Understanding the factors that impact on value creation

We need to be agile, responsive to stakeholder needs and continually aware of emerging risks to thrive in a challenging and competitive environment.

Various factors impact our ability to create value and require monitoring and management, where relevant. They also influence our strategic plans and execution. These include:

- Factors that are within our control include operational efficiencies, brand offering (appeal, service, value), product quality, and cost management.
- Factors that are beyond our control, for example, commodity prices (food inflation), macro-economic factors (consumer spend), market and demographic dynamics affecting site viability and country-specific risks (load shedding, socio-political instability, etc.)
- The factors we do have some influence over, such as the demand for our products and the quality of our stakeholder relationships.

The rest of this chapter unpacks these material factors:

- Our operating context, page 36
- Stakeholder engagement, page 40
- Risk management, page 50

Operating context

Our operating context shapes the successful implementation of our strategy, sustainable growth and value creation for our stakeholders.

2022, in general, was characterised by:

- Lockdown restrictions, including curfews, alcohol bans and capacity restrictions.
- High food inflation.
- Economic and political turmoil contributes to low business and consumer confidence.
- Intensifying competition in a constrained consumer spending environment.
- Acceleration of technology adoption.
- South African-specific challenges include high unemployment, unrest, load shedding and deteriorating infrastructure.

The external trends that materially impact Famous Brands are grouped according to the following five categories:

1. Consumer behaviours
2. Dining trends
3. Competitive landscape
4. Evolving technology
5. General trading and economic conditions

Trend	Our response	Future expectations, aligned focus areas and key enablers
Consumer behaviour		
A decline in customer visits COVID-19 and fierce competition have meant fewer visits to restaurants.	We strive to make sure that we offer more options across the value/price spectrum. We also place more emphasis on delivery.	We will gain from the natural return of consumers to the sit-down occasion and continue to improve our operational efficiencies to boost margins. We will promote our value offerings aggressively to drive revenue growth and win market share.
Time-poor consumers demand convenience Smaller and more accessible local shopping centres have enjoyed increased foot traffic while the delivery channel grows.	We and our franchise partners have invested in home delivery, expanding into new outlying areas and rolled our smaller format convenience-centred outlets.	Convenience and home meal replacement are likely to remain a key trend for time-poor consumers.
ESG activism on the rise Stakeholders demand greater transparency on responsible food sourcing, fair trade practices and the impact of farming and production on the environment. Institutional investors are focussing more on ESG.	We are a responsible and compliant corporate citizen and are mindful of operational practices. We strive to reduce our environmental impact. We have policies and committed timeframes regarding single-use plastic and packaging and cage-free eggs.	We anticipate further momentum in consumer and shareholder activism regarding ESG issues, including climate, plastic waste and sustainable farming practices. We will continue to be agile and adapt our sustainability initiatives.

Trend	Our response	Future expectations, aligned focus areas and key enablers
Consumer behaviour		
Social media usage climbs Social media is increasingly used to complain or censure brands that do not meet expectations. Additionally, consumers are looking for a dining experience. This means that interesting décor and backgrounds make for shareable content.	Our store designs and revamp programmes aim to boost our appeal to the millennial market. Our promotional activities keep the in-store element in mind to drive social media interaction. We offer free Wi-Fi at several restaurants.	We continue to monitor reputational risk and innovate improved brand campaigns via social media.
Dining trends		
Traditional mealtimes blurring With many consumers still working from home, mealtimes have become more flexible and spread across the day. Snacking, sandwiches, and all-day breakfasts are evidence of this trend.	We constantly scan local and international trends to remain ahead of emerging menu innovation opportunities.	We will continue to promote offerings that cater for the breakfast, snacking and sandwich trends. We promote our dinner options to shift some of the trading activity later.
Eating out replaced by home-dining experiences With consumers being much more home bound, there has been a renewed enjoyment of cooking. Increased availability of online ordering and delivery, including alcohol, has led to increased at-home dining. Safety concerns during the pandemic and restaurant restrictions further promoted at-home dining.	We have invested in online ordering and home delivery. Our menus and packaging are designed to meet the needs of an at-home dining experience in taste and presentation. Our Retail offering caters to the eat from home trend.	We will continue to deliver an unbeatable offering that meets consumer requirements regarding quality, service and price. We will ensure that we are accessible across every brand, format and channel.
Chicken consumption continues to rise Chicken represents the largest fast-food category in South African and other African markets.	While we do not have an exclusive chicken brand in our portfolio, we offer many chicken options on most of our menus.	We will continue to enhance the chicken options on our menus.
Healthy eating gains momentum More consumers are health-conscious and want to make better meal choices.	We are innovating our menus to meet this trend. We provide dietary information online for many of our brands' menus. We are compliant with industry legislation regarding salt and sugar consumption and continuously monitor it.	We anticipate that healthier eating will remain a focus area. We will continue to review our menus and introduce healthier meals on our standard and children's menus.

OPERATING CONTEXT continued

Trend	Our response	Future expectations, aligned focus areas and key enablers
Dining trends		
Plant-based alternatives are becoming mainstream Whether flexitarian, vegetarian or vegan, plant-based diets are here to stay. This is evidenced by the increasing receptiveness to and take-up of vegetarian options on the Group's existing brand portfolio menus. This is driven by a consumer desire to be healthier and have a lower environmental impact.	We have vegetarian and vegan options on our menus. In April 2022, we acquired a 51% shareholding in Lexi's Healthy Eatery. The menu is plant-based, almost entirely vegan, gluten-free and refined sugar-free.	We expect consumers' demand for plant-based products to increase and plan to dedicate more menu space to it. There are plans to expand the Lexi's brand, and there is scope to develop their products for the retail supermarket space and leverage off the Group's well-established route-to-market.
Competitive landscape		
Concentrated competition With subdued consumer spending during the pandemic, competition has become more concentrated. The franchise market has become smaller due to economic conditions, and potential franchise owners are weighing up more options before they commit to a brand.	We strive to make sure that we offer more options across the value/price spectrum. We ensure our value proposition is highly attractive to potential franchise partners.	The industry remains highly competitive as operators strive to survive in a weak economy. We are committed to ensuring the sustainability of our brands and franchise partners. An unrelenting effort is made to offer our customers and restaurant network an optimal solution.
Food aggregators increase Food delivery aggregators are important players in the food service landscape in South Africa and the UK. The popularity of these aggregators has been accelerated by COVID-19. Consumers benefit from the convenience of ordering online from a variety of restaurants with the option to compare menus and prices and read reviews.	We have embraced these players and collaborate with them. However, together with our franchise partners, we also continue to invest in our own delivery capacity.	We expect industry participants and competitors to continue to invest heavily in this market segment. We need to upgrade our delivery and pre-ordering systems continually. Our customer relationship management (CRM) programmes are continually improving and are Protection of Personal Information Act (POPIA) and Personal and General Data Protection Regulation (GDPR) compliant. These programmes use proprietary data to provide insights that allow us to communicate with customers in a tailored manner.
Dark kitchens Dark kitchens refer to kitchens that prepare food for delivery only. Orders are placed online without the option for the public to enter the premises, reducing overheads. Dark kitchens are already established in the UK and are gaining momentum in South Africa.	We have our own learnings and consider the opportunities and risks presented by this dark kitchen business model but remain cautious about its growth trajectory.	We utilise dark kitchen sites where appropriate.

Trend	Our response	Future expectations, aligned focus areas and key enablers
Evolving technology		
E-commerce and contactless payment Access to credit cards, smartphones and the internet continues to rise. This increases the demand for e-commerce solutions, contactless payment options, and physical stores' integration with online retail.	COVID-19 accelerated our adoption of contactless payment options.	Artificial intelligence and immersive technology, including augmented reality, will become more pervasive. We will continue to explore technology that improves our customer experience and provides actionable insights for our business.
Food technology Several food technology trends are influencing the global food services industry. These trends include robotic chefs and servers, self-service kiosks and employee scheduling software that allows our managers to spend less time on scheduling.	We have increased our technology interfaces in-store. These include digital menu boards, digital payment options and self-ordering terminals.	We recognise that tomorrow's restaurant will use technology throughout the customer journey. We will explore other innovations to improve the customer experience.
General trading and economic conditions		
Constrained consumer spend Unemployment is a big challenge among younger consumer groups who cannot join the job market. The middle-income market is experiencing economic strain. Consumers have less disposable income, eat at home to save money, and are more demanding in the limited discretionary spending environment.	We constantly review menu pricing and portion sizes to deliver our value promise. We offer loyalty offerings, rewards and valuable bundles which resonate with our customers. Menu innovation creates new interest for consumers.	As unemployment, inflation, living costs, and debt rise, consumers will remain under pressure. Sub-Saharan Africa's growth is subdued, and regional markets are expected to recover at various rates post-COVID-19. Although pockets of growth do exist, it will take time to return to pre-pandemic economic conditions. We will leverage cost and productivity efficiencies, especially in our Supply Chain, to support improved profitability for our franchisees.
Rising food inflation The prices of certain ingredients are driving up food prices. Packaging pricing is also rising. Global supply chain problems and rising food costs have led many restaurants to cut menu items. The stronger Rand has helped cushion the impact of more expensive food imports.	Our procurement team negotiates the best pricing on bulk food items. They investigate alternative suppliers and options should an item become unaffordable. A simplified menu assists franchisees in reducing food costs. We pass on food inflation increases to consumers when we complete menu increases.	We will keep an eye on rising food costs and manage these to maintain our margins.
Load shedding continues Load shedding impacts consumer sentiment, access to stores and lost sales. Load shedding also increases costs for our Manufacturing and Logistics operations. There are further indirect costs related to delayed deliveries to stores.	Wherever practical and possible, generators are installed in stores. Our Manufacturing and Logistics divisions rely on generators, negatively impacting the Group's carbon footprint. We have invested in a solar installation at one of our plants to reduce our dependence on Eskom.	South Africans can expect intermittent load shedding for the foreseeable future. We continue to adapt to a scenario where an unstable power supply is a business reality. We will continue to explore opportunities to reduce our reliance on Eskom.

Key stakeholders

We believe that strong, sustainable stakeholder relationships form the foundation of our ability to create shared value in the short, medium, and long term.

Our key stakeholders are the individuals and organisations that have an impact on or are affected by our operations. We endeavour to engage constructively with stakeholders to understand and respond to their interests and concerns.

Stakeholder management

Stakeholders are engaged by employees and business units with the expertise to do so constructively. Our stakeholder engagement and management principles rest on positive partnerships, consultation and teamwork to achieve common goals.

The functional disciplines embed the structured and thorough processes of monitoring stakeholder engagement, including:

- Investor input and feedback through investor roadshows, one-on-one access, and virtual events.
- Formal customer feedback through customer service channels.
- Monitoring social media for negative and positive reviews.
- Community involvement through CSI activities.
- The Human Resources (HR) department provides a union relationship monitoring mechanism.
- Employee feedback through annual surveys.
- Franchise partner feedback through regular engagement, national representative forums and annual franchise forums.

Concerns and improvement opportunities are escalated to the responsible senior executives or the Exco or the Board if necessary.

The Social and Ethics Working Group assists the Social and Ethics Committee on an executive level to ensure effective stakeholder management within Famous Brands. The Working Group reports to the Social and Ethics Committee regularly.

While the Social and Ethics Committee has the primary responsibility for oversight of stakeholder management, other Board Committees are also involved. The Audit and Risk Committee oversees engagement with the JSE, funder institutions, shareholders and investors. The Remuneration Committee oversees interactions with shareholders and employees regarding remuneration decisions.

Read more in the Social and Ethics Committee report on page 124.

Stakeholder communications channels

The Group's stakeholder engagement strategy guides interactions with stakeholders. Our engagement strategies are based on the degree to which our stakeholders impact us, our impact on them, and how we interact with them.

Work closely

Engage

Various engagement channels are utilised, which include:

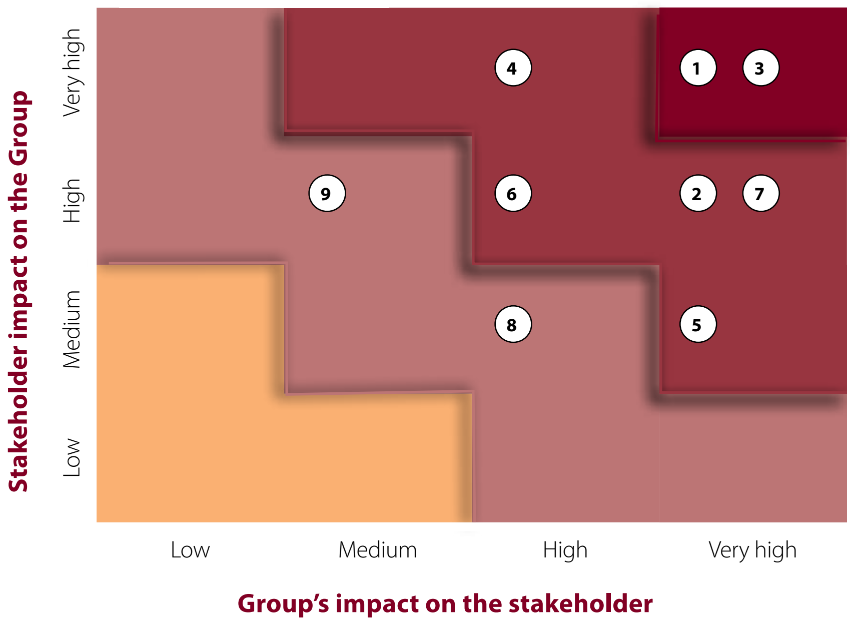
Electronic channels	• Company website • Virtual meetings • Social media • In-app notifications • Call centre
Written communication	• JSE Stock Exchange News announcements • Our reporting suite for the Group's annual and interim results • Newsletters
Direct interaction	• In-person meetings • AGMs • Roadshows, presentations and conferences • Customer satisfaction surveys and loyalty programmes • Supplier audits and reviews
Franchisee-specific platforms	• Web and call-in support • Franchise operational audits and reviews • Operations campaigns • National franchise forums • Annual franchisee brand conferences
Media	• Press releases • Interviews and media briefings • Advertising campaigns

KEY STAKEHOLDERS continued

Identifying our priority stakeholders

We use the following criteria to prioritise the relative importance of our wide range of stakeholders:

- Our dependence on the stakeholder's support to achieve our strategic goals.
- The stakeholder's influence on our performance.
- The significance of the risks and opportunities linking the stakeholder to the Group.
- The risks we face should we not engage constructively with the stakeholder.



1. Shareholders, market analysts and prospective investors
2. Funding institutions
3. Franchise partners
4. Customers and prospective customers
5. Civil society and communities
6. Suppliers and business partners
7. Employees
8. Trade unions
9. Government and regulators

- Very high impact
- High impact
- Medium impact
- Low impact

Evaluating the quality of relationships with our stakeholders

This evaluation is based on our internal assessment of our relationships.

 No existing relationship

 Mutually beneficial, good relationship, some opportunity for improvement

 Relationship exists but requires substantial effort to improve

 Strong, mutually beneficial relationship

 Relationship established, generates value, but can be improved

1. Shareholders, market analysts and prospective investors

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
Provide financial capital for growth	Solid investment proposition and sustainable growth	Darren Hele, Deon Fredericks and Celeste Appollis

Interests and issues raised

- Return on invested capital.
- Regular dividend payments.
- Sustainable earnings growth.
- Prudent capital allocation.
- Strong corporate governance and ethical and competent leadership.

Key risk

Deterioration of investor confidence.

Our strategic response and future focus

- Management has extensive experience in our industry.
- The long-term incentive (LTI) plan and other remuneration and reward structures align management's interests with those of shareholders.
- Management has a considered approach to gearing and leverage in line with ensuring an appropriate capital structure.
- Management endeavours to lead by example and, through behaviour and policies, instil good corporate governance practices throughout the business.

Key opportunity

By clearly and regularly communicating our investment case and delivering on our strategy, we build confidence in management and the business's investment potential.

2. Funding institutions

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
Provide financial capital for growth and facilitate balance sheet support	Responsible capital management	Darren Hele and Deon Fredericks

Interests and issues raised

- Timely payment of interest and capital.
- Compliance with debt covenants.

Key risk

Breach of debt covenants and undertakings to the primary lender.

Our strategic response and future focus

- Ensure debt service requirements are met in line with debt repayment obligations and that covenants are met.
- Proactive management of the debt maturity profile.

Key opportunity

By demonstrating our commitment to meeting our funding obligations, we will foster supportive long-term relationships.

Internal assessment of relationship quality

Work closely

Engage

KEY STAKEHOLDERS continued

3. Franchise partners

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
The primary interface with our customers, custodians of our brand and reputation	Supportive, preferred business partner	Darren Hele, Derrian Nadauld, Philip Smith and Andrew Mundell

Interests and issues raised

- Return on investment.
- Strong brands.
- Efficient and competitive Supply Chain.
- Marketing spend.
- Location of restaurants.
- Ongoing business management support.
- Product quality.

Key risk

- The health of the franchise network deteriorates in the weak economy.
- Group's relationship with franchise partners deteriorates due to our failure to meet their expectations.

Our strategic response and future focus

We view our partnerships as long-term relationships which require consistent attention and mindfulness to benefit all parties. We have dedicated operations teams that ensure franchise partners receive support in managing a successful restaurant, namely finance, marketing, design and development, training and procurement.

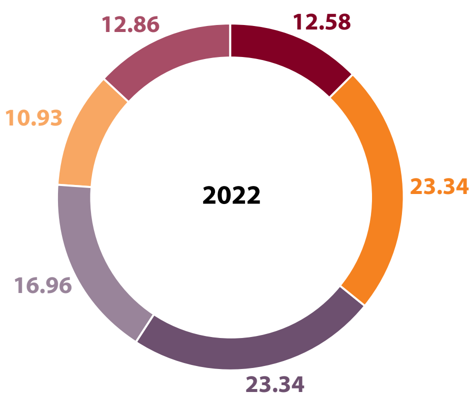
Our vertically integrated Manufacturing and Logistics operations strive to consistently supply high-quality products on time.

We welcome the contribution and input of our franchise partners. We will continue to evolve and improve our engagement with them to enable us to harness the value unique and valuable insights they can provide.

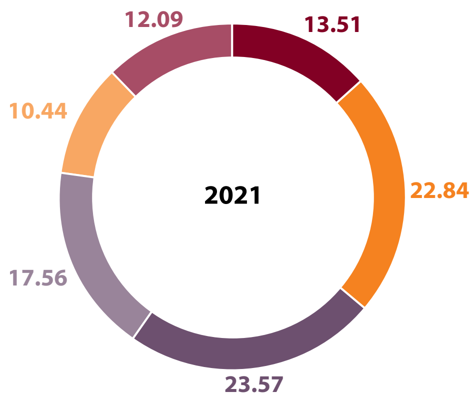
Key opportunity

Constant interaction with our franchise partners and responsiveness to their needs will improve our good relationships.

Average tenure of SA franchise partner (%)



- Less than two years
- Two to four years
- Five to 10 years
- 10 to 15 years
- 15 to 20 years
- More than 20 years



Internal assessment of relationship quality

Work closely

Engage

The Franchisee

Training – This includes start up training and ongoing through franchisee lifecycle for the franchisee and team.

Operations – We constantly engage the franchisee on operational and quality standards, operational efficiencies, business reviews, best practice sharing.

Marketing – We develop and manage brand plans and provide support and tools for local store marketing.

Development services – We manage all new and revamp projects including equipment specifications, equipment supplier and contractor management.

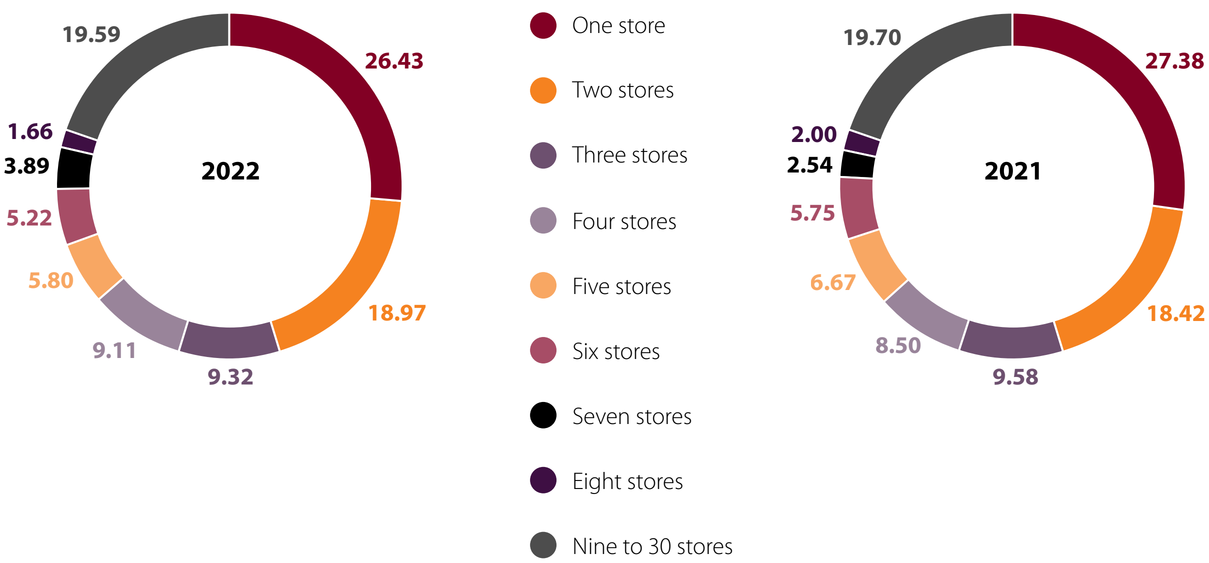
Property services – We assist with site selection, negotiation and management of franchisee leases, key landlord relationship management, rental benchmarking and rebasing.

Procurement services – We are responsible for product sourcing, price negotiations, supplier and quality management.

Logistics services – We provide a "one-stop-shop" for the delivery of products via our vertically integrated Supply Chain.

National Franchise Forums – We actively engage the franchisee through our National Franchise Forum to ensure that we gain the franchisee's participation in brand decision-making.

Number of restaurants per SA franchise partner (%)



KEY STAKEHOLDERS continued

4. Customers and prospective customers

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
Purchase our products, providing the basis for revenue growth	First-choice brand offering	Darren Hele, Derrian Nadauld, Philip Smith and Andrew Mundell

Interests and issues raised

- Strong brands and value offerings.
- Location accessibility and convenience.
- Positive total experience.
- Menu innovation and a dining experience.

Key risk

Loss of market share due to failure to meet our customers' expectations.

Our strategic response and future focus

For our brands to maintain and gain market share, they must remain relevant, contemporary and accessible and offer value. We are passionate about unique consumer experiences through innovation, flawless execution and continuous improvement. We maintain our standards through:

- Regular restaurant reviews and audits to ensure our high standards are maintained.
- Prioritising food quality and safety across the Supply Chain.
- An ongoing restaurant revamp programme to continue to meet our customers' expectations.
- Innovation to keep up with evolving trends.
- A call centre to manage queries and complaints and we value and act on our customers' feedback.

Key opportunity

Grow market share in new and existing markets by leading in the categories where we compete.

5. Civil society and communities

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
Provide the socio-economic context we operate in and impact on our reputation	Responsible community participant	Darren Hele, Philip Smith and Jabulani Mahange

Interests and issues raised	Key risk
• Sustained support. • Association with a reputable brand. • Responsible use of natural resources.	• Revenues below pre-COVID-19 levels mean smaller CSI budgets. • A poor reputation leads to a deterioration of relationships with CSI beneficiaries and other stakeholders.

Our strategic response and future focus

Our Leading Brands conduct extensive CSI fundraising programmes to support worthy charities. We also invest in a sponsorship alliance with Varsity Sports to promote the development of local future sporting stars.

Our environmental policy sets out our commitment to responsible environmental practices. It identifies critical areas of focus and objectives regarding reducing our environmental footprint and contributing to a more sustainable operating environment.

Key opportunity

- Continue to grow market share and improve the Group's favourable reputation by making a meaningful contribution to the communities in which we trade.
- Ensure our compliance culture and commitment to reducing our environmental footprint are communicated through improved ESG reporting.

6. Suppliers and business partners

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
Contribute to our ability to provide quality, cost-effective products and services	Preferred business partner	Darren Hele, Derrian Nadauld, Andrew Mundell and JP Renouprez

Interests and issues raised	Key risk
• Timely payment. • Continuity of supply. • Fair treatment. • BBBEE compliance.	Our suppliers and business partners lose confidence in our ability to fulfil their agreements and contracts.

Our strategic response and future focus

Contractual agreements facilitate quality and food safety adherence and transparent, healthy relationships with suppliers. Our procurement and planning teams interact with suppliers frequently to ensure mutually beneficial partnerships.

Key opportunity

- Continue to improve on our internal processes and fulfilment of commitments to suppliers.

Internal assessment of relationship quality   Work closely   Engage

KEY STAKEHOLDERS continued

7. Employees

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
Contribute to our ability to provide quality, cost-effective products and services	Continued employment, good working conditions and rewards	Darren Hele, Derrian Nadauld, Andrew Mundell and JP Renouprez

Interests and issues raised

- Fair remuneration and recognition.
- Equal opportunities and career development.
- Training and skills development.
- Safe working environment.
- Sustainable earnings growth and job security.
- Good corporate governance and ethical and competent leadership.

Key risk

- Difficulty in attracting and retaining the calibre of skills the business requires.
- Slow pace of transformation.

Our strategic response and future focus

We regard human capital as a core asset. Our HR policies ensure our employees are appropriately remunerated, and incentivised and offered career development opportunities.

We support the principles of BBBEE in South Africa, and our transformation policy and strategies are aimed at uplifting historically disadvantaged individuals.

We are committed to creating a learning culture and investing significant resources in this regard. In addition to training our employees, we conduct extensive training for our franchise partners and their employees.

Key opportunity

- Strengthen our career development plans and communicate growth opportunities better.
- Achieve an improved BBBEE status.

Caring for employee wellbeing

Famous Brands engaged ICAS to provide employees with access to an Employee Wellness Programme. The programme aims to give employees the freedom to unpack their feelings and find solutions to the many problems people experience.

The overall engagement rate of the programme, which includes uptake of all services provided, was 4.1% for 2022. The individual usage of the core counselling and advisory services was 4%, which compares to 5.7% across all ICAS client companies. The most commonly utilised service was professional counselling.

The percentage of employees whose problems appear to have a severe impact on their work is 9.7%, which is slightly below the ICAS average of 10%. This is a pleasing indication of the overall employee mental wellbeing given the pressure of the industry, which includes long and irregular working hours, demanding customers and difficult situations.

Internal assessment of relationship quality | Work closely | Engage

8. Trade unions

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
Serve as the interface with our unionised labour force	Responsive employer	Jabulani Mahange

Interests and issues raised

On behalf of their members:

- Sustainable earnings growth and job security.
- Fair remuneration and recognition.
- Equal opportunities and career development.
- Training and skills development.
- Safe working environment.

Key risk

Poor labour union relationships lead to animosity and potential strikes.

Our strategic response and future focus

We recognise and respect the role of unions and engage professionally and cordially to find common ground on all matters.

Key opportunity

By demonstrating that we are an employer of choice and a good-faith partner, we can continue to enhance our existing mutually respectful relationship.

9. Government and regulators

Stakeholder role	Their primary interest and our goal	Board/Exco member accountable
Provide regulatory parameters and measures with cost implications, and provide operating licences	Responsible corporate citizen	Darren Hele, Celeste Appollis, Deon Fredericks, Ntando Ndaba and Jabulani Mahange

Interests and issues raised

- Tax revenues.
- Compliance with legislation and regulations.
- Transformation.
- Supporting communities.
- Responsible use of natural resources.

Key risk

- Health and safety and/or food quality risk control mechanisms fail.
- Failure to ready the business to comply with new legislation.

Our strategic response and future focus

Business sustainability is advanced by complying with relevant regulatory and legislative frameworks. We have systems and structures in place to monitor changes to legislation, assess the implication of any changes on our operations and communicate this to relevant stakeholders.

Maintaining our level 4 BBBEE status is an important management priority, and we prioritise procurement, equity and skills development for improvement.

Key opportunity

- Continue to improve our internal processes and risk preparedness programmes.
- Ensure our compliance culture is communicated through improved disclosure in ESG reporting.

Internal assessment of relationship quality

Work closely

Engage

Risk management

Appropriate and calculated risk taking is essential to our Group's success and growth.

Risk management process

Famous Brands is exposed to several risks, including strategic, financial, operational and compliance risks. The Board and management are responsible for overseeing risk management and ensuring the Group strikes an appropriate balance between taking risks and applying caution.

Our risk management framework remained robust and largely unchanged in the past year and is aligned with the Committee of Sponsoring Organizations of the Treadway Commission Framework. There is a strong correlation between risk management and the Group's business strategy as our strategic choices mitigate risks. Famous Brands is mindful of not exposing the business to unacceptable levels of risk.

At a Board level, risk management is delegated to the Audit and Risk Committee, which provides regular updates to the Board. The Audit and Risk Committee sets out the Group's risk appetite, based on the level of risk it is willing to accept in pursuit of the Company strategy.

The Committee and the management team, together with the established Risk Forum, provide a culture of risk governance and awareness throughout the Group. Our Group Risk Executive provides specialist guidance to the Group on better integrating risk management processes into day-to-day activities.

At an operational level, a dedicated Risk Forum consisting of Exco members and representatives from Internal Audit and other functions meet regularly to monitor the Group's existing and emerging risks. This forum also allows Famous Brands to realise innovation opportunities by exploring risks.

Key risks are identified based on:

- Risk-bearing capacity: The capacity to absorb losses related to risks without threatening the Group's ongoing sustainability based on its current business model.
- Risk appetite: The amount and type of risk the Group is willing to accept in pursuing its strategic objectives.
- Risk tolerance: The acceptable levels of variation relative to achieving the Group's strategic objectives.

Risk management improvements in 2022

Improving internal controls

In the 2021 year-end audit, KPMG provided feedback as a result of the AFS audit and highlighted some areas for improvement. Famous Brands is working on various projects to improve financial controls. Certain of these projects have been completed in the current year. These include projects to automate the financial consolidation process and streamline financial process flows.

Compliance monitoring

The Group is developing a comprehensive regulatory compliance framework to map the legislation across each geography. This will further mitigate the risk of failing to meet regulatory and compulsory standards.

Famous Brands monitors its POPIA compliance and has leveraged the internal audit assurance process to identify gaps and improvement opportunities. The Group also reviewed the information laws in various countries and updated the governance process to ensure regulatory risks are appropriately identified and managed.

Famous Brands monitors developments regarding the Extended Producer Responsibility regulations that came into law in South Africa in May 2021. Work has been completed to ensure Famous Brands is recognised by the relevant producer responsibility organisations. The producer responsibility organisations are still aligning with the regulator on processes to ensure effective implementation of the regulation.

Quick fact

Since the start of the COVID-19 pandemic, cyber attacks have been increasing worldwide and in South Africa. According to an Accenture report , South Africa has the third-highest number of cyber crime victims worldwide. This results in a loss of about R2.2 billion a year to cyber attacks.

Source: https://www.accenture.com/za-en/insights/security/cyberthreat-south-africa.

Cyber security enhancements

Each year we conduct a penetration test and/or a breach attack simulation, a security exercise where a cyber security expert finds and exploits vulnerabilities in our IT environment. In addition, we conducted a gap analysis with an external service provider to benchmark the Group's security environment against IT security frameworks from the National Institute of Standard and Technology, Centre of Internet Security and ISO270001. The results from this analysis fed into the development of the three-year IT security road map.

Insurance review

In 2022, Famous Brands reviewed its insurance cover across the Group. Based on the gap analysis and recent black swan events, we are still optimising our insurance model to ensure it is still fit for purpose and will address uninsurable and difficult to insure risks. This work will be concluded in 2023.

Business continuity planning

Famous Brands continued its work to improve business continuity planning to close gaps at specific manufacturing and logistics sites. For example, this included further improvements in KwaZulu-Natal after the July 2021 unrest.

Going forward

Our focus in the coming year is to further entrench our business and insurance risk management capabilities throughout the Group. This includes operationalising risk management in each operating entity, including Company-owned restaurants, implementing the technology enterprise architecture and structure strategy which includes the three-year IT security plan and completing the regulatory compliance framework, which covers the regulatory requirement of the countries where we operate.

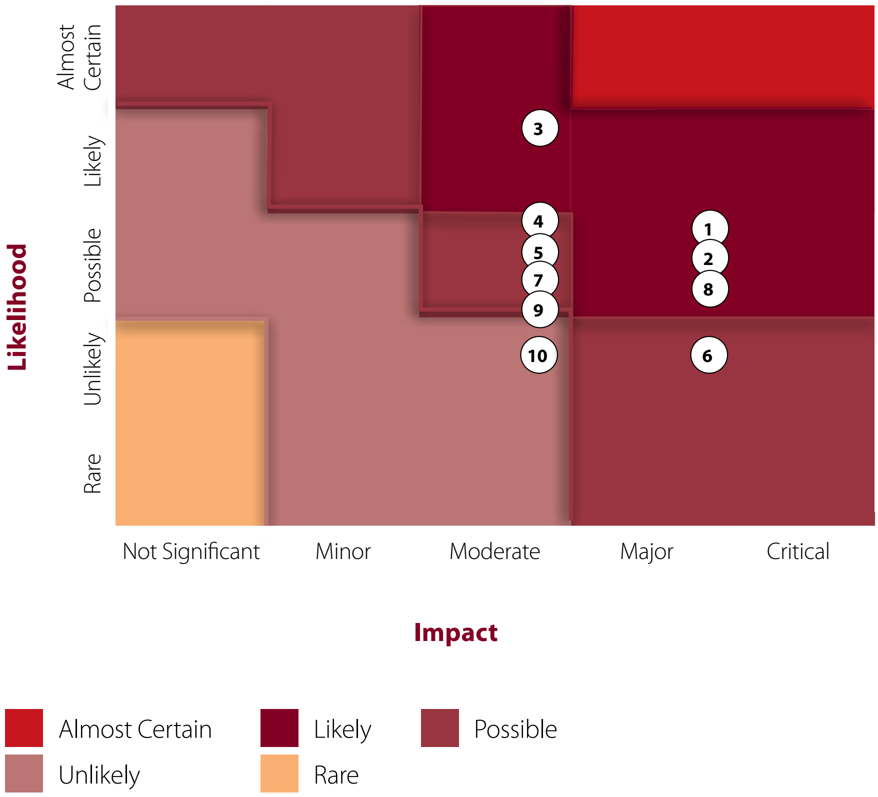
Key risks

Our top 10 key risks are defined below, along with their potential impact, our mitigating actions and future opportunities they present. Both internal and external risks are identified.

Risks are ranked according to the severity of their potential impact on the Group. Impact categories are determined based on tolerance levels across four areas: finance, reputation, consumer and employee factors. Likelihood is based on the probability of occurrence.

RISK MANAGEMENT continued

Residual risk heat map

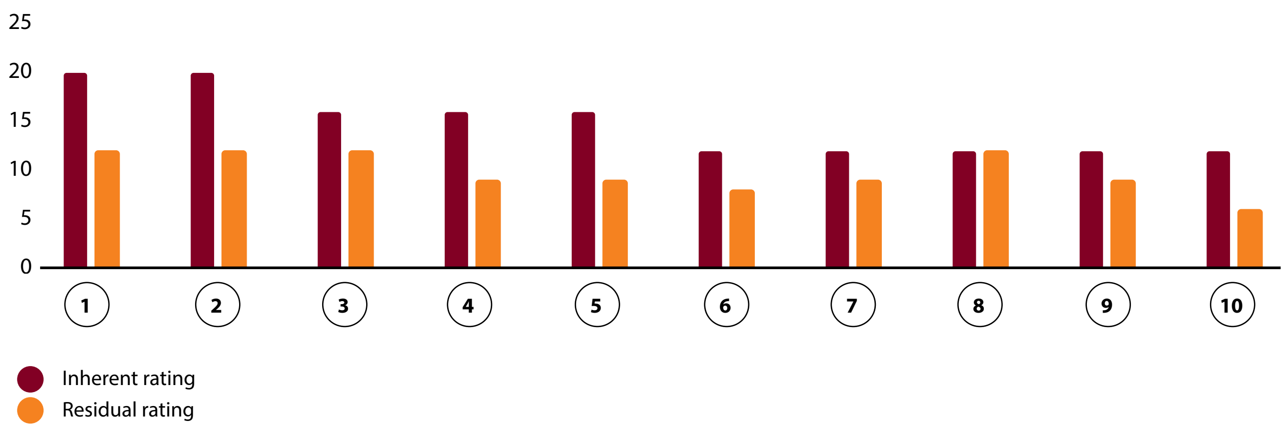


1. Revenue growth deceleration and recovery impacted by COVID-19
2. Information security breach through cyber and/or internal attacks
3. Onerous capital requirements in consumer-facing technology to maintain competitive edge
4. Unreliable electricity supply impacting supply chain and restaurant trade
5. Inability to respond appropriately to business disruption
6. Regulatory and compulsory standards compliance failures
7. Uncertainty over franchisee sustainability and profitability
8. Inefficient financial systems and processes
9. Supply chain disruptions
10. Loss of reputation and severe brand damage

Residual risk assessment

The residual risk and the extent of mitigation are illustrated in the graph below.

Inherent and residual risk ratings



1. Revenue growth deceleration and recovery impacted by COVID-19

Potential root causes	Potential impact on value	Residual mitigation actions
• Changing consumer behaviour regarding safety in response to COVID-19 impacts brands, particularly Casual Dining Restaurants. • Uncertainty regarding future COVID-19 restrictions, including liquor, capacity and curfew. • Limited movement negatively impacts the Signature Brands captive market segment. • Slow economic recovery and poor political stability. • Third-party aggregator disruption accelerated by COVID-19.	• Cashflow and margin pressure. • Debt covenants and undertakings breach. • Delayed shareholder returns.	• A strategic plan is in place to deliver on different formats and channels. The big box format legacy around Casual Dining Restaurants is being addressed via a smaller and more agile footprint. • Company-owned store defence strategy is in place to protect key sites and overall market share. • Cash generation and preservation remain a focus. • Continued investment in the AME division and retail basket will grow revenue in the medium to long term.

Opportunities	Strategic matters
• Leverage our presence in AME. • Leverage flexible trading formats. • Leverage own home delivery capability. • Leverage business intelligence and CRM technology. • Menus and basket innovation. • Retail growth.	

2. Information security breach through cyber and/or internal attacks

Potential root causes	Potential impact on value	Residual mitigation actions
• IT structure misalignment to complexities, governance and risks associated with the Group technology stack. • Failure to adequately address identified IT security and general control vulnerabilities.	• Loss of Company and personal information. • Contravening government regulations such as POPIA. • System downtime impacting operational activities. • Reputational damage.	• Group-wide enterprise architecture and structure strategy developed to cover operating system architecture and consumer-facing technology. • Implement the remaining two years of the three-year IT security plan, including enhanced cyber security control measures.

Opportunities	Strategic matters
Innovative technology advancement.	

3. Onerous capital requirement to implement consumer-facing technology

Potential root causes	Potential impact on value	Residual mitigation actions
• Competitors are investing ahead of the curve to meet current and future customer trends. • COVID-19 accelerated the consumer shift to convenience through technology.	• Cash flow pressure. • Failure to capitalise on growth opportunities.	• Execute the consumer-facing technology strategy. • Refine and drive each brand's technology consumer experience requirements. • Step-up technology-enabled home delivery in AME growth pockets.

Opportunities	Strategic matters
Enhanced consumer experience across multiple touch points.	

4. Unreliable electricity supply impacting the Supply Chain and restaurant trade

Potential root causes	Potential impact on value	Residual mitigation actions
• Dependency on unreliable electricity supply from Eskom. • Poor local distribution infrastructure. • The cost of back-up energy solution that is fit for purpose is cost prohibitive.	• Operational inefficiencies. • Margin erosion. • Reduced day stock cover.	• Continue to monitor the extent of load shedding and ongoing power station disruptions. • The business case for future renewable energy investment will be tabled at Exco in the event of increased exposure.

Opportunities	Strategic matters
Alternative energy sources with reduced impact on the environment.	

5. Inability to respond appropriately to business disruptions

Potential root causes	Potential impact on value	Residual mitigation actions
• Lack of a comprehensive business continuity plan for key operations. • Labour laws limit speed and agility in a disruptive environment.	• Extended time lag in recovering operations resulting in loss of revenue and increased operating costs. • Interruption of service to franchise network and consumers.	• Supply Chain business continuity and disruption plans in place per operational site. • Plans completed for Lamberts Bay Foods and KwaZulu-Natal Distribution Centre, updated post July's unrest. • Plan in progress for the Famous Brands Cheese manufacturing site. • An insurance risk management plan in place to close known gaps and meet insurers' requirements.

Opportunities	Strategic matters
Shareholder value protection and enhancement.	

6. Regulatory and compulsory standards compliance failures

Potential root causes	Potential impact on value	Residual mitigation actions
• Unstructured monitoring of relevant government legislation due to the absence of a regulatory compliance framework. • Failure to effectively prepare the business for new standards and regulations.	• Regulatory fines and penalties. • Loss of consumer confidence, especially on food-related failures. • Reputational damage. • Litigation.	• Develop and implement a regulatory compliance framework with action plans to improve regulatory compliance. • Project teams were put in place to ready the business for new regulatory requirements (POPIA, JSE Amendments regarding financial controls, Administrative Adjudication of Road Traffic Offences Act (AARTO), Extended Producer Responsibility). • Plans to strengthen in-country governance structures for AME are in place.

Opportunities	Strategic matters
Enhanced stakeholder value across markets where we operate.	

7. Uncertainty over franchisee sustainability and profitability during and post-COVID-19 impact

Potential root causes	Potential impact on value	Residual mitigation actions
• Potential of recurring COVID-19 restrictions. • There is uncertainty over favourable lease renegotiations and renewal terms with commercial landlords. • The total cost of production of licensed products may become uncompetitive due to operational inefficiency and food inflation. • Social and political instability result in social unrest.	• Loss of franchise first-choice status for franchising brand investment. • Increased number of franchise business failures. • Increased need to switch from own Supply Chain or take margin cuts.	• Providing business sustainability relief packages to franchise partners to assist them in the short to medium term. • Continuing to coordinate rent relief and lease renegotiations on behalf of franchise partners. • Coordinating class action on business interruption claims with various insurers on behalf of franchisees. • Assisting the franchise partners in processing SASRIA claims. • Identify manufacturing technology that will increase operational efficiencies.

Opportunities	Strategic matters
• Apply and leverage the total cost of ownership principles across the Supply Chain. • Accelerate franchisee COVID-19 recovery phase with lease renegotiation and renewals. • Menus and basket innovation.	

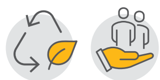
8. Inefficient financial systems and processes

Potential root causes	Potential impact on value	Residual mitigation actions
• Financial systems inadequacies. • Limited finance automated solutions for consolidation. • Day-to-day operationalisation of new IFRS requirements.	• Period close inefficiencies. • Reduced dependency on financial information for decision making. • Human errors.	• Upgraded the accounting platform. • Plans to introduce a new business intelligence tool for business unit reporting and develop a business intelligence tool for Group reports. • Development of a Group consolidation tool in progress. • Project plan in place to streamline and strengthen financial processes.

Opportunities	Strategic matters
Enhanced financial modelling capability.	

9. Supply chain disruptions

Potential root causes	Potential impact on value	Residual mitigation actions
• Increased lead times and shipping costs. • Animal diseases outbreaks include African swine flu, avian flu and foot and mouth diseases. • Unstable local political environment. • Local transport industry strikes • Geopolitical and security instability. • Climate change is leading to poor weather patterns.	• Restrictions impacting raw material supply. • Increased input costs. • Working capital pressure.	• Planning and procurement teams review the product and price impact across the value chain.

Opportunities	Strategic matters
Product innovation and operational efficiencies.	

10. Loss of reputation and severe brand damage

Potential root causes	Potential impact on value	Residual mitigation actions
• Unethical conduct by any key stakeholder. • Non-adherence to agreed Company procedures. • Loss and ineffective management of litigation and court proceedings.	• Key stakeholder trust deficit. • Share price erosion.	• Continue the promotion of ethical practices among our key stakeholders. • Ensure all business policies are regularly updated and communicated.

Opportunities	Strategic matters
Enhanced stakeholder value and strong ethical culture.	

Emerging risks

Our risk management process considers emerging risks and their potential impact on the Group. In 2022, we considered the potential impact of the following emerging risks:

- Infectious diseases including African swine flu, avian flu and foot and mouth disease.
- The water crisis in the Eastern Cape including the potential of day zero.
- Supply chain shortages and stock replenishment delays in the UK due to a shortage of lorry drivers.
- A proposed health promotion levy in South Africa to include ultra-processed foods such as junk food.

Looking forward, we are tracking several risks, which include:

- A deteriorating global security picture including conflict and potential instability in Africa.
- Local macro-economic issues and infrastructure challenges, including the availability of water.
- Continued supply chain disruptions.
- Rising food inflation.
- Insurance risk management including the impact of uninsured and difficult to insure risks.