APPROACH TO TAX STRATEGY

TAX GOVERNANCE

The group's approach to tax outlines the framework by which tax obligations are met from an operational and risk management perspective.

With consideration of the complexity of the evolving global tax landscape, the responsibilities for managing tax compliance obligations and tax risk are varied across the group.

The SPAR Group Ltd's group tax strategy was approved by the board in November 2019 and is aligned with the group's existing strategies, policies and overall purpose:

"To inspire people to do and be more"

Tax management is key in the group achieving its strategic objectives. The group's approach to tax governance is based on five principles:

1	**Zero tolerance**	The group has adopted a principle view and will maintain a zero-tolerance approach for tax non-compliance.
2	**Stakeholder value**	Tax is integral to all stakeholders, both internal and external.
3	**Reputational risk**	The group's reputation is protected by managing its tax affairs in a manner that will not have a detrimental effect on the reputation or brand of the group.
4	**Corporate citizenship**	In the spirit of the group, tax corporate citizenship is underpinned by adherence to tax legislation and regulatory requirements within which it operates, demonstrable by compliance with tax laws and honesty in its dealings with relevant stakeholders both internal and external.
5	**Communication with tax authorities**	The group values a good working relationship with tax authorities in the jurisdictions in which it operates and maintains these relationships.

The group tax strategy is supported by the group tax policy which is in the process of being finalised. This is an operational document detailing processes and policies to ensure the effective implementation and compliance to the group tax strategy.

Based on the principles of good corporate tax citizenship, aligned to the principles of the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV)[1], the group acknowledges its responsibility to its stakeholders, both internal and external, demonstrated through the group's decisions, actions and consideration of the impact thereof, on an ongoing basis. The global tax affairs of the group are managed in an efficient, transparent, responsible and sustainable manner in full compliance with the prevailing legislation in which the group operates.

The group will always aim to mitigate any adverse and/or unexpected financial consequences and protect its reputation, and accordingly, the overall strategy of the group is it will only engage in or promote tax planning that supports genuine commercial activity and will not enter into transactions that serve no commercial purpose other than the avoidance of tax.

EFFECTIVE TAX RATE (ETR) AND TOTAL TAX CONTRIBUTION (TTC)

ETR

The company ETR has increased overall by 1% in 2020 from the prior year. The increase is mainly attributable to an impairment of SGL's investment in its Zambian associate (1.1%) and a 1.6% unfavourable movement in the prior year income tax overprovision. The prior year income tax overprovision was as a result of the contribution to the Employee Share Trust being treated as a timing difference from the 2019 financial year with a deferred tax asset recorded accordingly for this change in treatment.

These increases are negated by the following favourable movements in the ETR:

- 0.8% decrease due to temporary differences relating to the Employee Share Plan (ESP) and Conditional Share Plan (CSP). These temporary differences arise due to a deferred tax asset being raised for future costs to be incurred in relation to the ESP and CSP whereas the income tax deduction granted in the current financial year to determine the tax liability is based on the actual costs incurred in the current year.
- 1% decrease due to no further increase in the non-deductible inter-group loan provision in 2020.

The group ETR has increased by 5.3% in 2020 from the prior year. The main contributors to the increase are as follows:

- An increase of 1.9% as no further tax rate changes in the current year versus the prior year when Switzerland's tax rate decreased by 3.5%.
- An increase of 1.1% as a result of the remeasurements of the financial liability relating to the future acquisition of the remaining minority shareholding in the BWG Group.
- An increase of 0.7% resulting from the impairment of the group's investments in Zambia and Swaziland.
- A substantial net increase of 1.6% relating to tax losses and timing differences not being provided for. The majority of this amount relates to tax losses of R178 million in Poland which have not been provided for as it is unlikely that future profits will be generated to utilise this tax loss.
- An unfavourable change of 0.4% in the foreign tax rate differential. This is purely as a result of the higher tax jurisdictions, namely Switzerland and Poland, contributing more significantly to the foreign tax rate differential reconciling amount in the ETR reconciliation.
- A decrease of 0.7% resulting from favourable temporary differences relating to the ESP and CSP as outlined above.

The effective tax rate of the group is detailed below:

	GROUP		COMPANY	
%	**2020**	**2019**	**2020**	**2019**
Reconciliation of effective taxation rate				
South African current income tax rate at 28% (2019: 28%)	**28.0**	28.0	**28.0**	28.0
Tax rate change in Switzerland		(1.9)		
Non-taxable income relating to:				
Dividends			**(0.5)**	(0.6)
Employee tax incentives			**(0.1)**	
Share plans[1]	**(0.7)**		**(0.8)**	
Non-deductible expenses relating to:				
Fair value adjustments, foreign exchange and finance costs on financial liabilities[2]	**2.7**	1.6	**1.7**	1.5
Business acquisition costs	**0.1**	0.1	**0.1**	0.1
Impairments	**0.8**	0.1	**1.2**	0.1
IFRS 9 allowances		0.1		1.0
Other operating costs	**0.4**	0.2	**0.1**	0.1
Other items:				
Assets not eligible for capital allowances		0.1		
Income tax allowances	**(0.2)**	(0.1)	**(0.2)**	(0.1)
Withholding income tax	**0.1**	0.1	**0.1**	0.1
Prior year income tax overprovision	**(1.4)**	(1.8)	**(0.1)**	(1.7)
Unutilised tax losses	**1.3**			
Non-deductible temporary differences	**0.3**			
Foreign tax rate differential	**(3.9)**	(4.3)		
Effective taxation rate	**27.5**	22.2	**29.5**	28.5

[1] *Temporary differences between deferred tax asset balance raised for future costs to be incurred and income tax deduction granted in current year for costs actually incurred on the ESP and CSP.*

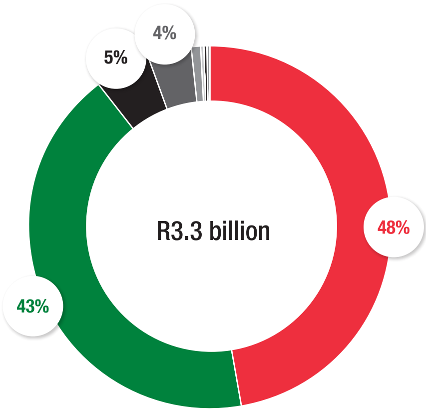
[2] *Relating to Ireland, Switzerland, S Buys and Monteagle Merchandising Services.*

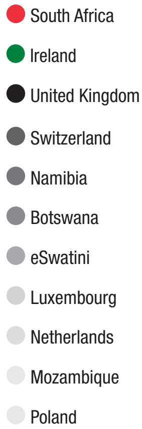
TTC

The SPAR Group Ltd contributes directly to tax authorities by way of taxes borne and taxes paid in the jurisdictions in which the group operates, enabling governments to provide social infrastructure and services.

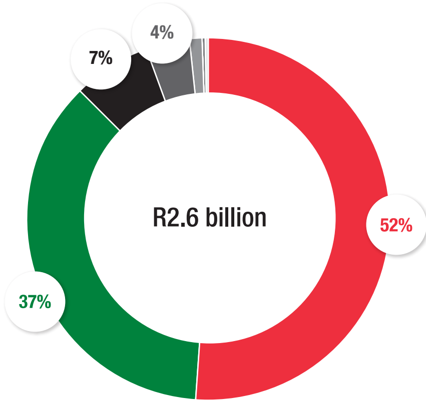
The TTC of the group is detailed below:

2020 TAXES PAID BY JURISDICTION

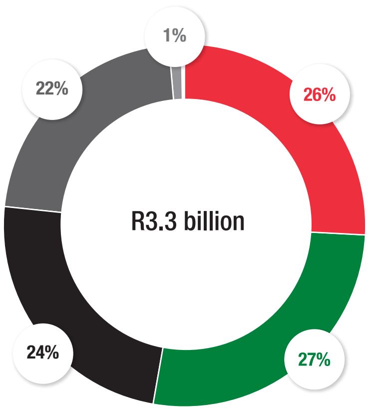




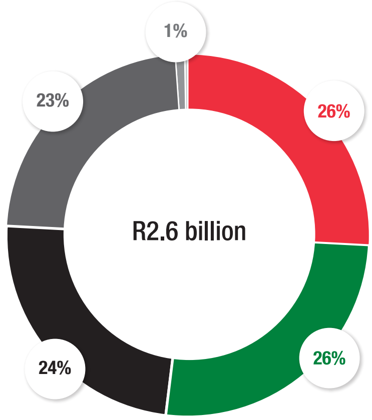
2019 TAXES PAID BY JURISDICTION



2020 TAXES PAID BY TYPE



2019 TAXES PAID BY TYPE



In response and in adherence to base erosion and profits shifting (BEPS), specifically action 13 and the South African Revenue Service Country-by-Country (CbC) Reporting, Master File and Local File guidance, the group has submitted its CbC report for the 30 September 2019 year of assessment on 18 September 2020.