



## SUPPLIER ESG ASSESSMENT REPORT 2024

### 1. Background

The group is committed to providing affordable, quality, and accessible health care. This ethos guides its strategy and informs its sustainability road map. The Groups' strategic sustainability framework is important in guiding how it sources products that uphold the integrity of its brand. To this end, products with sustainability attributes are promoted and given precedence. An important aspect of the Group sustainability strategy involves assessing the ESG performance of its suppliers. This ensures that the group's supply chain adheres to the principles of ethical business, environmental stewardship, and social responsibility outlined in the UN Global compact and ultimately portraying a transparent picture of its sustainability efforts.

### 2. Objective

The Group conducted an ESG assessment for its suppliers to strengthen sustainability collaboration. The intention is to integrate supplier ESG assessment into the Group practices to proactively manage risk and contribute to a sustainable future. A desktop Environmental, Social, and Governance (ESG) assessment was sent to 150 of the Group's suppliers. Out of the 150 suppliers that were requested to respond 41 (27%) completed the assessment. The questions were divided into 4 dimensions namely:

- Economic
- Environmental
- Social
- Governance.

### 3. Economic dimensions

The economic dimension question sought to establish whether suppliers have relevant industry certification, whether they are supplying the group through an agent or directly and if they have stock management and risk mitigation practices in place. Suppliers were assessed based on their stock exchange listing status.

The break down was as follows:

- 70% of the companies assessed are not listed
- 7% of them are listed on other stock exchanges.
- 3 % of the companies assessed are listed on the JSE.

In terms of the supply chain assessment the suppliers fell into the following categories:

- 67 % of the assessed suppliers supply Clicks directly.
- 19 % of the assessed suppliers are supplying Clicks through an agent
- 18 % of them are supplying Clicks through other channels.

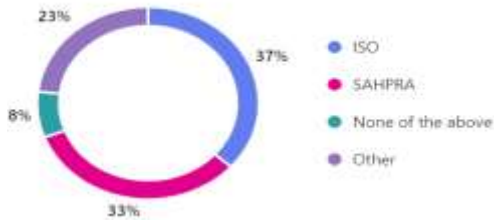
In addition, the suppliers were further assessed on stock management and risk mitigation measures and the group established the following:

- 54% of them comply with the required minimum stock levels,
- 42% of the assessed suppliers' sites have a risk assessment/mitigation plan for full order deliver
- 4% of the suppliers have no stock management and risk mitigation plans/measures.



## 4. Suppliers Economic Performance

### 1. Suppliers with relevant industry certification



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In terms of the industry certification question, the assessed companies must have either ISO or SAHPRA certification. The results of the assessed suppliers are as follows:

- 37 % have an ISO certificate
- 33 % are registered under SAHPRA.
- 23 % of the suppliers have other industry certificates
- 8 % having none of the industry certification.

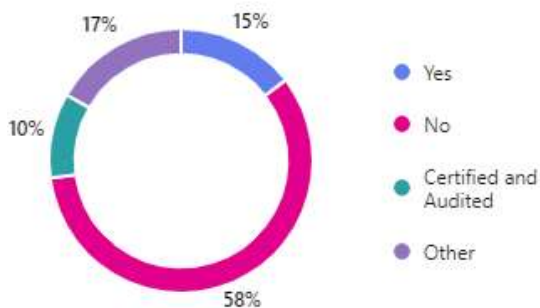
## 5. Environmental Dimensions

As a retailer with over 900 suppliers and a substantial estate network, the group is cognisant of the potential environmental impact across the value chain. The group is working on a broad set of solutions and targets to reduce its impact, with a particular focus on energy, waste, packaging, and waste. The group's environmental and climate change policy outlines its approach and commitments. The environmental management systems are embedded in business practices and operations. The group has assessed its supplier's environmental footprint in the current financial year. This follows its commitment to environmental management throughout its value chain.

## 6. Suppliers' Environmental Performance

The environmental dimensions had 13 questions. This follows the recent adjustment made to the Group's trading terms which places greater emphasis on environmental responsibilities. Suppliers with more environmental stewardship and products with environmental attributes are given precedence. Below are the suppliers' results on environmental commitments.

### 2. Supplier with ISO 14001 certification (EMS)



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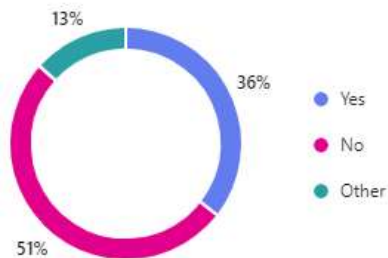
The assessment results are shown as follows:

- 58% have no ISO 14001 certificate for environmental management.
- 17% have ISO 14001 certificate for environmental management.
- 10% are certified and audited on environmental management measures.
- 17% have other certificates for environmental management.

The assessment showed that there is a room for improvement in the environmental management aspect for the Group's suppliers regarding ISO 14001 adherence. The group is committed to achieving carbon neutrality by 2050 and has established the Carbon Neutrality Management Plan as a vehicle to achieving the set targets. Its suppliers were assessed on their commitment to net-zero target and were asked to state their targets and strategies in place as proof of the stated commitments.

73% of the assessed suppliers did not commit to Net-Zero. However, they have mitigation measures and initiatives in their operations which include solar energy projects. 27% of the assessed suppliers have committed to carbon reduction by 2050. Strategies range from converting to electric vehicles and from conventional lights to LED lights and to using solar energy. One supplier has announced its verified science-based targets (SBT) with Targets initiative (SBTi). The group tracks and reports direct emissions (scope 1 & 2) from owned and controlled sources. The group's assessed suppliers showed the following results:

## Suppliers who track and report direct GHG emissions (Scope 1 & 2)



The assessed results are as follows:

- 61% of the suppliers do not track and report direct GHG emissions.
- 39 percent of the assessed suppliers track and report direct GHG emissions (Scope 1 & 2). ESG reporting standards require the group to report on its emission targets. The group expects the same from its suppliers and assesses them on their emission targets. Only 5% of the assessed suppliers have emission targets with 1% having met their targets. 17% of suppliers indicated that they are in the process of setting emission targets. 78% reported that they do not have targets but are working towards minimizing the carbon footprint. 25% of the assessed suppliers track and report on their indirect emissions. 34% of the assessed suppliers do not report on indirect emissions with some still planning to track and report on their indirect emissions.

## 7. Energy resilience

The Group has accelerated its acquisition of renewable energy to supplement its energy use requirements and reduce reliance on non-renewable energy sources. The objective is tackling energy resilience which has become an important issue for business. Renewable energy is in the form of rooftop solar panels and



has been installed at the head office and across the Group's 8 owned DC's. The Group assessed suppliers on energy resilience. They were assessed on renewable energy sources. 67% of the suppliers that responded use Solar panels.

## 8. Reducing waste and pollution

The Group aims to reduce and manage its waste streams to minimise effects on human health and the environment, and to promote the concept of the circular economy in eliminating or repurposing. Only 10% of the respondents have their paper and plastic recycled. This contradicts the Group's initiatives aimed at reducing landfilled waste and increasing the number of recyclables compared to previous years.

## 9. Reducing packaging and plastic usage

The Group is a member of the SA Plastics Pact and committed to meeting joint industry targets by 2050. One of the Pact's goals is acting on problematic or unnecessary plastic packaging through elimination, redesign, innovation or alternative (re-use) delivery models. To align its efforts, Clicks' suppliers are members of different plastics and packaging Pacts. 76% of the assessed suppliers are members of plastics or packaging Pact. 36% of these suppliers are members of the Producer Responsibility Organisation, Polyco. 24% of the assessed suppliers are not members of any plastics or packaging Pact. 43% of the assessed suppliers are registered with the Department of Forestry, Fisheries, and the Environment (DFFE) as per EPR regulations. 57% of the assessed suppliers that are South African are not registered with DFFE as per EPR regulations.

## 10. Social dimensions

The group reports on its interactions with its stakeholders being, employees, customers, and local communities. ESG frameworks and standards that the group aligns with demands that it reports on aspects like ethical sourcing, community impact, diversity, and inclusion. ESG reporting frameworks require that the group extends its scope and includes suppliers by means of supplier audits and assessments on the above-mentioned social dimensions.

## 11. Supplier social performance

The Group subscribes to SEDEX for broader reach and data collection platform for the Group's supply chain to provide emissions data and other social dimensions to the Group and other customers. Success can be measured through the number or percentage of suppliers that use the platform. 41% of the assessed suppliers undergo ethical and social compliance audits through SEDEX. 59% of the assessed suppliers do not undergo ethical/social compliance audits with either SEDEX/SMETA, AMFORI, BSCI, SA 8000, WRAP SA.

## 12. Supporting employee wellbeing

The group is a responsible corporate citizen and follows fair labour practices and safe working conditions for its employees. The group's code is explicit in this regard. The group's supplier code of ethics requires that suppliers adhere to fair labour practices and safe working conditions for their employees. The assessed suppliers have various policies and procedures in place. 80% of the assessed suppliers that are South African abide by the country's laws such as the Basic conditions of employment Act, Compensation for Occupational injuries and Diseases Act, Employment Equity Act, and BBBEE. Most of the Group suppliers adhere to all the requirements as per SEDEX or SMETA guidelines. 80% of the assessed suppliers showed Occupational, Health and Safety compliance. Results have shown that 5% of the suppliers have



anonymous whistle blowing programs to report issues affecting gender base and discrimination. All the assessed suppliers have processes in place to deal with grievances and most are resolved through outlined Human Resources processes and procedures.

### **13. Community development**

The group has a number of programmes in place aligned with UN Sustainable Development Goals (SDGs). The notable SDGs that the Group aligns with include no poverty, good health and wellbeing, quality education, gender equality, affordable and clean energy, decent work and economic growth, reduced inequalities, responsible consumption and production and lastly, climate action. The group's suppliers have also shown alignment with SDGs. Clicks suppliers have different initiatives to support local communities where they operate. These from donating products to feeding schemes and disadvantaged communities. 98% of the assessed suppliers have Social Responsibility programs.

The group's suppliers have committed to SDG 1 - no poverty, SDG 2- zero hunger and SDG 3- good health and well-being. The group's suppliers have their contribution to SDGs stipulated in their sustainability reports. They have focused on projects relating to social aspects. One supplier responded that they aim to improve the health and well-being of 2 billion people by 2025, including 300 million people in underserved communities. Suppliers have clearly articulated their community development programs. One of the Group suppliers has funded and continues to fund the planting of trees across the developing world. Thus far, a total of 26 550 trees have been planted by the supplier.

### **14. Promoting diversity, equity, and inclusion**

The group's five-year employment equity plan has set specific targets and timelines for the advancement of underrepresented groups at executives and senior management levels. 95% of the assessed suppliers have policies in place to promote diversity, equity, and inclusion in the workplace. The group maintained a level of 4 BBEE rating in 2022/2023. Assessed South African suppliers have shown an average rating of 4.76. The Group has a clear policy on ethical business practices and anti-corruption. The Group code of conducts guides employees to partake in ethical business practices and is clear on anti-corruption measures. The Group is also guided by the principles of King IV on good governance. All of the assessed suppliers have shown that they adhere to ethical business practices. They have all shown themselves to have anti-corruption procedures entrenched in their respective codes of conduct. One supplier responded that they have zero tolerance policy to corruption and unethical behaviour. Suppliers have shown alignment with the group with respect to stringent policies on ethical business practices and anti-corruption.

### **15. ESG rating agencies**

The Group submits its ESG requirements for scoring to five rating agencies namely: S&P, FTSE Russell, ISS, MSCI, and CDP. The Group has over the years improved its ESG score and remained at the top of its industry. Only 2% of the assessed suppliers submit their ESG performance to rating agencies. The average for those that submit their performance to ESG rating agencies is 5.80.

### **16. Conclusion**

The assessment questionnaire was sent to 150 suppliers both locally and internationally. 41 out of 150 (27%) completed the questionnaire. Suppliers were assessed on their Economic, Environmental, Social, and Governance so to align suppliers' efforts with the group's sustainability efforts. Responses to the questions differed based on the suppliers' location, product, industry, and size.



## 17. Actions and way forward

### **Economic performance**

80% of the suppliers that completed the assessment are South African based. 33% of the assessed suppliers are listed on stock exchanges. However, the group is yet to determine how many from these that are listed are South African domiciled and which are international. . . 70% of these assessed suppliers are not listed. The group needs to develop strategies to foster ESG collaboration with international suppliers, as the assessment revealed that only 10% of the respondents were international.

### **Environmental Performance**

The assessment of environmental performance revealed a number of gaps in the supplier environmental management, with suppliers demonstrating low compliance with the evaluated environmental criteria. 58% of the suppliers do not have ISO 14001 which serves as a basis for environmental management. It is important to note that the group has completed restatement of its FY 2022 carbon footprint to include emissions from its Private Label suppliers, in accordance with the ISO 14064-2018 standards. It will be a challenge for the group to rework its targets and include scope 3 emissions from suppliers, integrate, track, and monitor emissions from its supply chain because 78% of them do not have targets and 34% do not report their indirect emissions.

### **Social Performance**

More than 80% of the assessed suppliers showed compliance with the social dimension's questions. This can be attributed to the social dimension questions being legislative in nature. Social dimensions have financial and reputational risks if they are not adhered to.

### **The next step**

#### **1. Conduct a comprehensive supply chain assessment**

The group sent supply chain assessment questionnaires to its suppliers and received a 27% response rate. This does not provide the group's intended view of its suppliers' sustainability efforts. The group needs to create an awareness for suppliers to understand that ESG integration and collaboration will occur when there is a full appreciation of their ESG efforts. Suppliers that are currently supplying the group need to be encouraged to complete all ESG assessments that they receive. An option for consideration is ESG assessments onboarding procedures for new suppliers.

#### **2. Clear Communicate the Group's sustainability strategy and goals**

The Group has a well laid out ESG strategy that embodies its values and goals. This may not have been effectively communicated to suppliers. It is important to engage suppliers to ensure they understand and align with this strategy.

#### **3. Sustainable Procurement Strategy**

Integrating sustainable procurement practices is imperative for the group as it continuously seeks to align with ESG principles. The strategy needs to encompass the systematic integration of sustainability considerations into procurement processes, supplier relationships, and decision-making frameworks. The strategy will allow for the group to source goods and services in a manner that promotes environmental stewardship, upholds ethical labour standards, and fosters economic resilience within communities it operates. The procurement team will be integral in the group's ESG efforts with suppliers.

#### **4. Embrace Innovation and Technology**

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L I M I T E D



The group is exploring IT platforms that could p leverage data to make better decisions, improve viability and collaboration, and ensure effective compliance with suppliers.

## 6. Supplier engagement

Collaboration with suppliers will play a pivotal role in successfully integrating ESG throughout the supply chain. With proper communication of the Group's goals and expectations, joint efforts can be made towards recognizing and tackling sustainability issues that will arise. The Group should focus on providing support through awareness programs while introducing key milestones or tracking progress.