic Empowerment (B-BBEE) scorecard and the Global Reporting Initiative III guidelines. The Committee is satisfied with Massmart's sustainability performance and is particularly encouraged that the Group continues to maintain its B-BBEE target by being a Level 4 contributor.

**4.9 Outline the process for evaluating the Board's own performance, particularly with respect to economic, environmental, and social performance.**

Annually, the Remuneration Committee facilitates a comprehensive formal performance evaluation of the CEO, comprising a self-evaluation, a questionnaire evaluating the CEO by every non-executive director, and an appraisal using a different questionnaire of the CEO by each of his direct reports. The Board Chairman provides the summary and feedback of the above to the CEO, and he is encouraged to probe and debate any aspect of the evaluation with the Board. The Chairman's performance is assessed by Board members and the Deputy Chairman provides the feedback. These assessments are used to enhance the effectiveness of the Chairman, the CEO, and the Board and its Committees.

**Commitments to external initiatives.**

**4.10 Explain whether and how the precautionary approach or principle is addressed by Massmart and its approach to risk management in operational planning and the introduction of new products.**

We have implemented a variety of interventions that reinforce the principles of the precautionary approach. These include training staff in the process of ethical decision-making, applying a risk management approach that seeks to avoid exposing the organisation to undue risk, defining comprehensive product specifications that emphasise health and safety issues, conducting supplier environmental surveys, contracting suppliers to specified standards of conduct, implementing third party food product testing and contracting external subject matter experts to conduct pre-emptive risk reviews within the organisation.

The Audit and Risk Committee oversees the Group's risk management programme. The day-to-day responsibility for risk management, including maintaining an appropriate loss prevention and internal control framework, remains with the executives of the Group and of each Division. Operational risks by their nature can be immediately addressed or mitigated by local management actions. These risks, which include in-store health, safety and security, compliance, fire prevention and detection, IT systems and food safety, amongst others, are therefore the direct responsibility of each Divisional Executive Committee where a Loss Prevention or Risk Officer has line responsibility for overseeing these risks.

For further information regarding the functioning of the Risk Committee, click [here](#).

**4.11 Which externally developed economic, environmental, and social charters, principles, or other initiatives does Massmart subscribe to or endorse? Differentiate which are non-binding, voluntary initiatives and those with which Massmart has an obligation to comply.**

As a listed company, Massmart has an obligation to and complies with the criteria defined in the JSE Ltd's Socially Responsible (SRI) Index. Massmart is also a member of or subscribes to and endorses the social charters and principles of the following:

Massmart is also a member of or subscribes to and endorses the social charters and principles of the following:

Department of Trade and Industry's Codes of Good Practice on Broad-based Black Economic Empowerment;

Carbon Disclosure Project (CDP);

King III Report on Governance for South Africa; and

Global Reporting Initiative guidelines.

National Business Initiative (NBI)

**4.12 Which memberships of associations and advocacy organisations does Massmart participate in**

## **and support?**

Massmart is a member of and/or makes contributions to organisations including:

Business Against Crime (BAC);  
Business Unity South Africa (BUSA);  
Consumer Goods Council of South Africa (CGCSA);  
Ethics Institute of South Africa;  
National African Federated Chamber of Commerce (Nafcoc);  
National Economic Development & Labour Council (Nedlac);  
South African Institute of Race Relations; and  
Institute for Democracy in Africa (IDASA).

## **Stakeholder Engagement**

### **4.13 \* List of stakeholder groups engaged by Massmart.**

Massmart is committed to proactively understanding and responding to the priorities of our stakeholders whom we interpret to include investors, shareholders, employees, customers, suppliers, local communities, government, foreign African diplomats, civil society and the media.

Our stakeholder engagement practices include participation in stakeholder organised forums, conducting one-on-one meetings, making formal submissions to Parliament, conducting stakeholder surveys, and hosting public policy and general interest discussion groups. This year, we extended our stakeholder engagement workshops to include social sustainability issues faced by South Africans. As a result in addition to extensively engagement with our stakeholders that included employees, suppliers, customers and professional organisations Massmart conducted roundtable discussions with 17 leading social and environmental opinion influencers some of the organisations in attendance were Greenpeace Africa, The Black Management Forum, World Wildlife Fund, Earthlife Africa, and NAFCOG South African Human Rights Commission, National Business Initiative the Forestry Stewardship Council.

In addition, we have conducted over 900 supplier surveys since 2009, in the areas of environmental sustainability, supplier relationship, marine advocacy, sustainable timber sourcing, large appliance labelling and sustainable palm oil. We have also surveyed 5 236 customers this year in our annual customer intercept survey, investigating our customers' experiences at our stores and their perceptions of our business

Please refer to [Massmart Stakeholder Engagement Report](#)

### **4.14 What is the basis for identification and selection of stakeholders with whom Massmart engages?**

Massmart engages proactively with identified stakeholder groups that directly impact on, or are directly impacted by activities in our direct sphere of commercial influence. Factors that are considered before engaging stakeholders include whom they represent, their credentials and the social and business relevance of issues.

Notwithstanding numerous one-on-one meetings, our stakeholder engagement generally involves conducting regular discussion groups that include themed discussions with subject matter experts, public policy discussions with government and civil society representatives and consumer discussions with consumer interest groups. It also includes garnering opinion from customers and suppliers through our intercept and advocacy surveys.

### **4.15 How frequently does Massmart engage stakeholders?**

Stakeholder engagement activities occur on an ongoing basis throughout the year. Engagement with

investors and shareholders takes place at least four times a year through results presentations, meetings and the Massmart annual general meeting. We aim to engage with government and civil society stakeholders at least six times per year through meetings, workshops and surveys. Employee, customer and supplier engagement is considerably more intensive and occurs as needed.

Some recent examples of stakeholder engagement:

**Customers:** Customer satisfaction, customer trust and customer complaints and issues surveys.

**Employees:** Employee engagement, ethics and graduate development

**Shareholders:** Business performance, business expectation and strategy, economic, social and environmental concerns

**Suppliers:** Sustainable seafood sourcing, sustainable palm oil sourcing, sustainable timber sourcing, large appliance energy efficiency labelling, supplier environmental consciousness

Furthermore, Massmart has set up a Product Safety Compliance and Food Safety Compliance website based on the requirements of the CPA for suppliers.

Massmart engages with the Consumer Goods Council of South Africa (CGCSA) on an ongoing basis to discuss a range of issues including food safety and retail.

We conduct on-going research to understand the impact of the Walmart transaction to suppliers, customers and Massmart employees.

**4.16 \* What are some of the key topics and concerns that have been raised through stakeholder engagements and how has Massmart responded to those key topics and concerns?**

Stakeholders believed that the best way to ensure that Massmart achieves a balance between environmental sustainability and commerciality in its seafood offerings is through consistent and meaningful engagement with key suppliers and traders. This has led to Massmart prioritising sustainable sourcing initiatives such as; sustainable timber sourcing, sustainable palm oil sourcing and large appliance energy labelling.

Massmart has made great progress in sustainable seafood sourcing, as such we are applying the same principles used in our sustainable seafood sourcing policy with the sourcing practices and policies of timber and palm oil traders currently supplying the Group. Timber and palm oil traders are not involved in the direct procurement of timber and palm oil but rather sell produce to Massmart as 'middle men'. As such, more direct engagement with these traders is required to identify potential sourcing issues, sensitise traders to the environmental and social impacts of their operations and to gain insight into the procurement practices currently employed by traders.

**Enabling Sustainable Supply and Consumerism and Minimise the Group Environmental Footprint**

Stakeholder feedback on our accountability themes of enabling sustainable supply and consumerism and minimise the group environmental footprint indicated that Massmart was heading in the right direction. However, there were some areas that they maintained we needed to focus on. At the forefront of these issues was supplier advocacy, energy efficiency in our operations as well as the need to drive change within Massmart's executive committee which will make it more reflective of South Africa today.

**Championing Social Equality Initiatives**

Given the scale and reach of Massmart's operations, social equality is an area in which stakeholders felt we could have a lasting impact on South African society in the following emerging issues ranked in order of importance by the stakeholders; skill development, community development, water scarcity, education, job creation, food security, worker rights, supplier development, ethical sourcing, poverty and equality, consumer empowerment, employment equity and employee healthcare.

## Economic

\* indicates updated information for 2013.

### 5.1 \* What is the direct economic value generated and distributed by Massmart, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments?

Total sales: R72,263m (up by 9.8%)

Operating profit (before forex): R2,084m (Up by 7.5%)

	2009	2010	2011	2012	2013
Value Added (Rm)	10,052	10,130	13,312	11,475	18,485

In addition, as part of our ongoing Corporate Social Investment, Massmart invested R41.7m, suppliers and staff contributed R640,000, this included initiatives such as Casual Day, Slipper Day and the SANDF goodwill parcel project. Our CSI spend amounted to 3.1% of net profit after tax.

	2009	2010	2011	2012	2013
Total Group CSI spend including supplier and staff contributions (Rm)	23.5	20.6	24.4	46.4	42.3

### 5.2 What financial implications and other risks and opportunities exist for the organization's activities due to climate change?

The Massmart Board considers risk management to be a key business discipline designed to balance risk and reward, and to protect the Group against risks and uncertainties that could threaten the achievement of our business objectives.

Climate change risks are typically identified and quantified by the Group Corporate Affairs Executive through interventions that include desktop research, consultation with external subject matter experts (for example, environmental lawyers), facilitated workshops with appropriate internal managers (for example, Risk Managers) and consultation with Divisional Chief Executives. These risks are formally debated and prioritised by the Massmart Executive Committee on an annual basis and response options are identified.

A further division specific step involves each divisional Executive Committee discussing that division's exposure to the identified group risks and, where appropriate, re-prioritising the risks to reflect specific divisional concerns. In most instances risks are assessed with reference to the impact that they could have on each division's commercial and reputational proposition. Massmart has identified potential climate change risks, none of which is regarded, in the medium term, as significant. Some identified risks include climate change impacting on food security, causing water shortages and disrupting supply chains. These risks are tracked and updated by the Group Corporate Affairs Executive on an on-going basis and are reported on in

more detail in our [CDP Submission](#) as of the 29<sup>th</sup> May 2013.

Opportunities exist to reduce costs in all divisions due to the implementation of electricity conservation measures. The potential for additional income from environmentally responsible merchandise also exists. In order to realize these opportunities, the following action has been taken:

Annual monitoring and tracking of the attitudes of our customers with regards to responsible environmental consumerism and specifically to energy efficient products. To date we have conducted approximately 40, 000 customer interviews since 2009.

Empowering consumers to make informed purchasing decisions while in stores. One area where we have made modest progress involved the incorporation of an eco-wise consumer information panel on all private label products introduced by Builders Warehouse since January 2013. The panel provides information about the environmental product packaging attributes, relating to factors such as water efficiency, energy efficiency and recyclability.

### 5.3 Explain the organization's defined benefit plan obligations.

All permanent Massmart employees are members of either a pension or provident fund which funds are managed externally by Alexander Forbes, a leading provider of financial, risk and insurance and multi-manager investment solutions internationally and a licensed financial services provider.

### 5.4 What significant financial assistance was received from government?

Massmart receives no financial assistance from government.

## Market presence

### 5.5 \* Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.

Entry level wages are determined by each division with reference to minimum wage legislation, internal wage equity, sectoral standards and local market expectations.

	2009	2010	2011	2012	2013	Benchmark*
Average Minimum Wage (R)	2,139	2,555	2,589	2,953	2,688	2,456

\* It is worth noting that the Group minimum average wage is higher than the minimum wage of R2,456 prescribed by the Sectoral Determination for the Wholesale and Retail Sector in Area A.

### 5.6 \* What is Massmart's policy, practices, and proportion of spending on locally based suppliers at significant locations of operations?

Massmart defines local procurement as being procured from sources within the country in which we operate. We apply every effort to first procure merchandise from local manufacturers insofar as they satisfy our customer expectations of style, quality and price.

Total direct South African imports for the reporting period increased for the 2013 reporting period.

	2009	2010	2011	2012	2013
Direct Import South African Operations %	3.60	3.35	4.09	4.20	7.1*

\* This figure excludes procurement figures for Masscash, Cambridge and Shield all of whom procure a high

proportion of goods locally.

In addition Massmart has set aside a supplier development fund intended specifically to grow small local suppliers. Since its inception in 2011 Massmart's Supplier Development Fund (SDF), an investment worth R242m towards developing Massmart's South African based small suppliers that are either black-owned, black-empowered or local manufacturers of products, continues to make headway and has to date deployed funding to 183 black-owned suppliers to the Group. The fund supports suppliers in two key areas: Farming, through the Ezemvelo Direct Farm Programme which achieved sales of 4.3 million during the 2013 financial year; and manufacturing and services which achieved success with the Developing Wine Brands programme.

**5.7 \* What procedures are adopted for local hiring and the proportion of senior management hired from the local community at locations of significant operation?**

Massmart has a strong preference for hiring staff from local communities. We are however sometimes constrained in our efforts by the unavailability of individuals with the requisite skill and experience. Local citizens represent 98% of our full staff complement, at our African stores. In addition, management representation in our foreign African operations stands at 90.5%.

### Indirect Economic Impacts

**5.8 \* What development and impact of infrastructure investments and services are provided by Massmart primarily for public benefit through commercial, in-kind, or pro bono engagement?**

Our trading divisions have been responsible for the provision of container kitchens, vegetable tunnels, and school repair kits for school up-keep and infrastructural maintenance at government run primary schools. In addition, in 2013, 2700 insecticide-treated mosquito nets were provided to communities around our African stores. It is estimated that the provision of these nets has benefitted approximately 13500 people.

**5.9 Describe significant indirect economic impacts, including the extent of the impacts.**

Our primary indirect economic impact is rooted in Massmart's high volume low-cost customer value proposition that seeks to provide wholesale and retail customers with an exceptional value for money proposition and improved competitiveness of informal traders

## Environmental

\* indicates updated information for 2013

### Materials

**6.1 – 6.2 Materials used by weight or volume and percentage of materials used that are recycled.**

As a retail/wholesale organisation, Massmart is not directly involved in the manufacturing process and as such, does not measure raw materials. Initiatives are in place to encourage suppliers to reduce packaging, use more recycled materials whilst the use of toxic materials and inks are discouraged. In addition, Massmart conducts an annual environmental survey of its suppliers. This survey assists the Group in identifying the potential impacts that its suppliers may have on the environment and allows Massmart to advocate environmentally responsible practices to members of its supply chain.

### Energy

**6.3 \* What is Massmart's direct energy consumption by primary energy source?**

Data around primary energy consumption was provided to Global Carbon Exchange (GCX) for the purposes of calculating our carbon footprint. Some assumptions and estimates were made during the calculations to establish our carbon emissions.

The calculation of Massmart's carbon footprint for 2013 has been completed; In total, the Group's

carbon footprint came to 489 600 tonnes CO<sub>2</sub>e, including non-Kyoto gases. Massmart's 2013 carbon footprint represents a 37% increase from last year's footprint. The overall increase in carbon emissions can be attributed to better data collection, the addition of Cambridge Food and Fruitspot to the carbon footprint and to increased refrigeration at additional food retail stores that have been opened in the last year. Scope 2 emissions represent 77.93% of the Group's footprint. The increase in Scope 3 data can be attributed to more accurate data collection of supply freight and waste management data.

Going forward, we will be placing greater focus on obtaining more reliable waste disposal data and reducing the quantity of waste sent to landfill as a result of our operations.

**6.4 \* What is Massmart's indirect energy consumption by primary source?**

The Group consumed approximately 381 539 kWh of electricity at South African based operations for the reporting period.

**6.5 \* How much energy has Massmart saved due to conservation and efficiency improvements?**

Electricity consumption, estimated at 77.93% of our Group's total CO<sub>2</sub> emissions, is our main focus area for energy conservation and efficiencies across the Group. The implementation of more in-store electricity meters and the analysis of the Group's energy usage figures have resulted in greater accuracy of our energy consumption data. Energy efficiency is an on-going focus of Massmart, we have developed an energy roadmap based on a Business As Usual (BAU) energy model. The model, which uses 2010 as a baseline, defines energy targets to the year 2020. Thus far the improvement in energy efficiency goals is as follows; 10% for the Massmart Group, 12% for Builders Warehouse, 13% for Makro and 9% for Game. Energy intensity savings have been achieved through a number of energy interventions, including improved in-store consumption tracking and the implementation of technologies such as; LED sales floor lighting, daylight harvesting systems and high performance refrigeration plants in our new stores and retrofit programmes. In recognition of the progress we have made in driving energy efficiency, Makro was selected as an Eskom eta award 2013 winner in the commercial category.

**6.6 What initiatives are in place to provide energy-efficient or renewable energy based products and services and what are the reductions in energy requirements as a result of these initiatives?**

The Group provides an easily recognizable environmentally responsible product range that includes private label products. Our Eco-wise consumer advocacy label was developed specifically to grow awareness about products that offer energy and water saving solutions, encourage recycling and highlight responsible use of natural resources. An important Eco-wise development has been the introduction of an Eco-wise product information panel that has been designed to inform and assist consumers to make better informed product choices that are good for the environment. To date these information panels are available on all private-label products offered by Builders Warehouse stores.

In addition, we have increased the frequency and scope of product promotions that feature environmentally responsible merchandise options. We continue to run customer demand driven environmentally-friendly product promotions, examples of which include the promotion of recycled office paper, solar-powered garden lighting, solar-powered desk lamp, and LED lighting.

Most importantly we are working on price democratisation and information transparency to promote responsible consumer behaviour. These are areas in which Walmart has considerable expertise, including partnerships with a consortium of universities, suppliers and NGOs to develop a product information database that will provide the framework for the development of a consumer-facing index tool for shoppers.

Actual energy consumption reductions experienced by customers as a result of their purchases of these products is not measured.

**6.7 What initiatives are in place to reduce indirect energy consumption and what are the reductions which have been achieved?**

For reasons outlined above, exact savings have not been quantified. However, steps have been taken to reduce energy usage in a variety of areas by converting to more fuel efficient logistics fleets and the reduction of business travel by making more use of video conferencing.

## Water

**6.8 \* What is Massmart's total water withdrawal by source?**

Due to ongoing complications in sourcing accurate water consumption data, we continued to measure water usage in rands, the cost of which for the year was R 20.5 million, this number excludes Masscash and non-SA facilities. Based on the Rand Water Board's retail tariff, we estimate our water consumption to be approximately 1.7kl per m<sup>2</sup> of trading area.

**6.9 Water sources significantly affected by withdrawal of water**

As a retailer, Massmart is not considered to be a significant consumer of water resources.

**6.10 \* Percentage and total volume of water recycled and reused.**

Rainwater harvested at some of our Massbuild stores is used for the watering of plants sold in the garden section as well as to water gardens at the entrance to some stores.

All Builders Warehouse and Builders Express and two Builders Depot stores have installed rainwater harvesting solutions to supplement irrigation requirements for in-store nurseries. We estimate that 7450 kilolitres was harvested in this way during the 2013 year including condensate harvesting. Makro has also included rain and condensate harvesting at their 5 new generation stores.

## Biodiversity

**6.11-6.15 \*What is the location and size of land owned, leased, managed in, or adjacent to, protected areas with high biodiversity value? Describe significant impacts of activities on biodiversity in these areas.**

Massmart does not own, lease or manage any land in or adjacent to protected areas or areas of high biodiversity value. As an indication of our sensitivity, environmental impact assessments are conducted in respect of all new store developments and site developers work to minimise any negative impact they might have on the environment.

A recent example would be the project to relocate all indigenous plants found at the new Makro Vaal site before work commenced, reuse of any excess soil to reduce the amount of new soil needing to be brought to the site and the doubling of the typical Makro store landscaping budget to allow for the planting of indigenous trees at every fourth parking bay.

Two of our divisions currently contribute funds towards a Wildlands Trust Rehabilitation Program investing in the planting of indigenous seedlings for reforestation projects.

## Emissions, effluents and waste

**6.16 \* What is Massmart's total direct and indirect greenhouse gas emissions by weight?**

Massmart's absolute emissions for the reporting period were 489, 600.52 tonnes CO<sub>2</sub>e.

**6.17 \* Other relevant indirect greenhouse gas emissions by weight.**

Emissions of 381, 539.20 tonnes CO<sub>2</sub>e is applicable to electricity consumption constituting 77.93% of

Massmart's total emissions with the next highest being 26, 948.6 attributable to emissions from supply freight transport.

**6.18 Initiatives to reduce greenhouse gas emissions and reductions achieved.**

As reported in EN5 above, several projects are currently being implemented to reduce energy consumption across the divisions. As a result of more accurate energy usage data and a division-wide benchmarking exercise, the divisions have committed to the following targets: Game and DionWired have committed to a 9% and 6% reduction in energy consumption per m<sup>2</sup> respectively; Builders Warehouse and Builders Express have committed to a 12% and 11% reduction in energy consumption per m<sup>2</sup> respectively and Makro has committed to a 13% reduction in energy consumption per m<sup>2</sup>.

**6.19- 6.20 \* Emissions of ozone-depleting substances by weight.**

A total of 35, 215.69tonnes of CO<sub>2</sub>e emissions can be attributed to fugitive emissions from a variety of different gases used in refrigeration and air-conditioning plants at Massmart facilities, 11, 095.82 tonnes of CO<sub>2</sub>e of these emissions can be attributed to non-Kyoto gases. A concern regarding the type of gases used in some of the refrigeration plants and air-conditioning units used in older locations has been raised. This is being addressed by the use of 100% natural gases with zero ozone-depleting ratings in new and refurbished stores, where feasible.

**6.21 Total water discharge by quality and destination.**

No unplanned water was discharged outside of rainwater and sewerage discharge through municipal facilities.

**6.22 \* The weight of waste by type and disposal method**

Calculating the volume of operational waste produced and recycled by our stores is challenging and is achieved through the deployment of an online waste self-assessment survey that is completed by store managers. Based on feedback we estimate that of the 29 000 tons of waste was produced by the Group and 15 400 tons of that waste which represents approximately 50% of the total waste produced by the Group, was diverted from landfill during the financial year ending December 2013.

**6.23-6.25 What were the total number and volume of significant spills?**

None

## Products and Services

**6.26 Initiatives to mitigate environmental impacts of products and services, and the extent of impact mitigation.**

The impacts of products sold through Massmart stores during the production cycle, use phase and at the end of their useful life are not currently measured.

**6.27 \* Percentage of products sold and their packaging materials that are reclaimed by category.**

A significant percentage of supplier packaging is currently recycled prior to on-selling products to the end consumer, although exact percentages are not measured. We can confirm that approximately 70% of stores are currently separating all secondary packaging, the bulk of which comprises paper-board and plastic. In addition to prioritising operational waste recycling Massmart is intent on engaging with suppliers to reduce overall packaging. To this end, Massmart has hosted a series of packaging rationalization workshops with our private label buyers to highlight packaging reduction and rationalisation opportunities.

Beyond the good progress that we have made in the area of e-waste recycling, we have also pilot-tested other post-consumer waste take-back schemes covering items such as compact fluorescent

light (CFL) light bulbs and batteries. Unfortunately these initiatives have generated indifference customer interest and so we have decided to discontinue them, although we will remain open to new opportunities that may be proposed by external parties. Our e-waste take-back programme at Makro stores is continuing to make good progress, since the inception of the programme in 2008, 464 tons of e-waste has been processed, 130 tons of which was processed in 2013.

In 2012 we communicated our intention to engage with more Hi-tech suppliers to explore opportunities to expand the project. The outcome of this engagement is that Samsung Electronics has agreed to sponsor the project which will now be expanded to 18 Makro stores. We plan to increase consumer awareness of these facilities during 2014.

Although voluntary recycling by customers is encouraged, no accurate measure is in place as to the extent thereof.

## Compliance

**6.28 What is the monetary value of significant fines and the total number of non-monetary sanctions for non-compliance with environmental laws and regulations?**

None

## Transport

**6.29 \* What have been significant environmental impacts as a result of transporting products and other goods and materials used for the organization's operations, including transporting members of the workforce?**

Emissions due to supply-side freight as a result of imports of products by sea, land and air totalled 26, 948.36 tonnes of CO<sub>2</sub>e. Company owned vehicles used by staff members and for the delivery of products to and from facilities and for customer deliveries resulted in 10, 986.65 tonnes of CO<sub>2</sub>e. Delivery vehicles owned and operated by contractors accounted for 7, 421.03 tonnes of CO<sub>2</sub>e, which represents a significant decrease from last year and can be attributed to lower figures reported by Massdiscounters and Masscash. Massmart does not measure emissions resulting from staff members commuting to and from the work place. Business air and road travel emissions account for 0.88% of our total emissions.

## Overall

**6.30 Total environmental protection expenditures and investments by type.**

None currently

# Labour Practices and Decent Work

\* indicates updated information for 2013

## Employment

**7.1 \* Total workforce by employment type, employment contract, and region.**

Massmart employs a total of 36 760 people across its operations, employees breakdown is as follows:

Full time employees:

- 21 033 in South Africa
- 1 913 in other African countries
- Part time/Contract employees:
- 13 260 in South Africa
- 555 in other African countries

## **7.2 \* Total number and rate of employee turnover**

The total number of employees leaving Massmart voluntarily or due to dismissal, retirement or death in service was 2727, representing 7.14% of total employees, down by 2% from last year. .

## **7.3 List the benefits provided to full-time employees that are not provided to temporary or part-time employees.**

Our part-time employees are excluded from the following list of benefits available to the majority of full-time employees:

- Life insurance
- Disability insurance
- Private medical benefits
- Free HIV/AIDS treatment
- Access to primary health awareness education
- Access to EAP counselling programmes
- Retirement or Provident fund membership
- Bursary programme
- Share ownership
- Staff discounts
- Incentive and bonuses

## **Labour/Management Relations**

### **7.4 \* What is the percentage of employees covered by collective bargaining agreements?**

Massmart views the percentage of unionised staff as an indicator of commitment to freedom of association. Currently 36.0% of our total workforce is unionised compared to 36.2% for 2012 and 37.3% for 2011. Our staff members are represented by among others the Confederation of South African Trade Unions (COSATU) affiliated South African Commercial Catering and Allied Workers Union (SACAWU).

### **7.5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.**

Our minimum notice period included in collective agreements for the majority of our employees is 30 days. This is not a stipulation included in collective agreement. Senior level management agreements, however, vary between 30 and 90 days.

## **Occupational Health and Safety**

### **7.6 \* Percentage of total workforce represented in formal joint management – worker health and safety committees that help monitor and advise on occupational health and safety programs.**

Massmart's risk management process includes applying extensive OHS safety protocols that include appointment of safety officers, establishment of store safety committees, regular health and safety training, incorporation of safety standards into job descriptions and, conduct of line management and independent safety reviews. A total of 404 employees serve in 138 OHS committees at Massmart.

### **7.7 \* Rates of injury, and number of work related fatalities.**

A total of 632 workplace injuries were sustained showing a decrease on the 1330 injuries sustained by Massmart employees last year. No staff fatalities occurred for the period under review.

### **7.8 What education, training, counselling, prevention, and risk-control programs are provided to assist workforce members, their families, or community members regarding serious diseases?**

Massmart encourages early detection of priority illnesses and aims to provide employees with greater access to private health benefits. Programmes include: free anti-retroviral treatment for our HIV-positive permanent staff members and their spouses; ongoing initiatives to make affordable primary health care available to employees; a focus on early detection of other priority illnesses including testing for obesity, cholesterol, glucose and blood pressure.

## Training and Education

### 7.9 \* Provide the average hours of training per year per employee, by employee category.

A total of R53.9m was dedicated towards 684,833 hours of training for the year. This training was provided to 18,289 full-time and 6,094 part-time employees who undertook over 14 503 different types of training programmes. These employees included 5,719 management and 18,664 non-management employees, averaging out at 27.57 hours of training per employee. A further breakdown of this number shows a total of 10,908 females being included in the training programmes and 21 891 Indian, Coloured or African staff members and 165 disabled staff.

### 7.10 \* Are there any programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings undertaken?

Yes, in addition to the formal training programs outlined above, 2,946 staff members received some form of lifelong skills training, up from 916 last year.

### 7.11 \* Percentage of employees receiving regular performance and career development reviews.

For the period 641 employees received performance related reviews. In addition, 6671 employees were engaged in career development discussions.

## Diversity and Equal Opportunity

### 7.12 \* Provide details regarding the composition of governance bodies, a breakdown of employees per category, according to gender, minority group membership, together with other indicators of diversity.

Our non-executive directors include two African females, one African male and one Coloured male. Our Executive Committee includes one African female, one African male and one Coloured male. African, Coloured and Indian employees make up 45% of our staff complement. African, Coloured and Indian representation in top management across the Group is 13%; senior management is 58%; professionals and middle management is 91%; and junior and supervisory management is 95%. Approximately 25% of our total staff complement are female. Black management as a percentage of all management and professionals is 74.8%.

### 7.13 \* What is the ratio of basic salary of men to women and across other categories at Massmart?

	Ave salary male	Ave salary female	Ave salary African, Indian and Coloured	Ave salary white	Ave top management salary
<b>MDD</b>	3 124	2 946	3 013	4 630	N/A
<b>MC</b>	4 052	5 016	4 328	7 092	61 893
<b>MW</b>	7 081	7 256	6 922	10 563	N/A
<b>MB</b>	5 318	5 692	5 239 4	8 367	N./A
<b>Services</b>	10 533	6 933	8 733	N/A	N/A

# Human Rights

\*indicates updated information for 2013

## Investment and Procurement Practices

### 8.1 What percentage of significant investment agreements include human rights clauses, or have undergone human rights screening?

All import and local merchandise supply agreements include clauses covering compliance with applicable laws in respect of the manufacture, sale and distribution of goods, including those relating to customs and excise, taxation and labour. Conditions listed include stipulation that the goods bear authentic country of origin markings and are not manufactured in sweat-shops which are defined as those which use child-labour or other labour practices that are regarded as illegal in the Republic of SA. These terms are also included in all significant service level agreements and service supply agreements.

In addition, supply agreements contain that relevant suppliers are required to participate in the Walmart/Massmart Responsible Sourcing program which requires supplier to adhere to Walmart's Standards for Suppliers.

### 8.2 What percentage of significant suppliers and contractors have undergone screening on human rights and describe the actions taken?

Relevant suppliers are required to participate in the Massmart/Walmart Responsible Sourcing program which will require that factories be assessed according to the Walmart Standards for Suppliers. To date, we have received disclosure of all relevant factories in the supply chain – some have previously been audited as they also supply to other Walmart retail markets; and those that have not will be scheduled for audit on an ongoing basis.

### 8.3 \* How many employees received training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained?

A total of 2,738 full-time employees and 1,372 part-time employees received training around human rights this financial year – approximately 11% of our total staff complement.

## Non-Discrimination

### 8.4 \* How many incidents of discrimination were reported and what actions were taken?

Massmart is committed to achieving the highest standards of ethical behaviour and continued its strong emphasis on promoting awareness of, and compliance with, Massmart's Code of Ethical Practice.

Massmart continued to operate an independently run Ethics Line by Deloitte Tip Offs Anonymous to which any third party, member of staff or supplier may report a suspected unethical practice. Contacting the Massmart Ethics Line is made easy by either a FreeCall number 0800 203 246, by sending a 'please call me' SMS to a dedicated number, FreeFax or email.

A total of 755 reports were generated in 2013, of which concerned discrimination, 39 of which were investigated by an impartial third party and resolved without the need for legal action.

## Freedom of Association and Collective Bargaining

### 8.5 \* Were any operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk? What actions are taken to support these

rights?

Massmart views the percentage of unionized staff as one of the indicators of commitment to freedom of association, 36.0% of our total staff complement is currently unionized. No incidents of a threat to exercise freedom of association were reported for the period.

## Child Labour

### **8.6 Operations identified as having significant risk for incidents of child labour , and measures taken to contribute to the elimination of child labour.**

Massmart regularly communicates its Code of Ethical Practice to suppliers and service providers, and attempts to ensure that they comply with our ethical standards. Massmart's formal trading agreements detail ethical practices that suppliers are expected to uphold; and relevant suppliers are required to participate in the Massmart/Walmart Responsible Sourcing program which specifically looks for child labour in the supply chain. With the disclosure of the supplier factories, it has been found that at least two factories had underage workers (previously audited by Walmart) and the relevant suppliers have been informed that no new production can be given to either factory.

## Forced and Compulsory Labour

### **8.7 Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination thereof.**

No forced or compulsory labour is one of the standards required as part of the Responsible Sourcing program. No incidents of forced or compulsory labour were reported for Massmart. Security Practices

### **8.8 Are security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations?**

Security staff receive training related to the legal procedures that they must follow when apprehending an employee, customer or supplier suspected of wrongdoing. Training of security personnel ensures that they are aware of Massmart's expectations of human rights performance.

## Indigenous Rights

### **8.9 How many incidents of violations involving rights of indigenous people were reported and what action was taken?**

No violations were reported. Massmart's general principle is that the dignity and rights of all individuals be respected and never infringed by the way in which Massmart conducts its business in all countries in which we operate.

# Society

\* indicates updated information for 2013

### **9.1 Outline the nature, scope and effectiveness of any programs and practices that assess and manage the impacts on communities, including entering, operating, and exiting.**

Massmart's main focus is on impact assessments prior to the development of new store sites. There is on-going interaction with community forums to ensure that all parties are satisfied prior to the opening on new stores.

## Corruption

### 9.2 **Are all business units analyzed for risks related to corruption?**

Massmart has a Code of Ethical Conduct which continues to be communicated to staff and strategic suppliers across all business units. The outsourced anonymous ethics hotline implemented in 2011 continues to be monitored by Deloitte.

For further information around [Massmart Corporate Ethics](#).

### 9.3 **\* Were employees trained in the organization's anti- and procedures?**

A total of 1 773 permanent and non-permanent employees successfully completed training this year in the anti-corruption Foreign Corrupt Practices Act.

### 9.4 **\* What actions were taken in response to incidents of corruption?**

A total of 82 criminal calls received on the ethics line related to allegations of theft, fraud, abuse of power, sexual harassment or the acceptance of bribes. After investigation, some allegations led to actions including the laying of criminal charges, termination of employment, disciplinary action, counselling and action against suppliers.

## Public Policy

### 9.5 **Describe Massmart's position on and participation in public policy development and lobbying.**

Government liaison is conducted primarily at Group level where responsibility is shared between CEO, Group Corporate Affairs Executive and Channel Executive. The Channel Executive is responsible for legislative and regulatory issues covering operational activities and the Group's merchandise proposition; whilst the Group Corporate Affairs Executive is responsible for broader public policy issues. Public policy engagement efforts are made through written and verbal submissions to the appropriate parliamentary portfolio committees as well as participation in forums such as Business Unity South Africa.

### 9.6 **\*The value of financial and in-kind contributions to political parties, politicians and related institutions by country**

None

## Anti-competitive behaviour

### 9.7 **How many legal actions were instituted for anti-competitive behaviour, anti-trust, and monopoly practices and what was the outcome?**

No legal actions of this nature were instituted during the reporting period.

## Compliance

### 9.8 **\* What is the monetary value of significant fines and the total number of non-monetary sanctions for non-compliance with laws and regulations?**

Penalties incurred amounted to R13 791 and relate to issues such as permit licenses not being displayed in some stores, non-compliant stock and expired products on the sales floor.

# Product Responsibility

\* indicates updated information for 2013

**10.1 What are the life cycle stages in which health and safety impacts of products are assessed for improvement, and the percentage of significant product categories subject to such procedures?**

A broad range of products sold by Massmart are subjected to a variety of voluntary and compulsory standard testing procedures to ensure that a high level of health and safety is maintained. Regular testing of food products is conducted annually and sensitive categories are analysed quarterly or monthly. In 2013 Massmart conducted 1,269 random product tests on private label products.

Massmart's formal trading agreements detail that suppliers are expected to abide by the laws and regulations of the country, and that all products and services must comply with legal and safety standards.

Store audits are also conducted by a 3rd party auditing body to identify non-conforming goods and practices to ensure that goods are certified and comply with compulsory specifications. Numerous external organisations including; SABS (South African Bureau of Standards); NRCS (National Regulator of Compulsory Standards); and ICASA (Independent Communications Authority of South Africa) are consulted to assist with the procedures. Authentication certification procedures are also followed for products labelled Halaal or Kosher.

Additionally stores are audited for Food Safety compliance to all regulatory and standards applicable to food safety. Cambridge Stores (due to high risk operation) is audited on a monthly basis where Makro, Game FoodCo and Masscash are audited on a quarterly basis.

### **Product and Service Labelling**

**10.2 List the type of product and service information required by procedures, and percentage of significant products subject to such information requirements.**

The following voluntary labelling information standards are used on relevant products sold by the Group:

SABS Mark Scheme  
ISO (International Organisation for Standardisation)  
Forestry Stewardship Council (FSC)  
Marine Stewardship Council (MSC)  
Fairtrade  
Energy Star  
European Energy Rating Standards

In addition, all labelling must comply with all regulations relevant to the country in which it is sold. Applicable legislation in South Africa includes the following:

The Medicine, Tobacco and Liquor Acts;  
The National RCS (Regulator of Compulsory Specifications);  
Agricultural Product Standards Act;  
Food, Cosmetics and Disinfectant Act;  
Consumer Protection Act;  
ICASA (The Independent Communications Authority of South Africa; and  
RICA (The Regulation of Interception of Communications and Provision of Communication-Related Information Act)

**10.3 \* How many incidents of regulatory non-compliance to standards of labelling and information have been identified? (recall/quarantine figures below also include defective products and not only incorrectly labelled products)**

A new standard of merchandise labelling has been implemented to ensure future compliance.

In addition, There were 53 product recalls during the reporting period. Of these, 22 were food and liquor-related and 31 were for general merchandise products.

**10.4 \* Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.**

Divisions continue to conduct regular customer surveys including focus groups to research elements of the traditional value proposition to customers. Customer intercept research introduced in 2009 at Group level also focused on customer satisfaction levels and included attitudes to responsible consumerism. Group research conducted in the second quarter of 2013 showed an overall customer satisfaction score of 88.8%. Massmart has invested in and is implementing an automated recall system to conduct effective, efficient recalls into all the stores. This enables faster response and more accurate response time for product recalls.

### **Marketing Communications**

**10.5 What programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship does Massmart subscribe to?**

Massmart follows the Direct Marketing Association (DMA) Code of Conduct, the Advertising Standards Authority (ASA) codes of practice. In addition, steps are in place to comply with the Access to Personal Information Act, Protection of Personal Information Act and the Consumer Protection Act.

**10.6 \*Were there incidents of non-compliance with regulations and voluntary codes?**

At store level, there were approximately 60 recorded cases (unaudited figure) of non-compliance findings by regulatory bodies. These ranged from some products lacking ICASA stickers to stores having expired FPB licences. Not all non-compliances were fined.

### **Customer Privacy**

**10.7 Were any substantiated complaints regarding breaches of customer privacy and losses of customer data received?**

No significant incidences were reported.

**10.8 \* Did Massmart incur any significant fines for noncompliance with laws and regulations concerning the provision and use of products?**

No significant fines were incurred. Only 29 complaints were logged with the National Consumer Commission but these have all been attended to and resolved with customers. There were 122 complaints filed with the Consumer Goods and Services Ombud (CGSO). The CGSO has only been established in mid-2013, as the Alternate Dispute Resolution process (as referred to in the CPA) that improves consumer accessibility. Massmart increased awareness of the CGSO to all customers, which also contributed to the increase of consumer complaints elevated to the CGSO. Indeed this is a key driver for Massmart's customer complaints management process improvement. All matters have been closed to the satisfaction of all stakeholders.

