



VALUE CREATING BUSINESS MODEL

SPAR's operations draw on six capitals. Our value creation process requires managing the trade-offs between them. Our business model demonstrates how we utilise the capital inputs across our wholesale operations to produce favourable capital outputs and outcomes for all stakeholders. It should be read in conjunction with the rest of the integrated annual report and the ESG report.

CAPITAL INPUTS AT THE BEGINNING OF THE YEAR



Financial capital

Financial capital is the funding from equity and debt providers and represents the Group's financial resources. It is used to procure goods and services, pay salaries and taxes, develop new products, invest in technology, facilities, operations and equipment, and to pay financiers and shareholders.

Equity R10.0 billion	Long-term borrowings R7.6 billion	Net cash overdraft R1.9 billion
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Increasing inflation and consumers dealing with rising living costs continued into this year. Currency weakness and increased operating expenses impact ZAR Group debt levels and profitability, putting Group covenants under pressure. Higher interest rates across all markets added to the Group's funding costs. The implementation of SAP gave rise to necessary but increased IT spend, impacting overall profitability. The decision to sell interests in Poland and poor SAP implementation resulted in unexpected write-offs, placing further constraints on financial capital.



Manufactured capital

This capital includes our infrastructure regarding wholesale and logistics capabilities used to service our independent retailers. This includes our central offices, distribution centres (with cooling facilities, recycling and reclamation plants), warehouses, satellite hubs, trucks, forklifts, and information technology systems. It also includes the independent retailer store network.

4 500 stores across our territories	15 distribution centres	Four central support offices	Logistics fleet and assets across all regions	SPAR Encore private label business and private label manufacturers
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Challenges include increased hours in loadshedding, which impacted operations and efficiencies at store level in South Africa. The SAP issues were a major setback, impacting local distribution within the KZN region. It also affected neighbouring distribution centres, which assisted with selected KZN stores until the SAP system was stable towards the end of 2023.



Human capital

Using the skills, capabilities and passion of employees and management teams to drive the culture, execute daily business activities and build relationships with key stakeholders. SPAR's Board holds executive management accountable for the day-to-day running of the business and the implementation of strategic focus areas.

10 281 employees	Purpose and values-driven culture
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In 2023, the existing Chairman and Group CEO resigned and retired, respectively. A new non-executive independent director stepped in as Executive Chairman until the appointment of a new Group CEO. The extensive changes to the Board and leadership teams have been unsettling for employees in the short term. Another challenge is the sourcing of an experienced digital workforce.



Intellectual capital

Intellectual capital focuses on SPAR's accumulated knowledge, guild structures, systems, processes, policies, manuals, and intellectual property, such as our house brands and retailer in-store concepts, and the SPAR brand and all the brands associated with our Group.

Internationally recognised SPAR brand	Additional Group brands and house brands recognised in local markets	Progress made in preparation for SAP implementation	Wholesale and retail IT infrastructure	SPAR rewards programme	Training and leadership programmes
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Operating within highly competitive markets with consumers trading down to discounters places our predominantly convenience-branded stores under pressure. Other challenges include the complexities around the model and competing as a united independent retail store network against peers who are predominantly corporate retail-focused when implementing consistent ideas across the network. Cyber security is an ongoing area of focus and remains a threat.



Social and relationship capital

Sustainable stakeholder relationships enable an environment to perform our business activities well and to ensure a sustainable food network.

Strong platforms in place for effective stakeholder engagement, including with our shareholders	Strong retailer loyalty in South Africa, Ireland, South West England and Switzerland	Procuring goods and services from hundreds of suppliers across the Group	Rural hub programme collaborating with small-scale farmers and communities to improve food security, affordability and nutrition for rural communities in South Africa
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Loadshedding and geopolitical circumstances have affected economic growth across regions with high inflation and increased living costs. This affects the socio-economic welfare of the communities we serve. The SAP issues in KZN have negatively impacted service levels for the SPAR retailers in this region. The reputational damage caused by allegations in the media earlier in the year has also impacted social and relationship capital.



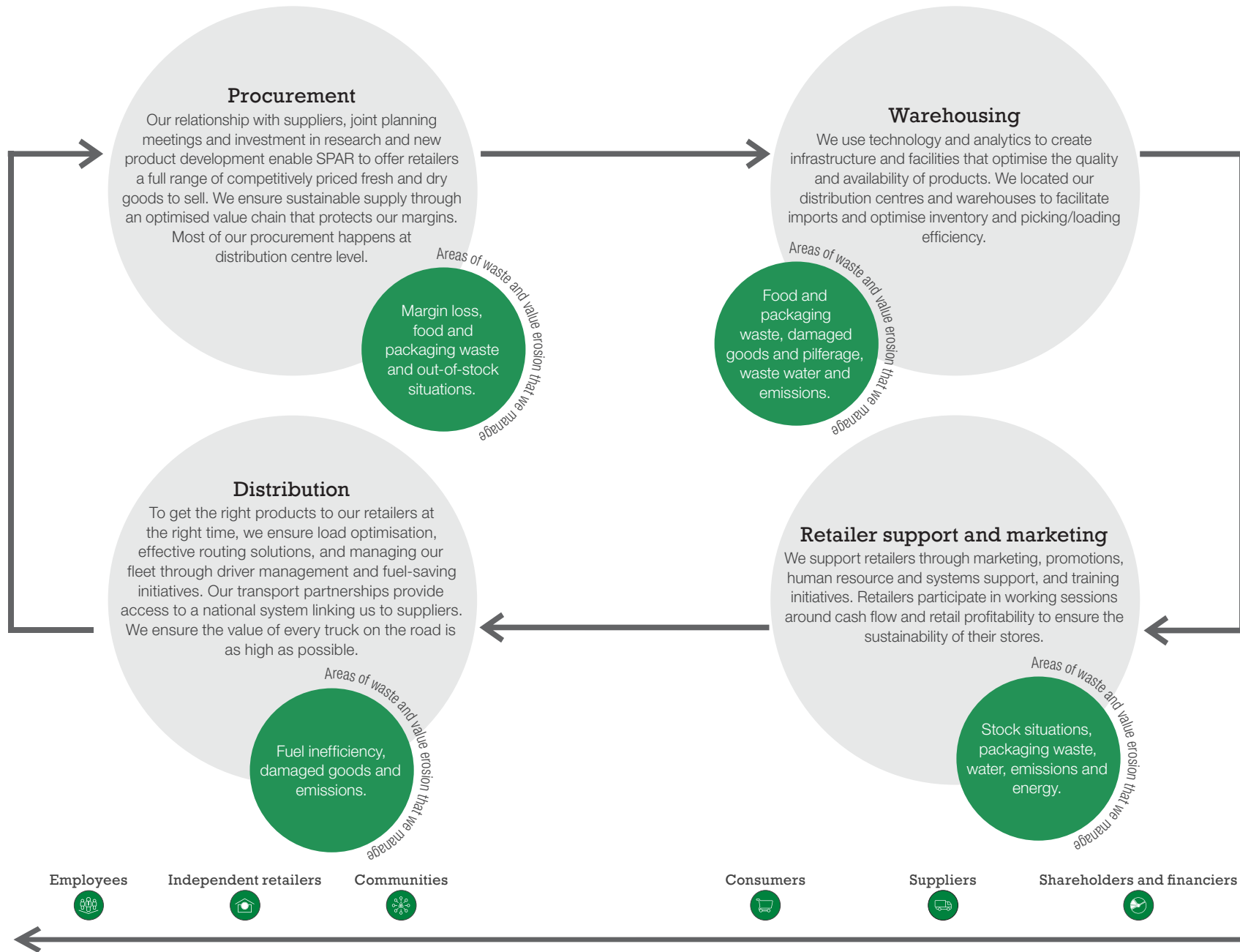
Natural capital

We use natural capital as input for the products we distribute and sell, our properties, and water and energy (electricity, diesel, fuel and gas) we use in our operations. We aim to become more climate-resilient by reducing our carbon and water footprints. This will ensure our natural resources are responsibly procured and protected.

Challenges include diesel shortages, severe flooding in KZN and water shortages in the Eastern Cape.



CORE BUSINESS ACTIVITIES





OUTPUTS

Outputs represent the direct products and services generated through our business activities in supporting our independent retailers, who sell goods to consumers and support their communities.

Products we source from our suppliers for our independent retailers include competitively priced fresh produce, dry goods and a range of house brands, including SPAR private label. This enables these small business owners (our independent retailers) to compete within their local markets.

We provide world-class distribution and retail operational support services and promotional and marketing support to our independent retailers.

OUTCOMES



Financial capital

+10.1% turnover growth

R6.2 billion cash generated from operations

R10.2 billion Equity

R8.3 billion long-term borrowings



Manufactured capital

R2.2 billion of capital expenditure

SAP system customised for use at KZN distribution ahead of roll out to our regions

SPAR2U launched at over 250 new retail sites in Southern Africa

Cash and Carry customer list acquisitions in Ireland fully integrated into the business

4 579 stores (+79 net new stores for the Group)



Human capital

Composition of Board improved considerably

1.2% increase in employees from 10 385 to 10 512

Board diversity improvement

Major focus on ETHICAL BEHAVIOUR during 2023

Retail programme education continued across all markets



Intellectual capital

Implementation of SAP for the business

SPAR Engage merchandising business dedicated to SPAR Private label products in Southern Africa

SPAR2U "E-commerce as a service" solution for retailers

Private label product ranges across all markets



Social and relationship capital

Level 5 B-BBEE in South Africa

Ongoing Gender-based Violence campaign

R23.0 million CSI spend in South Africa

Empowerment of small suppliers through the SPAR supplier development programme



Natural capital

8 612 MWh of energy generated by distribution centres in South Africa

136 561 tonnes CO₂ equivalent total footprint Scope 1 and 2

17 387 tonnes of cardboard and plastic recycled through distribution centres in South Africa

Build it procured wood is 100% Forest Stewardship Council certified



OUR CAPITAL TRADE-OFFS

The following trade-offs examples between our capitals and our unique current circumstances provide insight into how we manage them to ensure long-term value creation for our stakeholders.

Selling of interests in Poland

The Board announced its decision to sell its interest in SPAR Poland in September 2023. The ongoing financial losses have created earnings pressure for the Group. We also recognised a significant impairment of goodwill and other assets in the 2023 financial year. The Group will continue to support the business until it finds an appropriate buyer. We expect the transaction to be completed by the end of the 2024 financial year. There is a trade-off between long-term financial capital against manufactured, human, and social and relationship capital as the Group chooses to sell its interests in this market.



MANUFACTURED CAPITAL

Long term



FINANCIAL CAPITAL

Short term
Medium term
Long term



HUMAN CAPITAL

Long term



SOCIAL AND RELATIONSHIP CAPITAL

Short term
Long term

Implementation of ERP system

The Group launched its new ERP system at the KZN DC during the year. We incurred a significant amount of financial capital investment. We have allocated capital expenditure of approximately R1.8 billion towards the SAP investment. As at 30 September 2023, the capitalised balance relating to the SAP software asset was R896.7 million.

We expect this significant short to medium-term financial capital investment to drive greater efficiencies and cost savings in the long term, albeit the implementation has not gone as planned, prolonging the time period for expected associated economic benefits. The system modernisation to suit SPAR's model provides greater access to intellectual capital capabilities to leverage enhanced growth opportunities. The poor implementation has caused stakeholder concerns, weighing on relationship and social capital in the short-to-medium term.



FINANCIAL CAPITAL

Short term
Medium term
Long term



INTELLECTUAL CAPITAL

Short term
Long term



SOCIAL AND RELATIONSHIP CAPITAL

Short term
Medium term