

CONFIDENCE IN OUR SUPPLY CHAIN

Our supply chain ESG goal: Promote a responsible supply chain

Strategic focus areas

<p>Responsible sourcing (ethical and responsible procurement)</p>	<ul style="list-style-type: none"> Quality assurance, regulatory and category specific compliance requirements need to be met to become a registered new supplier. Adherence to Dis-Chem's supplier code of conduct is enforced by our experienced quality assurance and technical teams. Cyclical audits, compliance checks and assessments are conducted to manage and mitigate risks and monitor ESG related issues. We have partnerships with suppliers who share our commitment to ethical practices including fair labour practice.
<p>Product safety (including quality)</p>	<ul style="list-style-type: none"> Stringent quality control measures are implemented in what is a highly regulated pharmacy, retail environment. Regular product testing is done to ensure label claims and safety standards are met. Product packaging is checked to ensure clear and accurate information and regulatory compliance. Dis-Chem site audits are conducted by an independent and accredited third-party service provider to ensure required storage conditions are met.
<p>Ethical supply chain (sustainable sourcing)</p>	<ul style="list-style-type: none"> We prioritise the sourcing of environmentally friendly and biodegradable products, packaging and materials. We focus on minimising environmental impact through eco-friendly sourcing and supply chain practices. We are committed to supporting local suppliers. We ensure transparency and traceability of private label products.
<p>Economic inclusion</p>	<ul style="list-style-type: none"> We support small and diverse suppliers who are drivers of job creation. The majority of front shop products are procured from local suppliers. <p> Read more about Dis-Chem supporting a small recycling business in the material sustainability matters chapter from page 33.</p>



“Ethical and responsible purchasing of the highest quality products, at affordable prices, remains a key priority for the procurement teams. This, coupled with ongoing improvement in procurement policies, procedures and processes will ensure a best-in-class experience for our consumers and strong, enduring partnerships with suppliers aligned to our core values.” – Craig Fairweather, Dis-Chem Commercial Director

Dis-Chem's strategic focus areas align its contribution to the following SDGs:



DIS-CHEM HAS A VAST NETWORK OF SUPPLIERS WHO ASSIST IN SATISFYING THE NEEDS OF HUNDREDS OF CUSTOMERS DAILY.

Our imports supply chain

Dis-Chem procures a small percentage of its front-shop goods via imports. These constitute mainly front-shop items in the fast-moving consumer goods and beauty categories. The imports team sources these products directly from a range of international suppliers. The Group has a buying agent in China that consolidates shipping and financial lending and can assist with the vendor screening process for Chinese factories.

For Chinese suppliers, Dis-Chem requires Business Social Compliance Initiative (BSCI) certification, which is a framework for companies to assess and enhance social compliance within their supply chains by promoting ethical business practices and respect for workers' rights. BSCI focuses on labour standards, worker safety and fair working conditions.

Imports focus on exclusive items with unique features that cannot be procured locally.

The Group uses sea freight shipping for imports, with limited emergency air freight, for example for strategic purposes when stock is needed of goods with limited expiry dates such as confectionery.

Dis-Chem works with a 12-month forecasting model and engages with its import suppliers at least quarterly, and in most cases more frequently.



Our supplier onboarding summary

Each Dis-Chem category has its own procurement team that identifies products and vendors. Procurement and store listings are done centrally. The below provides a general overview of a typical onboarding process, of which some requirements may vary slightly from category to category.



*Read more about our product compliance process in the material matters chapter from page 24.

Our pharmaceutical supply chain

The majority of the schedule 0 – 6 pharmaceutical products available from a Dis-Chem dispensary or over-the-counter are imported. SAHPRA provides a list of schedules published under the Medicines Act that define different levels of regulatory control and are informed by the safety, quality and efficacy of medicines. Scheduling considers active substances, including active pharmaceutical ingredients, naturally occurring products or extracts, or finished pharmaceutical products.

Dis-Chem only lists pharmaceutical products registered with SAHPRA.

With the increase in self-medication since COVID-19, more customers are buying medication online from unregulated sources, where more counterfeit products have been seen at play, for example in weight loss, paracetamol or erectile dysfunction.

These products compete directly with legitimate registered products manufactured by the Group's suppliers, who actively combat counterfeit products. Dis-Chem is confident that its supply chains are secure, and that it does not distribute any imitation or illegal products.

High standards for our in-house brands

Front-shop, in-house brands represent a significant area of potential growth for Dis-Chem. To be considered as a supplier and/or manufacturer for an in-house brand, there are a series of checks and requirements that must be met prior to any business being conducted. Some of these checks and requirements include:

- ✦ An acceptable good manufacturing practice (GMP) certification for the type of facility (for example food production, pharmaceutical production or cosmetics)
- ✦ Any other certifications or licences applicable and required, over and above an acceptable GMP certification (for example pharmaceutical manufacturers are required to have a SAPC licence, SAHPRA licence and Department of Health licence)
- ✦ Product-specific requirements that require additional facility certification (for example Halaal, Kosher or organic)
- ✦ An internal audit of the manufacturer's facility conducted by the Dis-Chem technical compliance team
- ✦ A compulsory technical (quality) agreement must be signed by the supplier and/or manufacturer

These preliminary checks are essential to ensure compliance across multiple components of the product supply chain, such as raw material sourcing/compliance, packaging compliance, testing requirements, standard operating procedures (SOPs) and policies. These certifications/licences are only issued on the basis of compliance with all components that constitute a GMP. After these preliminary checks during the onboarding process, supplier and/or manufacturer compliance is monitored on an ongoing basis to ensure up-to-date certification and licensing are always in place.

Furthermore, in-house brand products are strictly managed and monitored through a series of policies and procedures continually, to ensure:

- ✦ Labelling and formula compliance
- ✦ Safe and high-quality products
- ✦ Customer satisfaction
- ✦ Continuous product improvement



OUR APP-BASED, VENDOR PORTAL IS THE DIGITAL POINT OF ENGAGEMENT WITH DIS-CHEM FOR ALL OUR VENDORS. OVER AND ABOVE ADMINISTRATIVE FUNCTIONALITY, IT HAS BEEN ENHANCED TO CATER FOR UPLOADING, MONITORING, AND MANAGING REGULATORY AND QUALITY RELATED CERTIFICATIONS AS WELL AS RECORDS PERTAINING TO ESG.

Distribution centres – strategic assets for our business

Dis-Chem has six state-of-the-art distribution centres designed for a mix of pharmaceutical and front-shop retail inventory. This includes temperature-controlled environments where necessary. The distribution centres are supported by stock management systems across the Dis-Chem network, including stores. These systems are well suited to deal with the complexities of pharmaceutical stock compliance requirements, batch expiry dates, stock rotation and volume spikes driven by promotions.

Some distribution centres have water tanks to collect and store water.



Read more about our electric vehicle pilot initiative in the chapter on our planet from page 63.



Read more about our waste management, including at distribution centres in the material sustainability matters section from page 31.

Future priorities

- ✦ The Group is engaging with its suppliers to obtain more data in support of the Extended Producer Responsibility¹ approach
- ✦ It plans to focus on plastics and packaging first inter alia to reduce the import levies Dis-Chem has to pay as required by the Waste Act
- ✦ The Group is working towards a more formal and structured approach to developing small suppliers, including mechanisms to support and fund them
- ✦ A circular economy approach is being driven in terms of packaging, especially with in-house brands



WE USE A MIXED DISTRIBUTION MODEL WITH SOME VEHICLES OWNED BY DIS-CHEM AND SOME STORE DELIVERIES OUTSOURCED TO THIRD-PARTY TRANSPORT PROVIDERS. OUR COURIER SERVICE FORMS PART OF THIS NETWORK, DELIVERING ONLINE STORE ORDERS. STORES EMPLOY THEIR OWN FULL-TIME DRIVERS FOR DELIVERIES WITHIN A 15KM RADIUS.

¹ OECD defines Extended Producer Responsibility (EPR) as an environmental policy approach in which a producer's responsibility for a product is extended to the post-consumer stage of a product's life cycle. An EPR policy is characterised by the shifting of responsibility (physically and/or economically; fully or partially) upstream toward the producer and away from municipalities and the provision of incentives to producers to take into account environmental considerations when designing their products. While other policy instruments tend to target a single point in the chain, EPR seeks to integrate signals related to the environmental characteristics of products and production processes throughout the product chain.